CHAPTER 1:
INTRODUCTION TO
THE RESEARCH PROJECT

“The budget is your road map for the year. The budgeting process should be taken seriously. However, it does not need to be complicated”

(Alison Walker, Treasurer of Utah PTA)

1.1 INTRODUCTION

In studying management control system, budgeting has been proven to act as one of the building blocks of an organization’s control system. Budget is used as a full-scale steering tool to ensure that companies are on track to achieve what has been planned. By engaging in budgeting, top management have an idea of how well the company is meeting the organizational goals, whether they are in line with the predicted levels and how well the control mechanism is working. However, arguments persist on the effectiveness of budgeting as a control mechanism. It has been argued that a number of adverse impacts result from the budget such as the annual budgeting process takes up too much valuable management time but adds little value in managing performance. Arising from this, budget has been criticized as a tool that is too rigid.

The environment in which business operates today has substantially transformed. Rapidly changing environment, demanding customers and short product life cycle induces companies to continuously adapt to these changes. The changing business environments can render a fixed budget hopelessly out of date, resulting in coordination problems and organisational inefficiencies. Moreover, the use of a fixed budget can serve to act as a constraint and reduce the firm’s flexibility and
responsiveness in dealing with new opportunities, threats or changes in customers’ requirements. These conditions have necessitated the development of more sophisticated competitive strategies. Under these circumstances, the validity of budget was critically debated and there is general agreement that budget is a tool that is no longer useful and appropriate. Today, companies have move from solely relying on traditional budgetary control to supplementing traditional tools with a complex performance measurement systems. Also, current researches on budgeting have reported that some organisations have abandoned the major annual budget preparation exercise (Hope & Fraser, 2003).

Budget practitioners nowadays were often divided between two divergent categories: those who advocated budget (“budget advocates”) and those who were against the use of budget and proactively campaign on abandonment of budget (“budget proponents”). Despite the negative views of these budget proponents, researchers have found that majority of large companies are still practicing budgeting as it is a system that is deeply ingrained in the organization, which cannot be abandon in totality.
1.2 RESEARCH PROBLEMS

Budgeting is a popular topic discussed and researched from the perspective of developed countries. Until recently, budget is considered an outdated tool in developed countries. Yet, despite various criticisms on budgeting practices, research in organisations seems to suggest that budgets are in fact alive and well, rather than becoming obsolete. Kennedy and Dugdale (1999) claimed that as many as 99 percent of European companies have a budget in place and no intention of abandoning it. Recently, arising from the active campaign from budget proponents, Lyne and Dugdale (2006) conducted a survey of companies in the South-west of England to gauge changes in budgeting practice and shed light on whether companies are following the call of the budget proponents. 40 companies from the industrial and service sectors were represented in the survey and it was revealed that all the companies prepare budgets. Surprisingly, the study also revealed that the budgeting practices of these 40 companies were a traditional approach, almost textbook pattern.

From the reviews of literature, it is evident that there exists conflicting body of research with two very different views of budgeting in the developed countries. In the Hope and Fraser’s series of articles, they argued that budgets are not essential for the effective management of business; in fact, they may be downright harmful. In contrast, in the Kennedy and Dugdale’s research, it was revealed that most organizations still view budgeting as a useful tool for management control.

Looking at the evolving nature of the global business environment, one of the principal inquiries is on whether budget, in its traditional form, is still applicable to less developed countries. Studies in less developed countries on budgeting areas are
more concentrated on the use of budget. Little research was conducted on this concern on whether companies have adopted a more advanced budgeting practices in line with the development in the business environment. Recently, Joshi, Al-Mudhaki and Bremser (2003) conducted a comparative study on budgeting practices among public-listed and non-public listed companies in Bahrain, a less developed country, and they have found that most of the surveyed companies practiced budgeting. Sulaiman, Ahmad and Alwi (2004) examined studies conducted in four Asian countries: Singapore, Malaysia, India and China, on the practice of management accounting and control and concluded that budgets are still widely used and practiced in these countries as a planning, control and performance evaluation tool. Looking into current scenarios in the dearth of studies in the practice of sophisticated budgeting, more studies into this area in less developed countries are needed.

1.3 PURPOSE AND RATIONALE OF THE STUDY

Against this background and motivated by the limited amount of research investigating the sophistication of budgeting practices, the main objectives of this study are as follows:

(1) to explore the level of sophistication in budgeting practices among the public listed companies and its influence on the listed firm’s financial and operational performance.

(2) To investigate the following:

a. The importance of budgeting in organizations; whether budget still served as an important control mechanism to the achievement of organization’s plan and goals;
b. The motivations of organizations to adopt and practice budgets; whether it is dependent on organizational characteristics; and
c. The most important purposes served by budgets in organizations.

1.4 SIGNIFICANCE OR IMPORTANCE OF THE STUDY
Given the scarcity of research on budgeting areas in Malaysia, this study of budgetary planning and control in organizations could provide insights on the stage of development of budgeting practices and its usefulness in Malaysia, particularly among public-listed companies. It can also be viewed as an addition to the existing research, in that they offer explanations which may enhance the interpretation of budget planning and control sophistication. The result of the study could be used as a guide for companies that has yet to adopt budgeting system as well as benchmark for companies practicing budgeting in Malaysia.

1.5 METHODOLOGY OF THE STUDY
This study used a questionnaire to collect empirical data. Questionnaires were distributed to randomly selected public-listed companies in Malaysia. The questionnaire was developed based on the research questions of the study.
1.6 ORGANIZATION OF THE DISSERTATION

The research is reported in seven chapters. The organization of the dissertation is as follows:

i. **Chapter 1: Introduction to the Research Project**

This chapter forms the introductory part of the dissertation, and highlights the nature, objectives and significance of the study. It also describes in brief the methodology used in the study.

ii. **Chapter 2: Introduction to Budgeting – Planning and Control**

This chapter forms the introduces the concept of budget planning and control, in terms of the definitions, characteristics of budget, budgeting process and the different types of budgeting prepared by organisations.

iii. **Chapter 3: The Scenario of Corporate Planning and Budgeting in a Rapidly Changing Environment**

This chapter provides the foundation of the study. It addresses the evolution of the budgeting practices from traditional budgeting to better budgeting to beyond budgeting. The chapter also highlights empirical research on previous and current budgeting practices in different parts of the world.

iv. **Chapter 4: Research Framework and Hypothesis Development**

The chapter describes the research framework of the study together with the research questions and hypothesis to be tested in this study.
v. **Chapter 5: Research Methodology and Questionnaire Development**

The chapter describes the development of the questionnaire and the selection of measurement variables followed with discussion on the methods used for the data collection.

vi. **Chapter 6: Results and Analysis**

Chapter Five discusses the technique for analyzing the data as well as justifications for using such methods and techniques as well as the findings and the results of the study.

vii. **Chapter 7: Discussion and Conclusion**

The chapter concludes the report. Issues that are discussed in this chapter are the limitations and the contribution of the study as well as proposals for the improvement of financial management practices in state mosques. Possible future research areas are also discussed here.