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FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

An evaluation of the effects of budgetary process on performance of manufacturing companies: Case study of Eversharp

Submitted By

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Dedications

This dissertation is dedicated to beloved brother, loved one, family and friends and for my late parents for their love and support

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ABSTRACT

This research was undertaken to evaluate the effect of budgets and budgetary control on the performance of Eversharp. The main problem was that Eversharp was making losses and costs have been increasing so this research was on the background of trying to enhance the budget process and improve performance. The research goes in depth in identifying the limitations of budgeting process and its effect on performance, evaluating the current budget technique, identifying the factors both internal and external which affect the implementing the budget process and the ways that can be implemented to improve the current budget process at Eversharp (Pvt) Ltd. This study was done using the descriptive research design using the case study technique. Stratified random sampling method was used in the selection of the sample size. Data was collected using questionnaires and one on one interviews. The collected data was presented by using charts, tables and graphs. The major findings were that the budgetary process being implemented at Eversharp has limitations and not fulfilling its desired purpose of cost reduction, minimising wastage of resources and enhancement of performance evaluation thereby resulting in losses. The recommendation were that Eversharp must integrate its budget process with strategic management and upgrade its budgetary system to the most modern software so as to improve its overall performance

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CHAPTER 1

Introduction

1.0 Background of the Study

The budget process has been a part of management control systems and encourages managers to plan, taking into account stakeholders involved, improves communication between departments and evaluation (Silvia et al; 2012). In Eversharp budgets serve as the financial blueprint to allocate resources, coordinate operations, and assist on accountability and performance evaluation (Libby et al; 2003). It can be emphasised that budgets are the pillars of the company (Merchant et al; 2007). However if budget planning is ineffectively done resources will be channelled to the wrong projects, coordination of operations will be difficult since objectives will not be clear and existence of inter departmental rivals which will have a negative influence on the overall performance of the company (Hope et al;2003) .

If the budgetary process is not reviewed according to the prevailing economic and market conditions it will show a continuous trend that makes them stagnant thereby offering no quick solutions for unplanned events (Stensaker et al; 2011). An analysis of the Eversharp financial statements shows that from (October 2010-September 2013) the budget figures were not reviewed during this period and the budgets showed a variance of about 35% from what was budgeted for (Eversharp;2013). In addition, Eversharp employs a day to day approach which has contributed to the profits of \$14000(Oct 2010-Sept2011) to decline to a loss of \$170 000the next year. This day to day approach caused the overall objectives not to be clear and managers to react to current events rather than plan for the future (Horngren; 2001).

In addition to this, if budget targets are set too high they create pressure in employees and impose fear of not attaining the set targets which encourages bad behaviours such as

manipulating and gaming with numbers(Hope et al; 2003). Eversharp in the period (October 2010- September 2011) experienced a variance between the sales which were being reported and the actual sales which took place. This can be shown by the table below.

Table 1.1: Eversharp sales from 2011 to 2013

item	2011	2012	2013
	\$	\$	\$
budgeted	5 000 000	5 000 000	5 700 000
reported	4 100 000	4 200 000	3 800 000
actual	3 200 000	3 400 000	3 700 000

Source: Eversharp Financial reports (October 2010-september 2013)

Table 1.1 shows that in 2011 the budgeted amount of 5million was much higher than the actual sales of 3.2 million. This difference between the actual and budgeted imposed pressure on the personnel and made them to report sales of 4.1million and caused profits to be overstated by 28%. In 2012 the budgeted sales of 5million was not reviewed and the actual sales were 3.4million and the reported were 4.2million. The sales again were overstated mainly because the prior year it was not detected and also there was no revision of the target sales so profits were overstated by 23%. In 2013 the budgeted sales were even pushed much higher to 5.7million and the actual sales were 3.7million giving a variance of 54%. However the reported sales of 3.8million were much lower than the previous two years. This was because during the year it had been found that the sales being reported were manipulated and because of this Eversharp lost two of its key personnel(Eversharp;2013).

The survey done by Stolt (2003) shows that 84% of the largest companies in Sweden still uses budgets for planning and control purposes. Other survey done by Cheung in Hong Kong showed that more than 50% of the manufacturing companies used the budgetary process for coordination, planning, allocation of resources and for performance evaluation. Pikes undertook a survey of 150 UK manufacturing companies and showed that over 70% of the companies used budgets and their budgets where integrated with their strategic plans. Although the above surveys show that other companies are using budgets and are thriving, Eversharp from(Oct 2010- Sept2013) uses budgets for its planning, coordination and performance evaluation but regardless of this their performance is on a downward slope (Eversharp, 2011). This study will focus on extending literature on the effect that budget practices affect performance of manufacturing companies in Zimbabwe, a developing nation, taking Eversharp as a case study.

1.1Statement of the Problem

The budgetary process and control is the blueprint of the company since it is used in the planning, implementation, coordination, communication between departments and the evaluation process. However if the budgets are ineffectively done they will cause resources to be channelled to non- profitable projects. Also budget targets will be set without proper research and will affect the moral of employees and promote manipulation of figures in a bind to meet set targets. The managers will resort to a day to day approach promoting reaction to current situations ignoring future plans of the company thereby affecting the overall performance of the company.

1.2 Main Objective

The overall objective, is to evaluate the effect that budget process and control have on the performance of a manufacturing company

The sub-objectives to the study are:

- i. To evaluate the current budgeting and budgetary control process adopted in Eversharp
- ii. To identify factors affecting the budgetary process in Eversharp
- iii. To identify the limitations faced by Eversharp in relation to the budgetary process and budgetary control.
- iv. To identify ways to improve budgeting and budgetary controls in Eversharp

1.3 Research Questions

From the statement of the problem above the main central question to this study is ‘what is the effect of the budgetary process on the performance of a manufacturing company’. The sub-research questions are:

- a) What is the budgeting and budgetary control system being adopted
- b) What are the factors that affect the budgetary process in Eversharp
- c) What are the limitations faced by a manufacturing company in budget preparation and implementation
- d) What ways could be implemented to improve the budgetary process and control

1.4 Significance of the study

This study is important because it will extend the literature on budget processes in developing nations and will guide management of Eversharp in future financial decision making. It will also serve as a reference for ensuring prudent financial management in manufacturing companies. Also it will be an added value to the knowledge base on budget and budgetary

controls and serve as an impetus for future policy making. Lastly, it will also serve as a guide to policy makers, scholar's, development workers and stakeholders in Zimbabwe and the world as a whole

1.5 Delimitations

The study analysed several departments but only one manufacturing company, Eversharp Harare. The study focused on the effects of the budgetary processes on performance. The research mainly focused on the departmental managers, clerks and accountants. The results are not aimed for generalising as the author have chosen to examine one organisation The period under study stretches from October 2010 to September 2013

1.6 Limitations of the Study

The manufacturing company is a private company so there were challenges in obtaining some of the information. The researcher overcome this limitation by fully utilising the I formation that was given to me

1.7 Definition of Terms

Budget: Is a detailed plan which sets out, in money terms, the plans for the income and expenditure in respect of a future period of time. It is prepared in advance of that time period and is based on the agreed objectives for that period of time, together with the strategy planned to achieve those objectives (Drury; 2012).

Budgetary control: is a technique whereby the actual results are compared with budgets. The differences are then made the responsibility of key individuals and they have a choice of either revising the original budgets or exercise control action (Drury; 2012)

1.8Summary

This chapter stipulates the background of the study to be undertaken pointing out the justification of the research. It also shows the statement of the problem clearly pointing the research gap to be fulfilled by the author. It also shows the author's main objectives and the related sub-objectives needed in this study. It then goes on to point out the research questions which need to be answered and the limitations and delimitations of the study. The following chapter will bring out the literature review and the empirical review of the research bringing out the different views that different authors have on the research topic.

CHAPTER 2

Literature Review

2.0 Introduction

This chapter shows the literature review of the objectives stated in the previous chapter. The chapter stipulates the budgetary and budgetary control process, types of budgets that are used in organisations, limitations to the budgetary process, the best practices that are being employed in different countries and companies and the ways that companies may employ to improve the budgets and the budgetary process

2.1 Budgetary control process

The budget and budgetary control process under focus is the flexible budgeting system which is a budgeting technic which assist management in enhanced cost control, improve efficiency and in proper performance evaluation.

2.1.1 Cost control

Drury (2008) states that the flexible budget system is essential to management since it helps the objective of effective cost control among departments or functions as it points out where actual performance deviates from the budgeted performance. Drury (2008) goes to say that the flexible budgeting system shows a more correct basis between the actual and expected cost of activity since it enables management to analyse the variances of actual output from the expected output thereby portray a more accurate comparison which will enable management to properly assess the cost and improve the performance level.

Horgren (2009) stipulates that flexible budget enables effective control through the allocation and classification of the costs into fixed, semi-fixed, variable or semi- variable which clearly shows management which class of costs have a favourable or adverse variance and enables management to focus on the actual problem and not waste time problem hunting. Smith (2006) agrees that flexible budget is a budget technique that recognises variability of costs

while incorporating the changes that occur in activity levels by flexing the budgeted output to match actual activity level. Smith (2006) explains that this flexing is done to enable an accurate comparison of costs for management which will aid them in making informed decisions.

Webber et al (2005) points out that a flexible budget is supposed to show the budgeted profits revenue and costs at different levels rather than one activity which enables any change in the actual output to be adjusted to the relevant costs associated with that level of activity. Webber says that it is likely that accompany will face variances in production overheads, material costs, selling prices and labour costs thereby making flexible budgets important which enable the analysis of the variances through the use of variance analysis which probes deeper into the causes of the variances and assisting management in better solutions for cost control purposes.

However Manes(2002) argues that although flexible budgets are of importance on cost control they do not take into account of all costs since not all cost are variable and some cost do are no directly affected by the change in output like general expenses of telephone costs thereby being only relevant to a certain group of costs. Frow et al (2010) agrees that as much as flexible budget is a tool for cost control it does not encompasses all costs but rather concentrate on the costs which are directly affected with output like when sales increase factory overheads costs do not increase at the exact since some of the sales are coming from inventory of the previous period and when sales decline direct labour do not decline at the same rate since management would want to retain production staff.

2.1.2 Enhances efficiency

Lucey (2010) points out that flexible budgets assists organisations not only in the cost control but also in their planning. Lucey (2010) explains that this is done through selecting multiple

levels of activity and creating them side-by-side with the budgets so that managers do not have to wait until the end of the budgeting period to see how much they are allowed which helps in using the resources efficiently and reduces the time needed in inquiring. By employing this strategy the company will productive time and managers will have a much clearer picture of the benchmarks at different levels of activity (Hansen 2003).

According to Parker (2006) flexible budgets makes a company flexible that is the company will be in a better position to accommodate the changes that takes place in the rapidly changing environment they operate in and also to make timely adjustments for the benefit of the company. Reactingfast to situations improves the efficiency of the budgetary process since less productive time will be lost and less wasting of resources since they will be channelled where they would have been needed the most(Daum;2004). Flexible budgets also can be used to update budget for costs and revenues that have not been finalised by management agreeing on certain fixed expenses and allowing the staff alter the alternatives (Stensaker;2011). Stensaker (2011) points out that by doing so the operations of the company are not at a standstill and no time is wasted awaiting the approval of the budget.

Nimemeir (2004) argues that although the flexible budgets enhance effectiveness, a great deal of time is spent in developing step costs prolonging even more the budget process. Nimemeir (2004) explains that this compromises the efficiency of the organisation since much productive time is devoted to the formulation of the different activity levels and formulas which are not easily calculated putting more pressure of work to staff and compromising the quality of the output.

Drury (2010) also states that the flexible budget model only works within a relatively limited revenue range and it is most likely that the analyst will not spend time in developing a wider ranging model since they would consider that outlier revenue amounts will be encountered.

Drury (2010) explains that but because of the dynamic environment revenues may exceed the normal range and cause time delays which is a problem to management since it will cost them resources and productive time to now implement another model which encompass a wider range.

2.1.3 Performance evaluation

According to Datar et al (2008) flexible budgets provide a reasonable bases to which performance evaluation could for managers because the budgeted and actual amounts will be at the same level of activity and their revenues and expenses will be compared according to that level of output. Datar et al (2008) stipulates that measuring the performance of the managers using the same level of activity is a much fairer approach than using the fixed budget since it will be like comparing apples with bananas.

CIMA (2012) points out that departmental or function managers are primarily responsible for the activities within their departments or function and flexible budgeting can be prepared separately for any department or function promoting a fair comparison for each department and function avoiding any blame shifting and promoting accountability among managers. Flexible budgets gives the managers the satisfaction of a properly conducted performance evaluation since their activities and budgets are at the same level of activity and they can clearly identify where the problem lays and will be motivated to perform better the next period (Poon 2001).

According to Anohene (2011) flexible budgets are a performance evaluation tool which is mainly aimed at providing an accurate comparison between budgeted and actual. Anohene (2011) adds that revising the original budget only make the performance evaluation more accurate since the various lines of values reflect values relative to the same output. Horgren (2006) supports that the flexible budget can restructure itself based on activity levels thereby

becoming a more effective tool for performance evaluation. Horgren (2006) also adds that even though the flexible budget enables an effective performance evaluation it must be reinforced by a reliable and more accurate analysis of the costs and revenue behaviour because garbage in will be garbage out.

However, Hirschey (2001) argues saying that as flexible budgets mainly are concerned with revenues and costs which are directly influenced by the output, they tend to provide a much fairer performance evaluation process to units which are directly related to the overall output. Hirschey (2001) goes on to say that because of this most companies resort back in using the fixed budget on performance evaluation which is inaccurate and tend to be much stricter to employees thereby causing demotivation and hindering any zeal to perform better.

The authors have shown what a flexible budget system should accomplish but however according to Eversharp the flexible budgeting technic has not done much in cost control but rather cost are increasing and the variances are not being investigated to find the causes. As for efficiency problems are quickly identified but no action is being taken making the process rather useless. Flexible budgeting is a fair technic for performance evaluation but still management still uses the fixed budget for performance evaluation

2.2 Factors affecting budgetary process

The budgetary process is affected by varies factors which may be internal or external. External factors include the political, economic and social environment while the internal factors include the organisational structure, organisational culture and the recruitment and training process of the organisation.

2.2.1 Political, economic and social factors

According to Anohene (2011) states that the external factors which are political, economic and social tend to have an effect which may be direct or indirect to the organisation which

may see the organisation altering its operations affecting the budgetary processes. Lowe et al (2002) states that changes that are caused by the political, economic and social factors tend to have a slow effect on the organisational processes since such changes are often unpredictable and organisations tend to act reactively rather than proactively.

Amoako et al (2008) argues that the changes in the political structure, economic and social factors have a rather rapid and intense effect on organisations since the changes are often becoming more frequent and unpredictable. Horgren (2009) states that changes in the political environment like rallies, wars, demonstration's and political manifestos and economic changes like inflation and recessions forcing organisations to change their budget technics to flexible budget and sensitivity analysis.

2.2.2 Organisational structure

According to Lucey (2010) states that the management style of centralisation or decentralisation of decision making has an effect on the budgetary processes. Lucey(2010) clarifies that the centralisation style tend to confine all decisions to top management creating a bureaucratic process which is slow to react to any changes or problems during the budgetary process. Van der Stede (2004) explains that the decentralisation style tends to allow certain decisions to be made at low levels promoting a faster approach to reacting to problems and encourages teamwork and participation of employees during the budgetary process thereby improving their moral.

Libby (2010) points out that the span of control that is the number of subordinates reporting to a manger, of an organisation affects the budget process. Libby (2010) explains that if the number of subordinates reporting to a manager is large then this may compromise the review of the work and less supervision will be given to the group which may lead cost control problems and poor performance results of that function. A much smaller group of

subordinates reporting to a manager promotes easy communication, review of work and supervision is easy thereby promoting quick detection of problems and cost control more manageable improving the budget process of the organisation(Gustafsson;2010).

2.2.3 Organisational Culture

According to Lau et al (2002) the culture of the organisation provides a custom or a way in which issues, interaction between employees and duties are done. Lau et al (2002) points that if the organisations runs on the culture of honesty and transparency from the top management down to the subordinates the budgetary process will be free from gaming and budget slacking thereby providing the budget process of the organisation. Hansen (2004) adds to this view by pointing out that also if the organisational culture is based on hard work and teamwork communication between departments is enhanced thereby making coordination of the budgetary processes more easily and improves attainment of set targets and objectives.

However Parker (2006) points out that if the culture of the organisation promotes untrustworthy, divisions among departments and hinders communication between management and employees then it imposes a strain on the budgetary process since employees will be viewing the budgetary process with suspicion. Moll et al (2006) adds that the more management actions are not transparent then employees will start engaging in the same activities which normally lead to budget slacks and manipulation of budget figures.

2.2.4 Organisational recruitment process and training

Fraser (2003) stipulates that the recruitment process and training of an organisation has a major impact on the budgetary process of the organisation. Fraser (2003) goes on to say that the type of personnel that are recruited within an organisation must be qualified enough to fill the vacancies and are competent. Organisations by recruiting the best will also reap the benefits of reduced training costs and less time taken to complete tasks thereby leading to the

achievement of the set targets. Thomson (2007) states that the more competent and qualified personnel the organisation employ the higher the level of achievement of the set targets and objectives.

Hunt (2006) states that human resource is the most important resource of the organisation since it is the driving force of the organisations. Blumetritt (2006) states that when organisations engage their employees more in training seminars they equip them with the latest knowledge and keep them up to date. Blumetritt (2006) points that the trained employees keep up to date thereby providing better solutions and methods which may be used to enhance the budget processes of the organisation. Drury (2008) adds that employees who are not engaged in training seminars lack incentive to even improve themselves and may not be able to add more value to the organisation thereby creating a rigid budgetary process which may not be able to react to changes faster.

In light of the different views from the authors about the factors that affect the budget process, these factors seem also to have an impact on the operations of Eversharp. Eversharp is affected by the political, social and economic environment in which it operates in have an effect on its budgetary process and also by its organisational structure, culture and recruitment process(Eversharp; 2013).

2.3 Limitations of the budget process

The budgetary process has concerns pertaining to them and the limitations can be listed as rigidity, time and cost, co-operation lacking in the budgetary process and the budget figures are based on estimates and short-term bases.

2.3.1 Rigidity

According to Van der Stede (2004) if there is too much rigidity of the budgetary controls and little discretion on employees, management might hinder all initiatives that show possibilities of long-term or less payoffs. Van der Stede (2004) in addition stated that the rigidity of the budgets discourages long term planning and objectives and focuses more on short term objectives and profits which affects the overall vision and objectives of the organisation. In addition the study also showed that rigidity promotes budget slack in more profitable departments rather than departments with poor past performance since their budgets are cut and this causes departmental rivals.

Libby et al (2010) supports that rigidity in budgets causes budget slack. The study goes on to explain that rigidity of budgets forces managers to create budget slacks since their performance will be determined by comparing the actual against the budgets. Being evaluated in this way managers are held accountable for the results they produce against the budget and bonuses, salary increases and career prospects become dependent on their ability to meet the budget. The consequences of missing budget targets maybe intervention by upper management, bonus loss reduced salaries, job loss and stigma from other departments (Bescos et al 2003). Libby et al (2010) concludes that because of these circumstances brought about by the rigid budget process managers are then forced into budget slacking and gaming which results in wasting of resources and decline in future profits.

In contrast Blocher et al (2002) argues that rigid budget controls do not lead to increased budget-tension and budget slack but instead the high emphases which is placed on obtaining the budget targets promotes a high level of the budgets targets being actually meet that is a high budget accuracy. In support of this Hilton et al (2000) in his study showed that budget slack was actually lower where there were too rigid budget controls than where budget emphases was low.

2.3.2 Time and cost

According to Sutcliffe et al (2001) Ford has an estimated cost of \$1.2billion a year for planning and budgetary process cost, Volvo a Swedish manufacturing company has 20% of its management time tied in the preparation and revising of the budgets and a Hackett consultancy firm states that a company with annual sales of 1 billion spends 25000 persons days per year on planning budgets and measuring performance. The authors argues that budgets take far much greater time to prepare and revise than the actual implementation of them and cost companies a lot of money and productive time.

The budgetary process are costly to run to implement and inefficient and the budgets take time for them to be completed and by the time they are done they will no longer be applicable since the business environment would have changed (Smith; 2006). Adam et al (2003) stress that the traditional budgeting processes are too time consuming thereby living little time for implementation and the high costs of preparing them is not justified against the benefit that is derived from their use.

Hansen et al (2003) supports these views by stipulating that the time the budget takes in its preparation stage makes it slow to detect problems to and react to situations and since unpredictable situations cannot be incorporated in the budget thereby making it out of date before it is even been used. Brown et al (2001) agrees with these authors saying that the traditional budgetary process has too many bureaucratic processes which takes considerable time of management to prepare and revise due to these delays. De Vries (2004) adds on to say that companies spends 20-30% of their management processes on budget processes because of the high levels of detail required in budgeting and the repetition of some processes in different levels of management.

In contrast Lucey (2010) argues that budgets because of the exceptional principle embodied in the budgetary controls management time is saved since most of the time and attention will

be directed to the areas with more concern. Lucey (2010) goes on to say that budgets are used in the allocation of resources to the appropriate departments reducing chances of resources being wasted thereby making the cost that the company incurs while preparing budgets justifiable.

2.3.3 Co-operation required

According to Mitchell (2005) employees co-operation is not available during the budget preparation stage and management mostly imposes the budget targets to the subordinates which causes demotivation and poor performance by the employees. Mitchell (2005) adds that the lack of co-operation during the budget process may lead to stiff relationship between management and the employees removing the drive to achieve the set targets and the zeal to excel and will lead to inefficient performance. Libby (2010) stipulated that there is need for cooperation in the budget process and managers and the workforce must be in full support of the budget target however if the support and co-operation is lacking there is bound to be problem in the attainment of the objectives of the company.

According to Parker (2006) during the budget process there must be participation between the supervisors and the subordinates in setting the budgets and defining the explicit budgetary goals since this promotes motivation for the employees, installs a positive attitude towards the budget targets and enhances coordination between departments. In the research done by Parker (2006) there is a positive relationship between the participatory level of employees and the attainment of the budget targets and performance.

Lau et al (2002) are of the same view that budget participation lessens employee suspicions, fears and anxiety of the budget targets which promote greater understanding of the budget setting process, and greater trust of the budget targets set. Drury (2008) is of the opinion that the lack of participation during the budgetary process points out the lack of regard to

behavioural factors by management which will cause antagonism, low morale and poor coordination of departments which will cause departmental conflicts and blaming games when targets are not met.

Moll et al (2006) in contrast stipulated that co-operation during the budget process is not necessary since it prolongs the process and most of the lower employees neither understand the stages making it time wasting to involve them in the process. Poon (2001) supports this view by declaring that there is a negative relationship between participation and performance thereby crossing out the need for participation of employees during the budget process.

2.3.4 Based on estimates and are short-term

Fraser et al (2003) states that budgets are based on estimates and forecasting and cannot be regarded as an exact science. Fraser et al (2003) goes on to say that if budget plans are made on the bases of inaccurate forecasts then the budgetary process becomes ineffective and may cost companies a lot of resources. According to Hansen (2003) the annual budgets targets encourage short-term goals and cost objectives ignoring the long-term plans of the organisation. The author adds that the focus on short term goal prevents companies to plan on long-term value addition strategic plans which can impose problems in the long run.

According to Libby et al (2010) budgets may be true or not true since there are based on estimates and mostly based on unsupported assumptions and guesswork and may encourage gaming of numbers by management or dysfunctional behaviours among employees. Stensaker et al (2011) says budgets are short term in nature making organisation not keen with reaching long-term strategic goals. Stensaker et al also says that budgets have a short life span thereby age quickly and limit potential high growth and substantial cost reductions because of the benchmark set for overall spending during the specified period of the budget.

Horgren (2009) supports the above authors saying that budgets by virtue of having spending limits and a short- term encourages achievement of short-term goals against long-term. This will hamper high achievement of the set objectives since achieving above the budget targets will mean higher budget targets being set the next financial year thereby promoting a “middle of the road” performance. Horgren also stipulates that the short- term reducing of costs to achieve margin targets hinders achievement of long-term goals and promotes sales targets to be meant by offering additional discounts to consumers near the end of the budget period.

The limitations stipulated by the authors of the budgetary process are not just in theory but are a practical reality. In Eversharp the limitations of the budgetary process are more vivid in their operations as the system creates a rigid framework which slows down decision process and takes long to create and implement agreeing with what the authors pointed out.

2.4 Ways to improve budgetary process

Many ways can be invented in order to reduce the shortcomings of the budget process. Some methods that can be used include setting strategic targets, providing forecasts and reports, human resources and training and technological advancements.

2.4.1 Set strategic targets

The emphasis is to set strategic goals mainly based on both short-term bases and long- term not only focused on a period of one year (Hansen; 2004). Hansen (2004) also pointed out that when setting the strategic targets the organisation must include officials from throughout the firm including those responsible for the firms strategic planning and those for the budgetary process. By merging the two ramifications arising from changes in different areas are quickly identified and rectified.

Thomson (2007) agreed that merging budget processes with strategic management removes the rigidity of the budgets and allows flexible planning. Thomson (2007) goes on to say that

senior management must be willing to release additional financial and human resource when needed and to force every individual to the fulfilment of the overall objectives of the organisation. Blumentritt (2006) supports this by saying that flexibility planning is key since it enables the shifting of resources to different activities whenever necessary. Blumentritt (2006) goes on to say that strategic and flexibility planning is essential for the organisation's long-run viability, sustainability and value creation of the stakeholders.

Libby et al (2010) is of the view that the budget is still widely used especially in the USA and Russia. This view is based on the research that they undertook in USA which showed that budgets are used but are now being integrated with strategic management practices. By integrating the two processes they share their strength and complement one another reducing the shortcomings of each process when used in isolation. According to Libby et al (2010) most large companies in the USA using this method have managed to eliminate most of the shortfalls of the traditional budgets such as time and costs.

2.4.2 Forecasting and reports on budgets

According to Hunt (2006) most organisations are operating in a very rapidly changing environment and managers must be able to react to that fast competitive forces affecting the business. Hunt (2006) goes on to say that managers must focus more on forecasting as forecasting is more accurate than budgets and are easily altered and reviewed than budgets. The forecasts also are more realistic and mostly portray exactly what is on the ground thereby becoming a more suitable tool in this rapidly changing business environment (Horgren; 2006)

Moll et al (2006) also states that forecasting and budget reviews allow for flexibility and most organisations are now using focusing less on the rigid format of budgets but putting more emphasis on forecast and review reports which are mainly done most on a monthly or weekly basis. The main reason forecasting improves budgeting process is that it provides

valuable information to the organisation in order to make not only short-term decisions but also long-term objectives. Forecast information is more reliable because it uses both quantitative and qualitative data from the judgements of experts (Manes; 2002).

2.4.3 Human resource and training

Drury (2008) states that human resource element is very crucial in the day-to day running of the business and caution must be taken by organisations during the recruitment processes. Drury (2008) explains that for an improved budgetary process management must recruit personnel which is competent enough and qualified for those particular task so that les resources will be channelled in their training or enhancements. In other words if the organisation goal is to improve its budgetary process then it must find the best personnel to do the job (Nimemeir; 2004)

Horgren (2006) argues that although recruitment of competent personnel there is crucial for better improved processes personnel must be continuously trained so as to keep up with new information, ideas, trends and technologies. Horgren (2006) explains that the environment that most organisations are operating in are not stable therefore a lot of changes are taking place so it is to the best interest of the company to keep its personnel trained and up to date for its own benefit.

Lau et al (2002) was of the opinion that for improved process the organisation must clearly define the responsibilities of each and every personnel member of the organisation. Lau et al (2002) explain that by doing so personnel clearly knows what is expected of them and their will be reduction of overlapping or duplication of duties which will be easy for accountability and control purposes

2.4.4 Technology

Blumentritt (2006) states that the processes of planning, coordinating, controlling demands an advanced and quick way of communicating decisions and information. Flexibility of the organisation mostly depends on how fast information or instructions are communicated to the people when it is needed. Blumentritt (2006) explains that IT tools have an increased capability. Flexibility depends on getting good information to the people who need it when they need it. The increased capability of IT tools makes them more efficient in communication and integrating various functions of the organisation.

Kaplan (2001) highlighted that since organisations are now moving into the integration of the budget process and strategic management then technology is now paramount in order for the successful integration of the systems and for proper communication which save time and resources. Kaplan (2001) also stated that technology will also enhance the budgetary process from the vast budget software packages that are now available which will reduce arithmetic errors and shorten the time spent on the formulation of the budget process.

2.4.5 Move to beyond budgeting

The inherent shortcomings embodied in the traditional budgeting system have seen most organisations altering or abandoning the budgets altogether for better alternatives (Lau et al 2002). Stensaker et al (2011) claims that most European companies have shifted from the traditional budgeting system to beyond budgeting in a bid to address the shortcomings of the traditional budget. Stensaker (2011) goes on to say majority of the European companies are supplementing the budgeting process with the Kaplan and Norton's (2001) balance scorecard framework while others are totally shifting to beyond budgeting model.

Gustafsson et al (2010) supported that most French companies are now using the beyond budgeting theory and are performing well. Gustafsson et al (2010) adds that the founders of

beyond budgeting model Hope and Fraser established the organisation Beyond Budgeting Round Table which saw more than 100 companies joining and are managing successfully with the beyond budgeting model. According to Gustafsson et al (2010) beyond budgeting is the best practise that is being employed in the most developed countries and large organisations.

The authors pointed out many ways which may be used to reduce the limitations of the budget process but in practical this systems in companies like Eversharp they may take too long to be approved because of the bureaucratic structures and are expensive to set up or implement thereby making them not easy to apply in the practical world.

2.5 Summary

This chapter tried to bring out the different views of authors on the effect of budgets on the performance of manufacturing companies. The chapter explored on the budget technique being employed the factors which affect the budget, the limitations of the budgets and the ways which can be implemented to improve the budgetary process in manufacturing companies. The following chapter will focus on the research methodology used in the collecting of data for analysis.

Chapter 3

Research Methodology

3.0 Introduction

This chapter focuses on how the research study was done. It clearly shows the research design the research instruments, methods and procedures used in the collection of the relevant data and showing the reliability of the methods and there are relevance to the study.

3.1 Research design

This is a work plan that ensures that the evidence obtained assists to answer the initial question of the research as explicitly as possible (Westfall; 2009). In other words a research design is a process of planning and organising the structure and strategy that consists of the research study. Nataraja (2007) stated that there are three research designs in this study a descriptive research approach was used since it is flexible enough to incorporate either qualitative or quantitative methods without being fixed to one approach.

3.1.1 Descriptive research design

According to Remenyi et al (2009) a descriptive study collects information without changing the environment and provides information about the relationships that exists between different variables. It mainly describes the characteristics of the target population being studied to full fill the questions such as what, where and how (Fraenkel et al; 2003).

The main factors that were considered in using this research were that it enabled the researcher the ability to look at the study in so many different aspects thereby enabling wider view of the issue as opposed to strict numbers and figures. Moreover the method was easy to use as it enabled data to be presented in a more understandable manner as well as how the population experiences were. It also provided an insight into the real life experiences of the research study thereby enhancing the reliability of the data collected (Denzin; 2003).

In this research the research used the case study method of research of Eversharp (Pvt) Ltd in Harare. A case study allows for an in-depth examination of events within a real-life context (Gerring; 2006).

A case study was used in this research as it provided an in-depth study in the effect of budgets in the performance a manufacturing company Eversharp. It also enhanced the research since it allowed the researcher to explore the real situation on the ground, gather reasons of some behaviours, and explain goals and present outcomes without being subject to confines inherent in other methods. This method allowed a lot of detail to be collected which was richer and in greater depth thereby allowing for a proper evaluation of the research data (Lucey; 2004).

3.2 Population

According to Lucey (2004) a population comprise of a specified aggregation of study objects from which the researcher wants to collect data. In other words a population is simply a group of people or objects from which research data is collected for generalisation. The population used in this study consisted of 40 employees the 5 departments in Eversharp.

Target population

A target population is an entire group that is identified for the generalisation of the research conclusion and the group must have varying characteristics (Schinder et al; 2013). The target population used in this research consisted of 40 employees comprising of managers, clerks and accountants from the sales, finance, human resource, production and the safety, health and quality departments.

3.2.1 Sample size

A sample is a group in a research study which from which data is collected for observation and analysis and this sample is a representative of the whole population (Scheuren; 2003). The sample comprised of 22 employees chosen from the 5 departments in Eversharp. The table below shows the sample size and the population.

3.3 Sampling Technics

3.3.1 Stratified Random Sampling

In this research a stratified random sampling method was used. Lucey (2004) stipulated that the population is divided into groups that differ in their important ways and the basis for grouping must be known before sampling for instance population in this research was group according to departments and the selection is then done randomly in the subgroups.

The researcher used the stratified random sampling method in the distribution of questionnaires and selection of interview candidates as it reduced the human prejudice and subjectivity. This method enhanced the research by reducing errors since the population was divided into smaller segments according to the departments in Eversharp and analysis was done for smaller groups. Sampling of the smaller groups improved intergroup comprise of the research as according to Schinder et al (2013).

Table 3.1 Target population and sample

Department	Population	Sample size	Percentage to population
Sales	6	3	50
Finance	9	6	55
Human resources	2	2	100
Production	20	8	40

SHEQ	3	3	100
TOTAL	40	22	55

According to Remenyi et al (2009) if the sample size of at list 50% of the population is a fair representation of the whole pollution therefore it can be settled that the sample of 22 which is 55 % of the population and is above 50% is a fair representation of Eversharp employees.

3.4 Sources of data

3.4.1 Primary data

Primary data is the data which is captured at the very point where the research is being carried out for the first time and data is not organised or analysed (Remenyi et al; 2009). In this research primary data was obtained from the use of questionnaires, interviews and observations by the researcher. In this research the primary data is the original data collected to solve the research problem under this study.

The primary data gathered by the researcher was found to be free from errors since the data was current and up to date. The data collected proved to be more reliable source since it was obtained directly from the parties involved in the research study. The data gave reliable evidence as it was directly originated from the parties involved that is the information was collected from the respondents.

3.5 Research instruments

3.5.1 Questionnaires

A questionnaire is a set of questions which are derived by the researcher in which all data collection techniques are incorporated so that every person in a sample can respond to the

same questions(Fraenkel; 2003). The questionnaires were used to compliment the interviews so as to widen the scope of the data being collected.

The researcher made use of the closed questions which required short and precise answers which were easy to complete and time management and the questions were quiet understandable to keep the respondent quiet aware of the subject being researched about.

Questionnaires enhanced the research as they did not reveal the identity of the respondents thereby enabling them to freely express their views. The respondents were able to complete the questionnaires at their own pace unlike in an interview. The questionnaires had standardised questions thereby making the collected data more objective and easy to organise and analyse. Also since the researcher had minimal involvement in the process it removed the element of bias.

3.5.2 Interviews

An interview is a conversation which would have been initiated by the interviewer so as to obtain information from the interviewee (Schinder; 2013). In this research the interviews were used so as to offset the weakness of the questionnaire so as to provide a more reliable study. The researcher made use of structured questions during the interviews and they involved the management team of Eversharp.

The interviews equipped the researcher with an in depth understanding of the views and ideas of the respondents concerning the effect of the budgetary process to the performance of the company. They also enabled the researcher to probe on the important aspects of the research thereby giving greater control of the data, enabling generalisation of the population. Also the research was able to make use of non-verbal communication in the form of gestures or facial expressions which proved more reliability of information.

3.5.3 Likert scale

The likert scale is a scaling method which is assumes that the concept being measured has one dimension and makes use of summarised ratings making use of an attitude-scale(Labuschagne; 2003). The researcher made use of the likert scale in the designing of the questionnaire which were administered to the sample from the population. The likert scale is shown below

- 1 - Strongly Agree
- 2 - Agree
- 3 - Neutral
- 4 - Disagree
- 5 - Strongly Disagree

Sources:Fraenkel (2003)

The likert scale made the questionnaires much easy to attend to for the respondents. The likert scale enabled a dependable and straight evaluation of the attitudes making the information much easier for the researcher to organise and analyse producing more reliable conclusions (Labuschagne; 2003)

3.6 Reliability and Viability

Saunders (2006) stated that reliability refers to the level of consistence in the method used in the research and viability refers to the fact that are the findings legal or realistic. Viability simply means that the methods used adequately represent the population under study. The researcher ensured reliability of the instruments used by making them consistence so that if used in different conditions of the same subject will yield the same results. The researcher ensured viability by asking herself how, why and in what why the problem under study related to the findings on the ground.

3.7 Data Presentation and Analysis

The collected data in this research was presented in tabular form, charts, graphs and qualitative form. The tables were used to organise data for easy interpretation while for effective visually stimulating data graphs and charts where used.

3.8 Summary

This chapter gave a detailed account of the research methodology used in acquiring of data. It clearly stipulated the research design used the population size and the research instruments which were used in the data collection process. The next chapter will give an analysis of the data collected and present the information in a systematic manner from which finds will be derived from.

CHAPTER 4

Data Presentation and Analysis

4.0 Introduction

The main aim of this chapter is to present and analyse the collected data in a logic and understandable manner so to draw meaningful conclusions from them. This is to enable the proper interpretation and analysis of the findings of the research. The collected data was presented in charts graphs and tables which permitted proper analysis of data to be done.

4.1 Response Rate

During the research 22 questionnaires were sent out and there was a response rate 53% of the population (21/40) meaning that 21 questionnaires were returned which is more than 50% of the sample. Although the researcher did not receive a 100% response rate, the researcher concluded that the 53% was reasonable and reliable since it was above the most recommended 50% in according to Remenyi et al (2009). Of the 3 scheduled interviews the researcher managed to have 2 interviews because one of the interviewees was attending a workshop and could not be reached. The main objective is to evaluate the effect of the budgets and budgetary control on the performance of Eversharp a manufacturing company.

4.1.1 Questionnaire Response Rate

Table 4.1 Questionnaire Responses

Department	Questionnaire sent out	Questionnaires returned	Response Rate
Finance	6	6	100%
Sales	3	3	100%
Human Resource	2	2	100%
Production	8	7	88%
SHEQ	3	3	100%
Total	22	21	53% (21/40)

Source: primary data

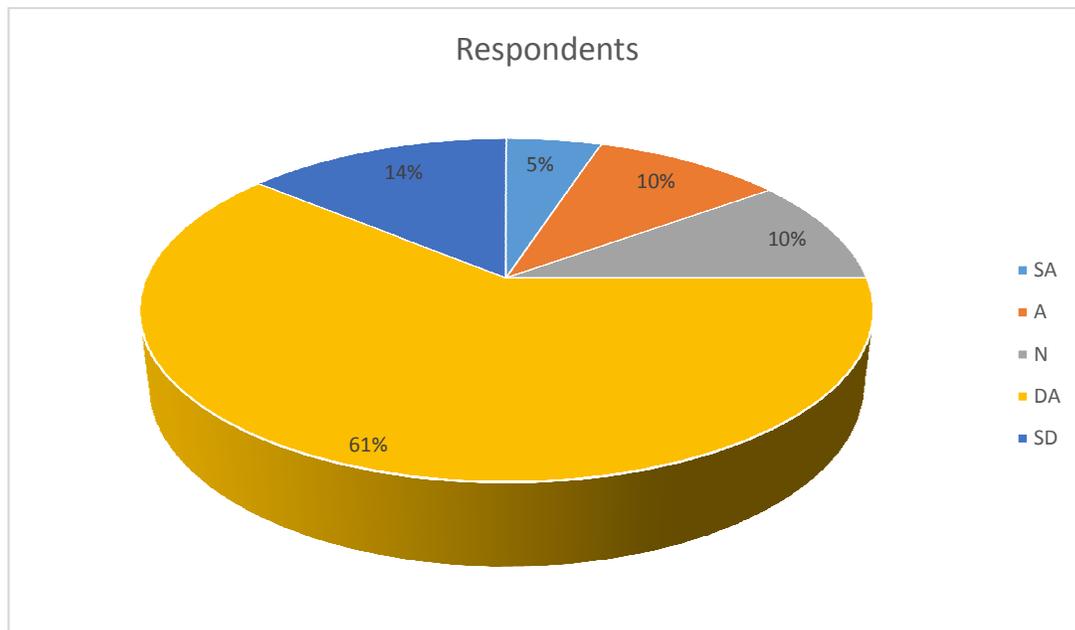
Table 4.1 shows the distribution of the questionnaires and shows that of the 22 questionnaires sent out 21 were returned. The researcher then concluded that the 53% response of the questionnaires returned are justifiable and adequate to draw reasonable conclusions from them.

4.2 Questionnaire Presentation and Analysis

4.2.1 Question1: Is the flexible budget technique an effective cost control tool

The reason for asking the respondents this question was to find out the usefulness of the flexible budget technique being used at Eversharp as a cost control tool.

Fig 4.1: The effectiveness of the budget technique as a cost control tool



Of the questionnaires sent out to the respondents 61% (13/21) disagreed that the flexible budgeting technique is useful as a cost control tool while 14% strongly disagreed (3/21), 10% (2/21) were neutral about the issue, 10% (2/21) agreed that it is a cost control tool and only 5%(1/21) strongly agreed that flexible budget enhances cost control.

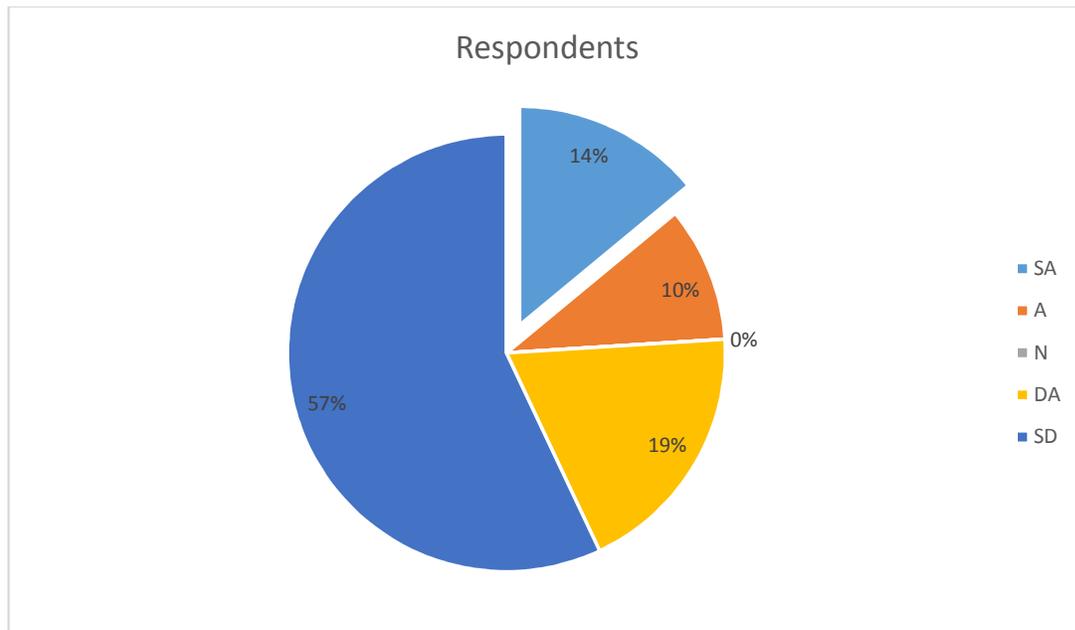
More than 61% of the respondents disagreed that flexible budgeting is effective for cost control purposes in Eversharp manufacturing company, therefore showing that decline in performance can be attributed to the ineffectiveness of the budget technique in controlling costs. This is in accordance with Frow et al (2010) who stipulated that flexible budgeting cannot be seen as a cost control tool since it only functions with costs directly related with output. The 15% which agreed that flexible budget is an effective cost control may be that they may have lack knowledge of the budget system or are part of the managing term which implemented the system.

The researcher concluded that the flexible budgeting technique at Eversharp is not effective for cost control purposes and is responsible for the unjustified increase of expenditure and there is room for improving and updating the system.

4.2.2 Question 2: The budget technique facilitates an accurate comparison between the budgeted and actual costs

The above question was asked so that the researcher would find out if the budget process being implemented facilitated an accurate comparison between the budgeted items and the actual outcome. The chart below shows the responses of the question.

Fig 4.2 Flexible budget facilitates an accurate comparison between budgeted and actual



The chart shows that 57% strongly disagreed, 19% disagreed, nil of the respondents were neutral, 10% agreed and 14% strongly agreed that the flexible budgeting technique provides an accurate comparison between the budgeted income and expenditures and the actual.

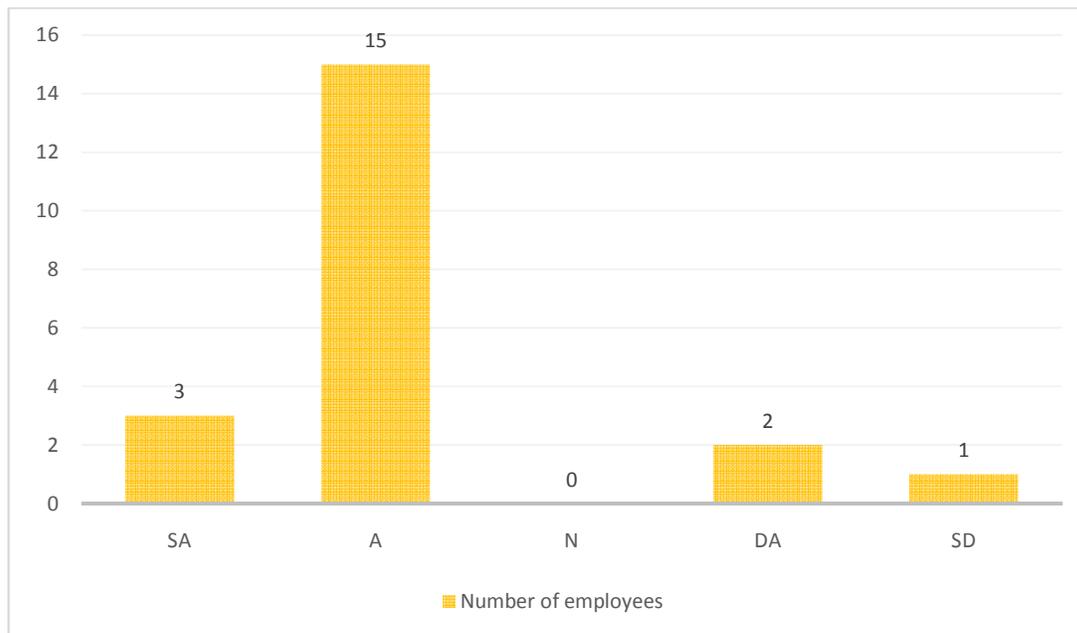
About 76% of the respondents disagreed that the budgeting technique facilitates an accurate comparison between the budgeted and the actual income and expenditures showing that inaccurate comparison of the budget and actual may lead to wrong decisions or projects being undertaken compromising the overall performance. Drury (2010) supports this by pointing out that if an inaccurate comparison is done resources maybe inappropriately allocated distorting figures for the next budget period. The 24% agreed that the budget technique provided an accurate comparison between budgeted and actual.

The researcher however concluded that budget process at Eversharp does not provide an accurate comparison of the budgeted and actual income and expenditure that would have been incurred causing inappropriate decisions to be made.

4.2.3 Question 3: The current budgetary technique enhances the planning stage of the budget process

The researcher asked this question in a bid to find if the flexible budget technique improves the planning stage of the budget process and reduces the time spent in preparation of the budget estimates.

Fig 4.3: Flexible budgeting in enhancing the planning stage



The response showed 15 employees agreed (71%), 3 strongly agreed (14%), nil respondents were neutral, 2 disagreed (10%) and also 1 strongly disagreed (5%) that flexible budget technique enhances the planning stage of the budget process.

The responses clearly showed that 85% agreed that flexible budgeting enhances the planning of the budgets showing that the flexible budgeting technique can be used to shorten and improve the time frame of the budget process making it more efficient in managing the company resources. According to Lucey (2010) enhancing the planning of the budgets improves the time frame of the budget process and accuracy of the estimates providing a

clear blueprint of the company to follow which may lead to an improved performance. The 15% disagreed on the basis that it requires calculation at the different activity level thereby making the planning stage longer (Nimemeir; 2004).

The researcher established that the flexible budgeting technique indeed enhances the planning stage of the budget process.

4.2.4 Question 4: the budget technique used facilitates a quick response to situations and problems.

From this question the researcher wanted to find out that if the budget process had an effect on the flexibility of the company in its reaction to changes or unforeseen problems.

Table 4.2: Flexible budget enhances the response rate to situations and problems

Response	Number of respondents	Response rate
Strongly Agree	0	0%
Agree	3	14%
Neutral	3	14%
Disagree	13	62%
Strongly Disagree	2	10%
Total	21	100%

Table 4.2 shows that 62% of the respondents showed that they disagreed, 14% were neutral, also 14% agreed, 10% strongly disagreed and nil response for those who strongly agreed that the budgeting technique facilitates a rapid response to situations and problems that arise.

The responses showed that almost 72% of the respondents disagreed that the flexible budget enhances the reaction of the company to unforeseen changes or problem which agrees to

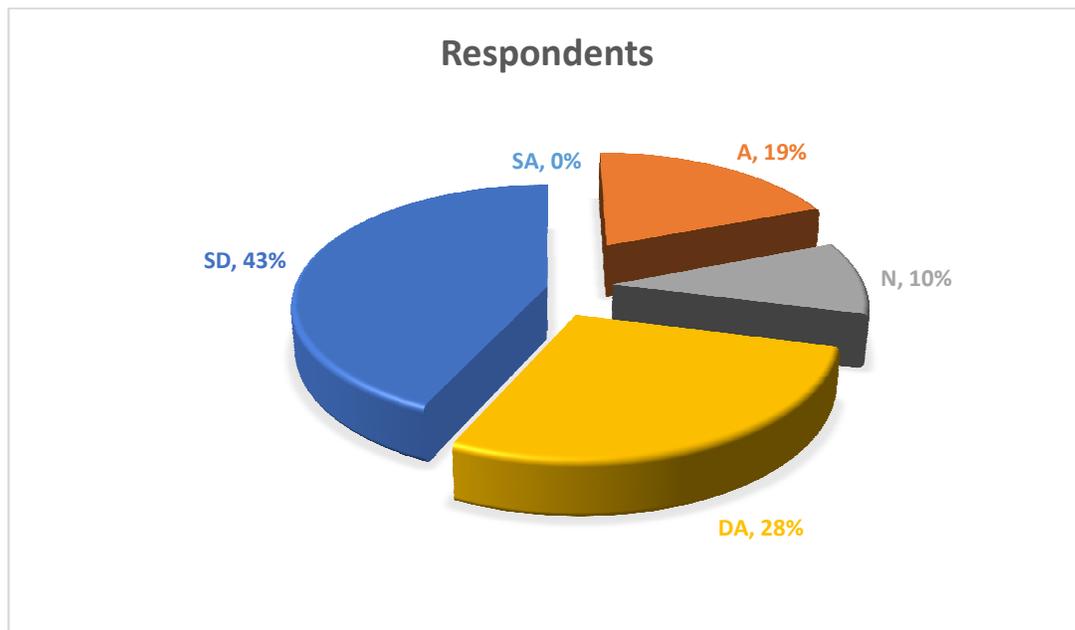
Hansen et al (2003) who states that the flexible budget is slow in reacting to changes and situations fast which makes companies lose opportunities which will affect their performance level. The 14% which were neutral may have been afraid to air put their views due to confidentiality issues. The 14% who agreed are of the same view as Parker (2006) who points out that flexible budget technique provides quick solutions and detects problems fast making the company more flexible.

The researcher was then forced to conclude that the flexible budget technique does not enable the Eversharp to respond fast to the rapid changes in the environment the company operates in thereby making it lose opportunities to its competitors and compromise its performance.

4.2.5 Question 5: the current budget technique enables an efficient use of resources and reduces wastage

The researcher asked the question in order to come to a conclusion on whether the budgeting technique being used is efficient in the use of resources and reduces wastages. The chart below shows the distribution of the responses received.

Fig 4.4: Budgets facilitate efficient use of resources



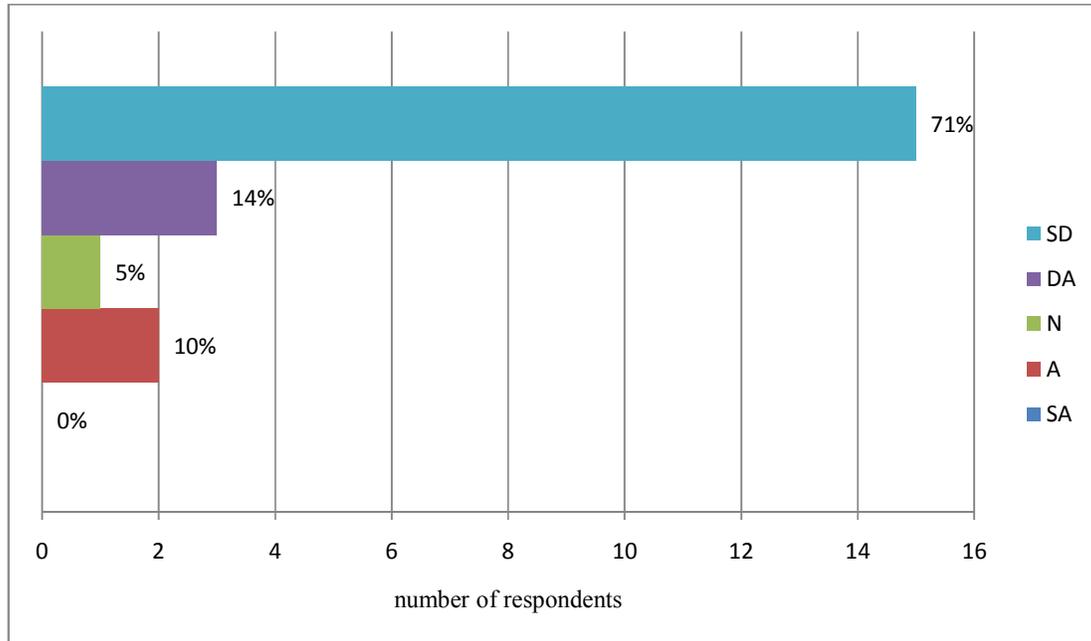
The chart shows that 43% of the respondents strongly disagreed, 28% disagreed, while 10% were neutral in their decision, 19% agreed and nil of the respondents strongly agreed that the flexible budget enables efficient use of resources and assist in reducing the wastage of resources.

More than 50% of the respondents disagreed that the flexible budgeting enhances efficient use of resources and reduction of wastageshowing that the rise in the costs and increase in losses can be attributed to the inability of the current budgeting technique to efficiently allocate resources. Nimemeir (2004) supports by saying that the flexible budget promotes budget slacking by staff due to its rigid nature thereby increasing wastage of resources and affecting performance The other 29% which agreed that the flexible budget enables efficient use of resources are of the same view as Daum(2004) who states that flexible budgets accurate allocation of resources which reduces wastage of resources.The researcher then establishes that the flexible budget is not an efficient tool for the allocation of resources on its own and in the reduction in the wastage of resources.

4.2.6 Question 6: The budget current budgetary technique has improved the performance evaluation process

The researcher wanted to establish if the flexible budget technique enhances performance evaluation in a manufacturing firm

Fig 4.5: Flexible budgets enhances performance evaluation



The graph shows that 71% (15/21) of the respondents strongly disagreed, 14% (3/21) disagreed, 10% (2/21) agreed, 5% (1/21) of the respondents were neutral while nil of the respondents strongly agreed that the flexible budgets enhances the performance evaluation process.

More than 80% of the respondents disagreed that the budget process has improved the performance evaluation process of the company that the budget technique does not enhance the performance evaluation process which is responsible for the performance bonuses, salary increases, promotions of the staff thereby hindering any initiative or motivation to succeed in the staff compromising on the performance of the company (Hirschey et al; 2001). Only 6%

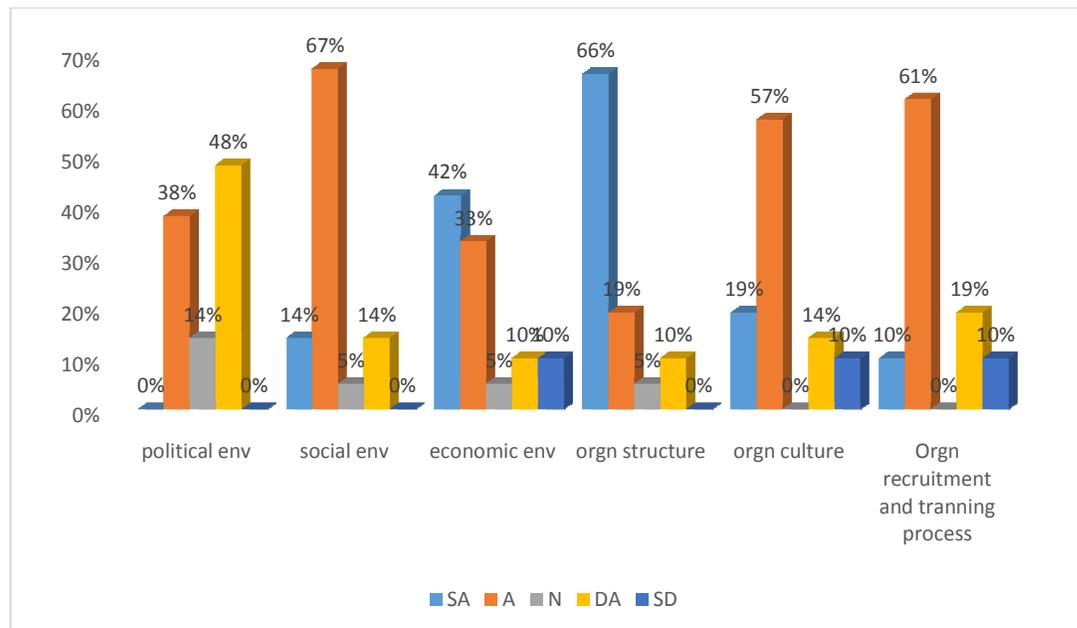
agreed that the budget process enhances the performance evaluation process of the company which maybe because they are in departments that are not directly affected by the units produced or sold thereby may not have a clear understanding. These findings are contrary to what Anohene(2011) stated that flexible budgets enhances the performance evaluation since it compares the budgeted and the actual using the same level of activity.

The researcher then concludes that the flexible budgeting technique does not enhance the performance evaluation process of the organisation thereby removing any motivating factor since the evaluation process is regarded to be unfair thereby affecting the results and hence performance of the company

4.2.7 Question 7: Factors that affect the budgetary process

The researcher wanted to identify the factors that affects the budgetary process and the effect they have on the performance of the copmany. The respondents distribution is shown below

Fig 4.6: Factors affecting the budget process



Political environment

The respondents of 48% disagreed that the political environment affects the budgetary process of the manufacturing company Eversharp. 38% of the respondents agreed that the political environment affected while 14% of the respondents were neutral mainly because some of the respondents did not want to air views concerning political issues. The 48% of the respondents that disagreed are in agreement with Anohene (2011) who states that the political environment has an indirect and distance effect on the budgetary process of companies. The 38% agrees with Amoako (2008) who states that political factor has a rapid effect since the changes are rather frequent and unpredictable

Social environment

A 67% response was obtained from those who agreed that the social environment has an effect on the budgetary process, 14% strongly agreed, 14% disagreed, 5% were neutral and a nil response for those who strongly disagreed. The 81% agreed that social environment has an effect response is in line with Amoako (2008) who stated that changes are taking place in the social environment which affects the wellbeing of the staff thereby have an effect on the budgetary process of any organisation. The 14% who disagreed are of the same view as Lowe et al (2002) that social factors have a slow effect on the operations of the company.

Economic environment

The responses showed that 43% strongly agreed that the economic factors affect the budgetary process and 33% agreed, 10% of the responses disagreed, 10% also strongly disagreed while 5% were neutral on whether the economic environment affected or did not affect the budgetary process. More than 70% agreed that the economic environment had an effect on the budgetary process which is in agreement with what Anohene et al (2002) stated that the economic environment is changing rapidly and thereby forcing most companies to

adopt a more dynamic budgetary process which may cope with the changing environment. The 20% which disagreed are of the view that the economic changes do not directly affect the budget process since they mostly once off.

Organisational structure

The response showed that 66% strongly agreed that the organisational structure has a direct effect on the budgetary process while 19% agreed, 10% disagreed, 5% of the responses were neutral, and nil strongly disagreed. The 5% whose response were neutral feared for the confidentiality of the organisations information. More than 80% of the responses are in agreement the organisational structure has an effect on the budgetary process which is supported by Libby (2010) that the approach at which decisions are centralised or decentralised in an organisation and the span of control affects the budgetary process by influencing the quality of results produced thereby affecting performance of the organisation.

Organisational culture

Response showed that 57% of the respondents agreed that the organisational culture influenced the budgetary process, 19% strongly agreed while 14% disagreed and 10% strongly disagreed and nil were neutral about the effect of the organisational culture on the budgetary process. About 28% of the response disagreed that the organisational culture had an effect on the budgetary process as culture is a perception that differs among individuals (Lau et al 2002). The 76% that agreed that the culture of an organisation influences the budget process and how it is implemented. This is in accordance to what Lau et al (2002) stipulated that the organisational culture sets the pace and tune of how controls are viewed and the budget process which will have a bearing on the quality of the results obtained.

Organisational recruitment and training process

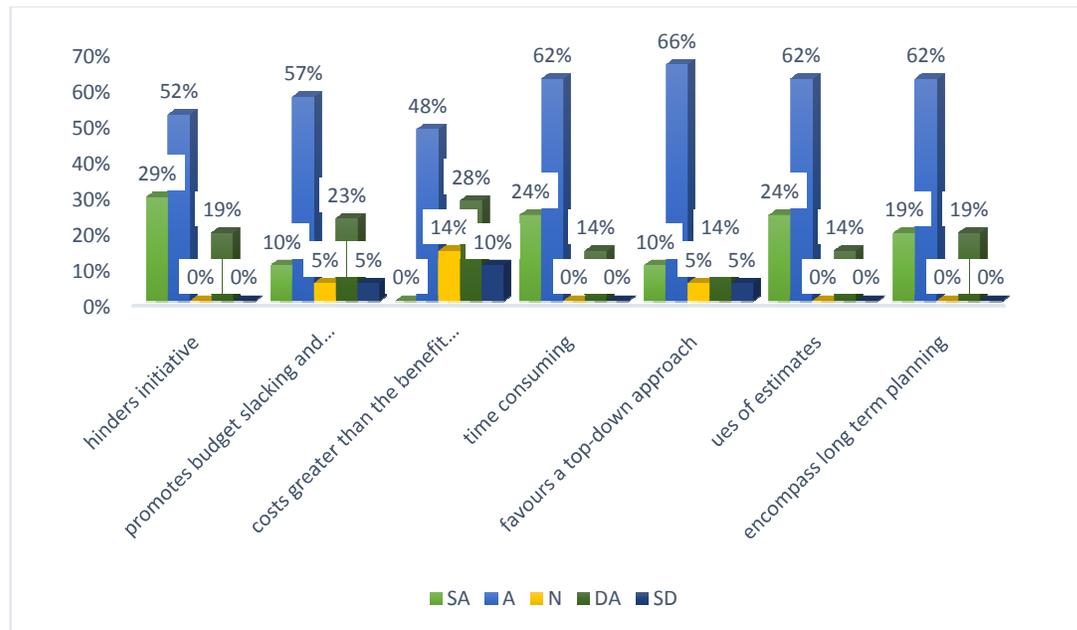
The questionnaires had 61% who agreed that the recruitment and training process has an effect on the budgetary process while 19% disagreed that it has any effect on the budgetary process. 10% strongly agreed that the organisational recruitment and training has an effect on the budgetary process, 10% strongly disagreed and nil were neutral. 71% of the response showed that the recruitment and training process has an impact on the budgetary process since for it to be effective it needs qualified and competent staff. Fraser (2003) supports this by pointing out that the more qualified and up to date the staff is the better the attainment of the set targets and objectives of the organisation.

It can be concluded that social environment, organisational structure, recruitment and culture of the organisation are the major factors that influence the budgetary process followed by political environment and then the economic environment which have an indirect effect on the budget process.

4.2.8 Question 8: weakness of the budgetary control process

The researcher asked the question in order to figure out whether the listed weakness were embodied in the budget process and to find out their effect on the performance of Eversharp

Fig 4.7 weakness of the budget process



Budgets hinder initiative

The responses showed that the 52% agreed that budgets hinder initiative, 29% strongly agreed while 19% disagreed and nil of the responses where neutral and strongly disagreed. More than 80% of the responses showed that the budgets hinder initiative thereby pointing out that budgets hinders all possibilities that may show a lesser payoff or long-term aspect. Van der Stede (2004) agrees to this by stating that the rigid nature of the budget hinders all initiative for opportunities that have less payoff and are long-term thereby limiting the organisations to only fixed and limited routine opportunities. The 19% may constitute people who supervise rather than are directly involved in the budget process.

Budgets promotes budget slacking and manipulation of numbers

The questionnaire response showed that 57% agreed that the budgets promotes budget slacking and manipulation of numbers, 23% disagreed, while 10% strongly agreed, 5% were neutral and 5% strongly disagreed. The 67% respondents agreed that budgets promotes

budget slacking and manipulation of numbers showing that resources have been wasted and the figures presented were not reflective of the true performance thereby giving a false picture of Eversharp performance. This is supported by Libby et al (2010) who stated that budget slacking and gaming with numbers only portrays the short-term benefits but will have a long- effect of decline in performance due to resources being wasted. The other 28% which disagreed maybe of the views that the budget process will be able to pick up any slacking or manipulation of figures (Blocher et al 2002).

Cost of creating budgets out ways benefits derived from using it

The responses showed that 48% agreed that the cost of preparation of the budgets exceeds the benefit derived from using them, while 28% disagreed, 14% were neutral, 10% strongly disagreed and nil responses of those who strongly agreed. The response showed that 48% of the responses agreed that the cost is greater than the benefits derived from the budgets which is supported by Adam et al (2003) who stated that the budgets have a high cost of preparing which is justified to the benefits which are then derived. 38% disagree thereby showing that the cost of preparing budgets is justified to the benefit derived from them which agrees to Lucey(2010) who points out that the cost of preparing the budget is justified by the benefits that include the proper allocation of resources which reduces the chances of channelling the resources were they are not needed.

Budgets are time consuming

The responses showed that 67% agreed that the budgets are time consuming and costly to prepare, 24% strongly agreed, while 14% disagreed, 0% were neutral and also 0% strongly disagreed. Almost 91% of the responses agreed that the budgets are time consuming which is in accordance to what Sutcliffe (2001) pointed out that the budgets take far much greater time and cost than the actual implementation or execution of them thereby wasting valuable

working hours and resources of the company. The other responses disagreed that the budgets were time consuming and costly to the company. Although it is a small percentage it agrees with what Lucey (2010) pointed out that the time and cost spent is appropriate for the proper planning and allocation of resources.

Budgets favour a top-down approach

Questionnaires returned showed that 66% agreed that the budgets favour a top down approach in decision making, while 14% disagreed, 10% strongly agreed, 5% were neutral and 5% strongly disagreed. About 75% of the responses agreed that the budgets showed a top down approach of decision making which sees most decisions pushed down to subordinates. This agrees with what Mitchell (2005) stipulates that the top down approach of decisions and budget target is viewed with suspicion by employees which may cause demotivation and poor performance. The 23% which disagreed that the budget favours a top down approach is in line with what Moll et al (2006) stated that decentralised approach of decision making during the budget process is not necessary as it increases the time of preparation and most of employees are not qualified enough to make meaningful contributions. The 6% which was neutral had neither decision on the issue and according to literature there is no conclusion which can be drawn from the response.

Budgets are made of estimates

The response showed that 62% agreed that the use of estimates in budgeting compromises the accuracy, 24% strongly agreed to this view, while 14% of the responses disagreed, nil were neutral and nil strongly disagreed to this view. The 86% which agreed that estimates makes budgets less reliable are in accordance to what Fraser (2003) pointed out that estimating cannot be regarded as an exact science since the bases at which the budgets are being made is full of uncertainty there by putting the operations of the company at stake. The 14% which

disagreed with this view are of the opinion which is in line with what Stensaker (2011) stipulated that it is better to have a plan based on estimates since it may attempt to project a path the company must follow than have nothing at all.

Budgets do not encompass long-term planning

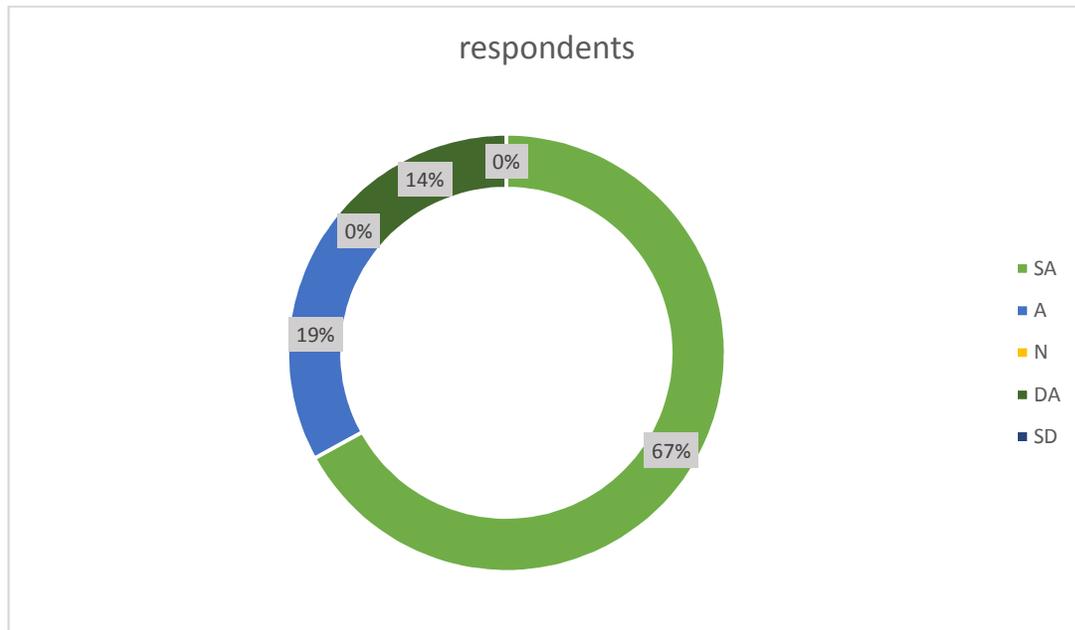
The questionnaires showed that 62% of the respondents agreed to that budgets do not encompass long term planning, while 19% strongly agreed, 19% disagreed, nil were neutral and nil strongly disagreed. The 81% of the responses agreed that budgets do not encompass long-term planning which agrees with what Horgren (2009) pointed out that the budget process is rather short sighted as it focuses on the short-term objectives putting sacrificing long- term benefits for short- term gains thereby affecting the overall long - term performance of the company. The 11% which disagreed are in support with what Stensaker (2011) pointed out that these short-term objectives compliment the long-term objectives of an organisation as achieving these short-term goals then means the long-term objectives would be partly achieved as well.

The researcher then concludes that all of the weakness in the budgetary process are evident in the budgetary process in Eversharp since more than 70% of the responses from the employees supported their existence and effect on performance.

4.2.9 Question 9: Integration of strategic planning and budgets improves the budget process

This question aimed at inquiring the views of the respondents on the integration of strategic management with budget so as to improve the budgetary process

Fig 4.8: integration of strategic planning and budgeting



The chart shows that 67% strongly agreed that integrating the budget process with strategic management improves the budget process while 19% agreed, 14% disagreed and nil were neutral and nil strongly disagreed on this view.

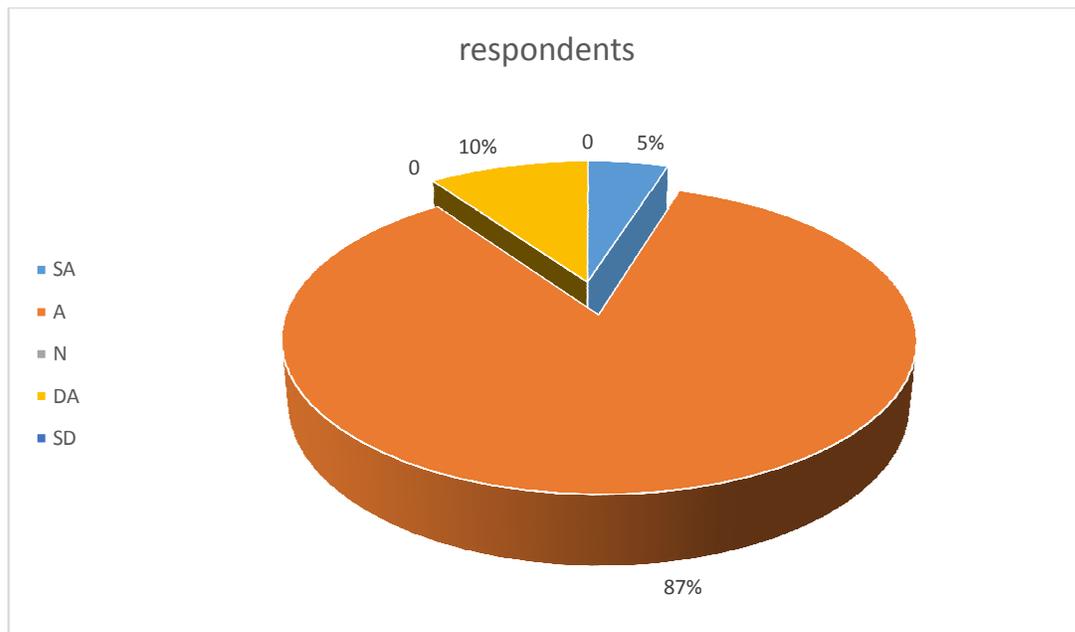
The 67% agreed that the integration of strategic management and budgeting improves budget process are of the same view as Thomson (2007) that integration of strategic planning and budgets brings in cooperation and different views opinions and expertise from the two different functions thereby making the company more dynamic and flexible. The 14% which disagreed that the integration of strategic planning and budgeting improves the budget process maybe due to the fear of change and job security (Libby; 2010).

The researcher then concludes that integration of strategic planning and budgeting according to the response of the employees of Eversharp is improves the budget process and overall performance of the organisation.

4.2.10 Question 10: Forecasting improves the flexibility of the company in reaction to problems

This question was asked so that the researcher would find out if respondents considered forecasting as a tool which improves flexibility of the company.

Fig 4.9: Forecasting as a technique for improving the flexibility of the company



The returned questionnaires showed that 87% of the respondents agreed that forecasting improves the flexibility of the company in its ability to react to problems, 10% disagreed, 5% agreed and nil respondents for strongly disagree and neutral.

The 87% agreed that forecasting improves the ability of the company in reacting to problems and changes in the environment in which they operate in. This is in accordance to Hunt (2006) who stipulated that due to the rapid changing environment that companies are now

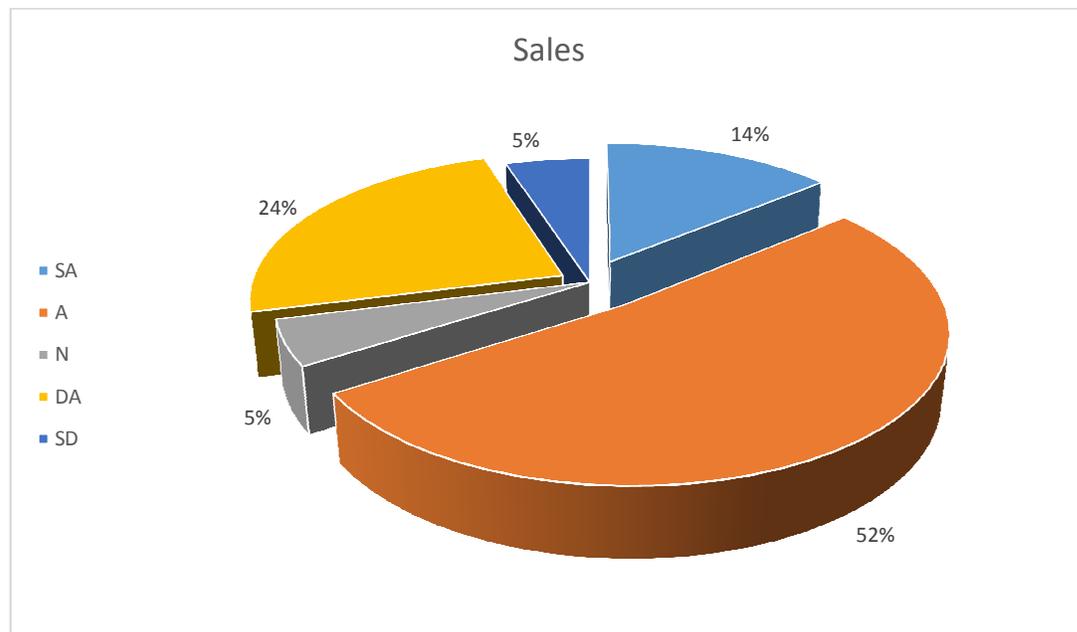
operating in forecasting provides a more accurate and flexible tool to be used than the budgets which makes companies able to cope and react to changes fast. The 10% that disagreed are content with the current position and do not wish to change.

The research was left no other conclusion but to conclude that forecasting is the perfect tool which improves the flexibility of Eversharp to the reaction of changes and situations.

4.2.11 Question 11: Continuous training of staff improves the budget process

The researcher in asking this question wanted to find out if continuous training of staff improves the budget process and the performance of the organisation.

Fig 4.10 training of staff improves budget process



The response showed that 52% agreed that the budget process is enhanced by the continuous training of the staff, 24% disagreed, 14% strongly agreed, 5% were neutral and 5% strongly disagreed.

The 66% of the responses show that the continuous training of employees improves the budget process and the performance of the staff. This is in agreement with Drury (2008) who

states that continuous training of employees keeps them up to date with the latest information and processes thereby improving the way they execute their duties and the budget process. The other respondents of 33% which disagreed that training improves the budget process and is in accordance with what Lau et al (2002) stipulates that training will increase cost of training and most of the staff will just be attending the training and will not implement the staff they learnt in the execution of their duties.

The researcher then concludes continuous training of staff improves the budget process and attainment of the set targets thereby improving the performance of the company.

4.2.12 Question 12: the use of the latest technology and software enhances the budget process

The question was to obtain if the use of the latest technology and software would enhance the budget process. Table below shows the responses received from the questionnaires

Table 4.3: Technology software enhances budget process

Response	Number of responses	Response rate
Strongly Agree	15	71%
Agree	6	29%
Neutral	0	0%
Disagree	0	0%
Strongly Disagree	0	0%
Total	21	100%

The table shows that 71% strongly agreed that the latest technology and software enhances the budget process, 29% agreed while nil response was obtained for neutral, disagree and strongly disagree.

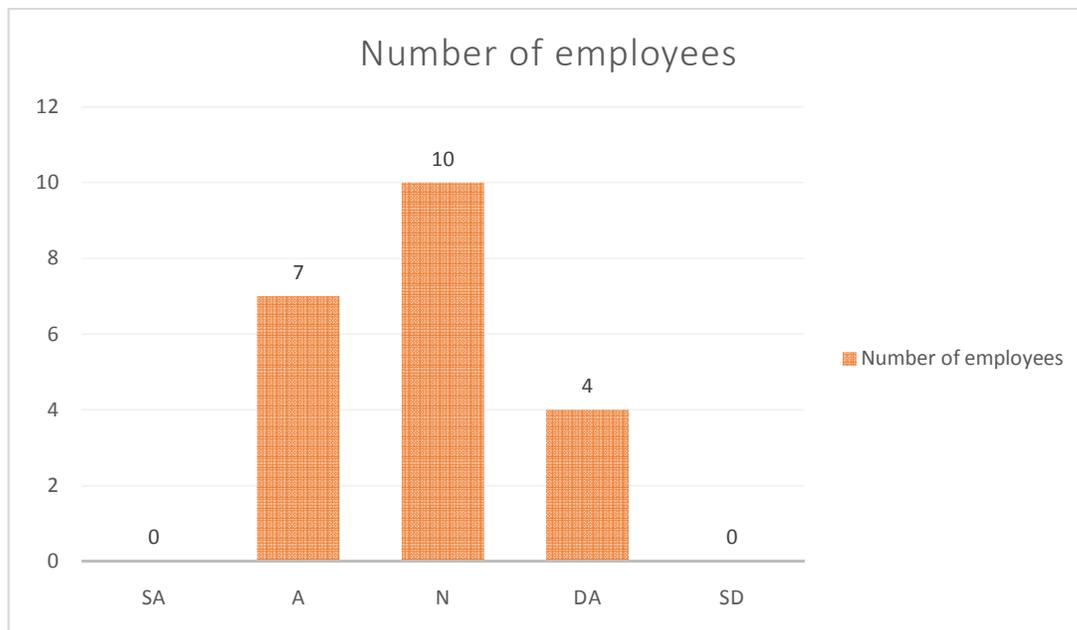
The responses showed that 100% of the population agreed that the use of the latest technology software would enhance the budget process and this is in accordance with Kaplan (2001) who stated that technology provides links and software's that shorten the budget procedures and enhances the communication between the departments by linking the departments with software's thereby improving the output and attainment of the set targets.

The findings then points out to the researcher that the use of the latest technology and software will enhance the budget process of Eversharp.

4.2.13 Question 13: A shift to beyond budgeting will increase the performance of the company

The researcher asked this question so as to find out that shift to beyond budgeting would improve the performance of the company.

Fig 4.11 shift beyond budgeting



The response showed that 10 employees (48%) were neutral about the issue of shift to beyond budgeting, 7 (28%) agreed, 4 (19%) disagreed, nil strongly agreed and nil strongly disagreed.

The 48% showed that most of the employees neither understood nor are keen to make a change to beyond budgeting since it is a new system which may threaten their positions thereby their indifference response. The response of the 28% employees which agreed that beyond budgeting are in accordance with what Gustafsson (2010) stipulates that it an appropriate substitute of the budgeting process as does not carry the weakness of the budgetary process.

The researcher then concluded that beyond budgeting is not well embraced showing that the Eversharp does not want to abandon the budget process but to find ways of improving it.

4.3 Interview question analysis

The interview guide questions were designed for management for Eversharp and below are the responses obtained from the interviews. The 2 interviewees that were interviewed gave more or the same response.

4.3.1 Question 1:What is the budget process system which is being adopted at Eversharp and does it have any effect on the performance of the company

The responses gathered all agreed that Eversharp uses the flexible budget technique for its budgetary process. They also acknowledged that the flexible budget technique have an effect on the performance of Eversharp which agrees to what Manes (2002) that if flexible budget is not implemented properly cause a decline in the profits of an entity. Theyboth agreed that the Eversharp performance has been on a decline slope for the past 3 years which can be attributed to the type of the budget technique being used. This means that there is room for the improvements of the budget process.

4.3.2 Question 2: What are the factors that affect the budgetary process of Eversharp and how this affects the overall performance of the company?

There was a small difference in the responses obtained but the interviewees stated that the factors which mainly affect the budgetary process are the structures within the organisation the culture and the type of employees that are recruited at certain positions of the organisation agreeing to what Lucy (2010) and Thompson (2007) stated that organisational structure and culture can have a positive or negative way. They both agreed that the external factors such as the political, social and economic factors have little influence on the budget process which is according to Anohene (2011). They stated that the structures, culture and the recruitment process of the organisation has contributed to the losses of the company and the company is in the process of improvements.

4.3.3 Question 3: What limitations are you facing by using the budgetary technique being currently adopted?

The interviewees stated that different limitations which are inherent to the budget process are being faced at Eversharp. They stated that budgets take too much time in preparing and are costly to make and also that they were too rigid for and do not allow for flexibility which agrees to what Bescos et al (2003) and Hansen et al (2003) said. They also agreed that that since they are based on estimates they are not be relied upon. This showed that Eversharp is not an exception to the limitations of the budget process and these limitations are contributing to the performance decline.

4.3.4 Question 4: What ways may be recommended that may improve the current budget process in Eversharp

The respondents all agreed that to them there is no suitable substitution of the budget which agrees to what Libby (2010) stated that managers are reluctant in abandoning the budget.

They pointed out that it needs improvements and integration with other techniques such as forecasting and integration with strategic management which will provide a platform for long-term planning and assist in the ability in the flexibility of the company in reacting to changes and problems that are foreseen. They also recommended that the improvement of the budget software to the most modern one also will enhance the budget process and improves performance and is accordance with Kaplan (2001). The responses showed that the budget process is an important aspect of the operations of Eversharp but needs other techniques to compliment it.

4.4 Summary

This chapter dealt with the data presentation and analysis of the collected data which was obtained from questionnaires and interviews. The researcher observed that the budgetary process of Eversharp has challenges and weakness which has caused a decline in the performance of the company. The next chapter will encompass the major findings of the research, recommendations, conclusions and incorporate areas for further studies.

CHAPTER 5

Summary, Conclusions and Recommendations

5.0 Introduction

This chapter covered the summaries of all the chapters of this dissertation briefly expressing what they encompassed. It also looks into the major findings of this research and the recommendations which can be used in addressing the problem which was being researched about in this research.

5.1 Summary of chapters

Chapter one was introduction of the research problem which is an evaluation of the effects of the budget and budgetary control process on the performance of a manufacturing company. The chapter highlighted the background of the study which clearly stipulated the root of the problem of Eversharp. The objectives were to evaluate the current budget process being implemented and the limitations of the budget process. It also pointed out the significance of the study and the limitations which the researcher encountered during the study and the definition of important terms used in the research.

Chapter two was concerned with the literature review. It linked the objectives of the research to what the views of other authors on the flexible budget technique being used, the limitations of the budgetary process and the effects this has on the overall performance of the company. It also pointed out the best practises which can be used to improve its budget process and hence improve performance. The major sources used were Lucey and Drury and the gap which was established is that major researches of the budgetary process were undertaken in developed nations and not in developing nations like Zimbabwe.

Chapter three involved the research methodology which was used in the gathering of the data. It outlined that a descriptive research design was used which made use of the case study technique which in this research was Eversharp. The stratified random sampling method was used to determine the sample size which was 22 out of a population of 40 employees. The research instruments used were questionnaires and interviews from which data was gathered which was used in the analysis process

Chapter four was concerned with the data presentation and analysis. Questionnaires which were administered were 22 and 21 were returned. 2 interviews were conducted. The data was presented in graphs, charts and tables.

5.2 Major findings

- ❖ Eversharp uses flexible budgeting technique which is supposed to assist in cost reduction, improve efficient use of resources and enhance performance evaluation. It had been noted that the flexible budgeting technique is not fulfilling its functions thereby causing increases in costs and misuse of resources resulting in losses.
- ❖ The research revealed that Eversharp budgetary process is affected with factors which are external political, economic and social environment which affect indirectly and the internal factors which are the organisational structure, culture and the recruitment process which affect the budget process directly.
- ❖ The research explored that the rigidity of the budgets, time and cost of the budget process, the use of the top- down approach and the use of estimates in the budget process are the major limitations of the budget process which has affected the performance of Eversharp.
- ❖ The research also noted that the integration of strategic management with budgets, the use of forecasts and involvement of staff at most decisions, the continuous training of

employees and the use of the latest software packages improves the budget process and increases performance.

5.3 Conclusion

The research gave an in depth analysis in the budgetary process which is being adopted at Eversharp. The research seeks to determine an evaluation on the effect of the budgetary process on the performance of Eversharp. The views of the different authors have revealed that to revise its budgetary process and integrate it with other methods for it not be obsolete but to make it more dynamic and able to change according to the rapid changing environment so as to improve performance. The interviews and questionnaires clearly showed that employees at Eversharp agree that the budget process needs to be improved by integration of other tools which enhance the budget process like strategic management so that improvements of performance may be noted.

5.4 Recommendations

- ❖ Eversharp should adopt a sound budgetary technique which encompass strategic management, forecast and an in- depth report of variance analysis so that this tool will complement the budget process so that every departmental manger would be made accountable for its cost so as to remove chances of budget slacking and manipulation of figures and must enforce that every significant variance must be explained and justified. They must continue reviewing their budget process so that it is kept in line with the changes that take place in the rapid changing environment.
- ❖ Eversharp should adopt budget software which integrate all the operations in different department so that they will be properly coordinated reducing time spent in preparing budgeted since they will be automated. It must also engaged the appropriate staff in continuous training programs and recruit staff which are

adequately qualified for the posts so as to improve the quality results which will be produced which will in turn improve performance.

5.6 Summary

This chapter covered the summary of all the chapters in this research document and the major findings of the research. It also include the conclusion of the research and the recommendations which are made by the researcher to Eversharp as to improve its budget process.

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APPENDICES

APPENDIX 1



Questionnaire: Eversharp (Pvt) Ltd employees

Dear Respondent

I am Monica Muzadzi a under graduate student at Midlands State University pursuing a bachelor of commerce accounting honours degree. In fulfilment of my degree program I must embark on a research topic of my choice and I have done a research on the impact of the budget and budgetary control processes on performance using Eversharp as a case study. It is of great pleasure to involve you in my research and to hear your opinions and views. Please answer the questions below and all the information gathered will be used for academic purposes and treated as private and confidential

Instructions

- 1. Tick in the appropriate box for your response**
- 2. Do not write your name on the questionnaire**

Questions

1. The flexible budget technic as a budget and budgetary control process

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
It is an effective cost control tool					
Enables an accurate comparison between budgeted and actual costs					

Enhances the planning stage of the budget process.					
Facilitates quick response to problems and situations					
It facilitate efficient use of resources and reduces wastages					
It has improved the performance evaluation process					

2. Are the below mentioned factors that influence the budgetary process

	Strongly agree	agree	neutral	disagree	Strongly disagree
Political environment					
Social environment					
Economic environment					
Organisational structure					
Organisational culture					
Organisational Recruitment and training process					

3. Weakness of the budgetary process and control

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The budget process hinders initiative					
Budget process promotes budget slacking and manipulation of figures					
The cost of creating the budgets out ways the benefits derived from using it					
Budgets takes too much time preparing					
Budgets favour a top down approach of information					

The use of estimates in budgets makes the information less reliable					
Budgets do not encompass long-term forecasting or planning					

4 Improvements for the budgetary process

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Integration of strategic planning and budget process improves performance					
Forecasting makes the company more flexible to the rapid changes					
Continuous training of staff enhances the budgetary process					
Implementation of the latest technology and software's enhances the budget process					
A total move from using budgets to beyond budgeting would increase performance					

APPENDIX 2



Interview Guide

Interview questions for the management of Eversharp

1. What is the budget process system which is being adopted at Eversharp and does it have any bearing on the performance of the company
2. What are the factors that affect the budgetary process of Eversharp
3. What limitations are you facing by using the budgetary technique being currently adopted
4. What ways may be recommended that may improve the current budget process in Eversharp