Assessment of Budget Formulation and Control System: (A Case Study at Ethio Telecom)

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Certificate of originality

This is to certify that the project titled "Assessment **of Budget Formulation and Control System a case study in Ethio telecom**" is an original work of the student and is being submitted in partial fulfillment for the award of the Master Degree in Business Administration of Indira Gandhi National Open University .This report has not been submitted earlier either to this University or to any other University /institution for the fulfillment of the requirement of a course of study.

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Signature of supervisor	Signature of student
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Date:-------------------------	Date:-----------------------

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Acronyms

ABB - Activity based budgeting

ET - Ethio Telecom

ETC - Ethiopian Telecommunication Corporation

ETA - Ethiopian Telecommunications Agency

CEO- Chief Executive Officer

MCS - Management control systems

GM-General Motors

TQM - Total Quality Management

ZBB - Zero based budgeting

Chapter One: Introduction

1.1 Back ground of the study

In large business organizations, management control system (MCS) plays a pivotal role. It serves as an instrument to ensure the achievement of organizational goal. It reports on performance of all aspects of an organization's activity on a regular basis so that all areas are reviewed (Emmanuel, Otley and Merchant, 1990, p.97). Management control is defined as a process by which managers influence other members of the organization to implement the organization's strategies. The system used by management to control the activities of an organization is called management control system."(Anthony and Govindarajan, 2008, p.6). Management control deals with the following elements: strategic planning, budgeting, resource allocation, performance measurement, evaluation and reward, responsibility center allocation and transfer pricing (Anthony and Govindarajan, 2008, p. 1). The designs of all of these factors have their own implication on the effectiveness of control system in an organization.

The chartered institute of management accountants (CIMA) has defined a budget as "a plan quantified in monetary terms prepared and approved prior to a defined period of time, usually showing planned income to be generated and/or expenditures to be incurred during the period and the capital to be employed to attain a given objective. A budget is a predetermined statement of management policy during a given period which provides a standard for comparison with the results actually achieved (Cost and Management Accounting, M.N.Arora, first edition). Budget in the organization serve multiple roles of planning, evaluation, coordination, communication, and decision making. Budget setting is a process, not a specific formula or technique. Thus, understanding the intricacies and the dynamics of the budgeting process is essential. Budgeting is an iterative cycle which moves between targets of desirable performance and estimates of feasible performance until there is a convergence of plan which is feasible and acceptable (Emmanuel, Otley and Merchant, 1990). It usually starts with a forecast of future fundamental performance such as sales and net profits.

The process of developing a budget is essentially one of negotiation between the manager of the responsibility center and a superior to determine what the manager will do and in what manner (Anthony et. el. 1989, p. 27). According to Garrison and Noreen, in their book managerial accounting 6th edition, the success of any budget program will be determined in large by the way in which the budget itself is developed. The most successful budget programs are those that permit managers with responsibility over cost control to prepare their own budget estimates.
Budgetary control is a system of controlling costs through preparation of budgets. According to CIMA," budgetary control is the establishment of budgets relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted results. Budgetary control is control cycle in which control is attained through setting budget goals/plans, execution of these plans, measurement and evaluation of actual performance, and taking corrective actions if necessary, eventually resulting in new or adjusted plan (Jan Noeverman, 2007).

1.2 Company profile

According to the Ethiopian telecommunications corporation(ETC) 2010 annual bulletin on company profile , the introduction of telecommunications services in Ethiopia dates back to 1894, when Minilik II, the king of Ethiopia, introduced telephone technology to the country by constructing telephone line from Harrar to the capital city, Addis Ababa. It had been renamed and structured through different stages. As of November 29, 2010 the former Ethiopian telecommunication corporation was liquidated and replaced by Ethio telecom (ET). The new company was established by regulation No 197/2010 of the council of ministers. According to this regulation, all the rights and obligations of the former company have been transferred to the new company.

The company is also fully owned by the state and it is the sole telecommunication service provider in Ethiopia. Ethio Telecom provides basic telecom services such as fixed line telephony, mobile, wireless telephone, internet and multimedia services. Currently, the company has about one million, twenty million and one hundred thousand fixed lines, mobile and internet customers respectively. The company is one of the largest employers in the country. It has 9000 permanent employees who are engaged in different activities of the company.

Inorder to meet its objectives and to provide reliable telecom services to its customers, Ethio telecom has been organized in three major functional units. These are commercial, Technical and support. Under each major functional unit there are divisions which are responsible to meet the specific objectives for which they are established. Under the commercial unit, there are two divisions, namely enterprise division and residential marketing division. Within the technical category there are three divisions. These are network, customer service and information systems. Under the support, which is the largest, there are seven divisions. These are finance, human resource, internal audit, legal, security, sourcing, and quality and process divisions. With in each division there are departments and under them sections are organized. Employees of the company are working for and directly responsible to section managers. The company is lead by the CEO. It is assigned and directly responsible to the board of directors, which is the apex body in terms of strategy formulation and decision making. It is nominated by the government and representative of it.

In Ethio Telecom, budget has been used as a management planning and control tool. It is prepared annually. It is a means of resource allocation to the various units of the company. The total budget of the company can be allocated to the execution of various activities. Budget in Ethio telecom is a means of implementation tool of various projects and programs. Budget is allocated to the installation, expansion and improvement of different telecom networks and infrastructure. In the company there are two types of budget. These are operational and capital budget. Operational budget is a budget which is allocated to perform the various operational or day to day activities of the company. It is a projection of all estimated revenues and expenses during a year. The budget includes revenue from telecom services and the different costs or expenses which are incurred to generate the planned revenue of the period. Operational expenses encompasses salary to employees, wage to contract and daily laborers, stationery, cleaning, purchase of materials, fuel, allowances, training, utilities, and taxes .

On the other hand, capital budget of the company is the estimated amount planned to be expended for capital items in a given budget year. Capital items are fixed assets such as facilities and telecom equipment, and installation and expansion of telecom infrastructures.

Ethio telecom has been organized in a centralized organizational structure. As a result it has one budget section at the central level under a department named financial control and analysis department which is directly responsible to chief finance officer. The budget section is responsible to manage the whole budgeting and reporting process. The head of divisions are members of the management board. Ethio telecom's budget period runs from July 1 to June 30 (Ethiopian calendar). The budget calendars of the company runs from March 15 to June 30(Ethiopian calendar). During the budget calendar the company performs the following activities.

- Budget call request form is distributed to all divisions. Each division forwards it to its departments and sections.
- All relevant data to the budget preparation will be collected and organized by all the budget section.
- All sections and departments of each division discuss on the budget prepared at their level and approve their budget request.
- Budget request of all divisions will be collected by the budget section
- The budget section reviews and consolidates the budget request and passes the consolidated budget to the management board.
- The management board reviews and passes it to the board of directors
- Finally, the budget will be approved by the board of directors.

Once the budget is approved it will be communicated to all the budget users/holders. The budget holders are divisions which are responsible to manage their budget effectively and efficiently.

1.3 Statement of the problem

Ethio telecom has been conducting a large number of activities in order to expand its service provisioning across the nation so as to achieve its stated goals and objectives. For the accomplishment of its goals and objectives the company prepares a strategic plan with a corresponding budget figures every five year. The company prepares the annual plan and budget in line with the strategic plan.

Budget formulation and the controlling process shall be managed effectively and efficiently in order to accomplish company targets within the given resource constraint. The entire management group and the budget users of Ethio Telecom shall discharge their responsibilities in this regard. However, as per the preliminary assessment of the researcher the company is not managing its financial resources resulting from weak budget formulation and controlling process. Therefore, it seems that there is no sound budget formulation and monitoring in the company. This is also affecting the smooth relationship of the management group. The high level management requires the lower level managers and employees to meet their targets within the scope of the approved budget and timetable while the lower level group focuses on accomplishing operational plan regardless of the budget constraint.

Some of the departments are complaining that the budget allocated to their department is highly insufficient compared with the activities to be conducted by them and the budget allocated to other departments.

As a result, those budget users which are complaining that their budget is insufficient are forced to request additional budget repeatedly throughout the budget year.

On the other hand, the budget allotted to others is highly exaggerated and may not be attainable in relation to their respective operational plan. Because of this, there is frequent friction among the managers during performance evaluation process in the budget year. Sometimes the conflict has been aggravated and reached at a level where budget users are accusing the budget section manager being blockage to meet their target. In response to this view, as the budget section is responsible to the overall coordinating and controlling the budget activities of the company is blaming that budget users are not monitoring their budget effectively and efficiently.

Furthermore, the inappropriate allocation of budget will have great impact on the performance of budget users that in turn may affect their motivation either favorably or unfavorably.

In general, all the above issues have great impact on fund utilization, target achievement, performance measurement, coordination of the various units, and motivation of managers and employees across the company. Therefore, this research will try to assess the overall budget formulation and budgetary control system of the company.

1.4 Research questions

In order to assess the budget formulation and control system of the company, the research addresses the following research questions (RQs). The researcher will adapt analytical frameworks from the literature and illustrate those research questions.

RQ1. Does the company use a participatory approach at all levels of the management while formulating its budget?

RQ2. How the company developed the derivers of budget allocation methodologies for its budget holders?

RQ3.Does the company develops effective budget controlling mechanisms across all its budget holders?

RQ4. Does the company associate the performance of budget holders with their respective budget usage?

1.5 Objective of the Study

1.5.1 General Objective

The general objective of this study is to examine the overall budget formulation and budgetary control system of the company.

1.5.2 Specific Objectives

The specific objectives of the study are:

- To evaluate the appropriateness of budget preparation and budget allocation process of the company.
- To see how the budgetary approach of the company is participatory
- To assess how budget variance analysis is made and based on which whether corrective action is taken or not
- To examine how performance evaluation based on budget is made in the company.
- To assess the extent that utilization of budget influences the performance of the management across all hierarchical levels of the company.

1.6 Significance of the study

The establishment of appropriate budget formulation and controlling system is indispensable for a large company like Ethio Telecom in order to achieve its organizational goals and objectives. The study will assist to improve the budget formulation and controlling system of the company. It will help all budget holders to develop positive attitude towards the significance of budgeting as a control tool for the achievement of their target. Specifically, the budget section and top management will improve the operation of budget formulation and the controlling mechanisms based on the results obtained from the research. Likewise, the management can use the budgetary control system as a performance evaluation tool once the logical frameworks are set out and used in a consistent manner. This will bring motivation, the wise utilization of resources and proper coordination of the various units of the company.

The study will be an input for other researchers as a basis for further study on similar issues. Furthermore, the generalization of the study could be instructive for other organizations that have a similar budget setting as Ethio Telecom.

1.7 Methodology of the study

1. 7.1. Research Design

Based on the objective of the study, the research has been designed to include questionnaires and interview. The questionnaires were composed of close ended questions. They were filled by budget section staffs and budget holder divisions' management members, i.e. Chief Officers, Department and section managers. In addition, interview questions were used to expand clear data which could not be explained in the structured questionnaires.

1.7.2 Population of the Study

The population of the study is all budget holder divisions' management members of Ethio Telecom

1.7.3. Sampling Technique and Sample Size

As Ethio telecom is the sole service provider in the country, it is one of the largest government organizations in the nation and its service is dispersed throughout the country. It has many working units and they are organized in twelve divisions. The divisions are budget holders and there are many budget users in each division.

Thus, it is not possible to include all budget holders in the sample due to time and cost constraint. Because of this, of the twelve divisions (budget holders) seven divisions were selected purposely for this study. The divisions are Information Systems from technical category, Enterprise and Residential division from commercial category, Finance, Internal Audit, HR, and Sourcing and facility divisions from support category. By doing so, all the major categories /units were represented.

Moreover, as the budget preparation and control system is the same across the company; the divisions selected were believed to be representative of all other divisions. Accordingly, the divisions included in the sample were selected purposely by the judgment of the researcher. After selecting the divisions to be included in the sample, the next logical step was determination of sample size in each unit of the study. For this study, there were two groups of people in each division/budget holders to be the subject of study, the management and employees. However; since the researcher later understood that employees have no sufficient involvement in the budget preparation process of the company and they are purposely excluded from this study. Therefore, only the management group was used as the subject of this study. Regard to sample size, 50% of the management members from each division in the sample were taken. As the numbers of staffs of budget section are few, ie.8, all (100%) were taken. Random sampling technique was used to select the individual respondents in each budget holder divisions. The sample respondents used in this study are classified into three categories. First, budget section staffs who are directly responsible to coordinate and control overall budget activities of the company; second, operation expenditure budget holder divisions namely technical and support units and third, both operational expenditure and revenue budget holder divisions namely commercial divisions.

Therefore; a total of eighty eight(88) respondents , eighty(80) respondents from the management, and 8(eight) staffs from budget section, were the unit of analysis for this study as illustrated below.

No	**Divisions included in the sample**	**No of Managers**	**50% sample size**
1	Information systems	24	12
2	Enterprise	15	8
3	Residential	30	15
4	Finance	30	15
5	HR	28	14
6	Sourcing and facility	26	13
7	Internal Audit	6	3
	Sub total	159	80
	Budget section staffs	8 staffs	100%=8
	Total		88

1.7.4. Methods and Techniques of Data Collection

1.7.4.1 Data type and its source

The primary data were collected through a structured questionnaire as well as personal interview. The questionnaire was distributed to eight (8) budget section staffs and eighty (80) management members under divisions/budget holders which were included in the sample as illustrated above. Structured questionnaires (attached in Appendix-01,02 & 03) were sent to 88(eighty eight) respondents, eight staffs from budget section and 80 management members from seven budget holder divisions.

From the total respondents in the management group, 57 were from technical and support divisions while the remaining 23 were from commercial divisions. The questionnaires were distributed to and filled by budget section staffs, heads of divisions, departments and section managers who are working under budget holder divisions. All respondents (100%) filled and returned the questionnaires. In addition personal interview (attached in Appendix-04 & 05) were made with budget section manager of the company, and two other section managers, one from commercial and another from support divisions.

A self –administered questionnaire was used to measure the perceptions of the respondents regarding the budget formulation and control system of Ethio Telecom. It included questions related to plan and budget preparation, budget implementation, reporting and variance analysis, and performance measurement and reward system. The questionnaire also included a paragraph emphasizing the purpose of the research and instructions on how to complete the questionnaire at the beginning. The respondents were also given an assurance of confidentiality and it was stressed that the findings of the research were to be used solely for academic purposes. The questions were designed to be closed-ended. Likert scales of questionnaire data were applied to collect most of the data from all respondents. The scale was leveled as “Strongly Agree”, Agree”, “Neutral”, “Disagree, and “Strongly Disagree”. In addition, objective questions to reason out the respondents’ agreement or disagreement for some questions were also included. However, questions related to overall information of the respondents; such as the respondent’s sex, age, year of experience in the company, educational level and the likes were deliberately disregarded by the researcher as he believed that respondents, as they are management members and the subject matter itself is sensitive, might conceal the real information because of fear of identification of personality.

In addition, personal interview was conducted with budget manager of the company and two selected section managers from lower level management group under support and commercial divisions.

1.7.5 Methods of Data Analysis and Interpretation

Descriptive techniques were adopted for analysis of the data. In doing so; the researcher had used the literatures on budget as bench mark to evaluate actual practice of the company. The primary data gathered through questionnaire were presented and analyzed using tables and percentages. In addition qualitative method of data analysis was also employed for feedbacks obtained using personal interviews.

1.8. Scope and limitations of the Study

1.8.1 Scope of the study

The study was focused on Ethio telecom's budget formulation and controlling systems for operational activities. It did not include capital budget of the company.

1.8.2 Limitations of the study

Owing to the nature of the subject area, access to information was not easy since most of the financial information is considered confidential. In addition to the confidentiality issue, the researcher's plan to incorporate the secondary data by obtaining budget reports and other financial statements from the concerned departments was totally blocked because of absence of organized and reliable data. Therefore, reliance was on respondents' perceptions drawn from primary data which was collected through close ended questionnaires and personal interview. Besides, lack of research studies and availability of sufficient current literature on the topic were some of the constraints.

However, the researcher tried to fill the gap by broadening data collection through questionnaires and personal interview and hence hopes that readers will get valuable ideas on the subject area.

1.9 Organization of the paper

This research paper is divided into four chapters. Apart from this first introductory chapter, which contained the background of the study, statement of the problems, objectives of the study, research design & methodology, significance, scope and limitation of the study; the second chapter describes literature review. The data presentation, analysis, and interpretation are presented in the third chapter. The last chapter provides conclusion and recommendations.

Chapter Two: Literature review

2.1 Introduction

Present day business units are facing stiff competition, uncertainty and exposed to different types of risks (R. Ramachandran, p.296). This complexity of managerial problems has lead to the development of various managerial tools, techniques and procedures useful for the management in managing the business successfully. Among these, budget can be described as the most important management control tool in organizations.

Budget is the most common useful and widely used standard device of planning and control. The budgetary control now becomes an essential tool of the management for controlling costs and maximizing profit. Costs can be reduced and wastage can be prevented and proper relationship between costs and incomes can be established only when the various factors of production are combined in profitable way. The resources of a business can be effectively utilized by efficient conduct of its operations. This requires careful working out of proper plans in advance, co-ordination and control of activities on the part of the management.

Budgetary control is useful to the management to prepare detailed plans and exercise effective co-ordination and control. According to Shyodayal Choudhary, a budget is a detailed plan of operations for some specific future period. It is an estimate prepared in advance of the period to which it applies. It helps to co-ordinate the activities of the organization. The chartered institute of management accountants (CIMA) has defined a budget as “a plan quantified in monetary terms prepared and approved prior to a defined period of time. Budget is an important tool for effective short term planning and control (Anthony and Govindarajan, 2008, p.381). Budget in the organization serve multiple roles of planning, evaluation, coordination, communication, and decision making. Budget can be defined as a quantitative economic plan made with regard to time. Therefore, for something to be characterized as a budget it must comprise the qualities of economic resources to be allocated and used, it has to be expressed in economic i.e. monetary terms, it has to be a plan-not a hope but an authoritative intention, and it must be made within a certain period of time (Harper,1995,p.318). Budget is a business plan for the short term-typically one year (Peter Atrill and Eddie Mclanney, p.143). It is likely to be expressed mainly in financial terms. Its role is to convert the strategic plans into actionable blueprints for the immediate future.

2.2 The Role of budget

The budget may serve as a formal authorization to a manager to spend a given amount of money on specific activities and make clear what each manager is responsible for (Anthony and Govindarajan, 2001). Evidently budgets are an important channel of communicating certain types of information that will enable managers in different parts of the organization to coordinate their activities more efficiently.

Over all control is aided when individuals cooperate and make adjustments in their activities to assist what is required in other parts of the organization (Emanuel et. el., 1990, PP. 163). In addition, Anthony and Govindarajan (2008) mentioned that coordination is when every responsibility center manager in the organization participates in the preparation of the budget.

Budget often serve as a means of motivating managers to strive towards the achievement of organizational objectives. They do this by acting as external standard that may be accepted by a manager as his own target, thus providing a motivational target. Further, extrinsic rewards and penalties may be attached to budget achievement (e.g. bonuses, performance awards) to increase its motivational effect further (Emanuel et. el., 1990, PP. 163). Strategic plan is prepared early in the year, it is developed on the basis of the best information available at that time, its preparation involves relatively few managers, and it is stated in fairly broad terms. The budget which is completed just prior to the beginning of the budget year provides an opportunity to use the latest available information and is based on the judgment of manager at all level throughout the organization. Budget preparation provides an opportunity to make decision that will improve performance before a commitment is made to a specific way of operating during the year. In such a way budget is used to fine tune strategic plan. (Anthony and Govindarajan, 2001 PP. 362)

Finally, budget can serve as a standard against which managerial performance is evaluated. The budget often represents the only available quantitative reference points against which performance can be assessed. Properly used budgets can be a vital tool in monitoring and controlling managerial and business unit performance.

2.3 Budget and strategic plan

Strategic planning is the process of deciding on the nature and size of several programs that are to be undertaken in implementing an organization's strategies (Anthony and Govindarajan, 2001, pp. 361). Budgeting, on the other hand, is used to efficiently allocate the firm's available financial resources and to monitor the performance of managers and employees. As such, the proper use of these tools relies on strategic development preceding budgeting decisions; an effective budget cannot be prepared unless the firm has made its strategic decisions. But strategy execution is likely to be inefficient and/or unprofitable without the financial guidance of budgets.

There is reciprocal interaction between strategic management and budget. However, such a relationship between strategic management and budgeting does not exist at many firms. The problems of in appropriately using the two processes may arise when a firm does not properly integrate them or does not employ strategic management at all. Other problems arise when strategies are not based in budgetary realities (Blumentritt, 2006).

Companies should link their budgets to their corporate strategy to ensure that the projected resource requirements are available to support the expected expectations of the organization. The strategy must be effectively communicated to all employees so that they know and recognize all actions that lead to an enhanced operating profit. Often strategic and financial decisions made by top managers filter down through the firm's hierarchical layers, directing the activities and decisions made by departments, units and individual managers. While financial and strategic processes can be managed independently, the two systems are best managed interactively. The identification of the firm's general strategic direction and firm-wide goals should have a significant impact on the firm's investment priorities. Importantly, this is the juncture at which budgetary flexibility begins. Rigid budgets, in which allocations to any department are highly correlated with its previous allocations, prevent a firm from making significant adjustments in how it distributes its available financial resources. This does not mean that there should be no consistency in department budgets over time, only that there must be room in the budgetary process for pursuit of targeted investments(Blumentritt, 2006).

The firm's general strategic direction and goals along with its sustaining budgetary allocations and its investment priorities provide the foundation for the development of strategies at the firm's various functional departments. Department budgets are jointly influenced by their strategic mandates and the availability of funds from the general budget. Department strategic mandates and budgets dictate the tactics to be adopted by units within each department. Finally, the actions adopted by employee teams and individuals will be shaped by the tactics and budgets of their immediate units (Blumentritt, 2006). In addition to the downward flow of strategic decisions and budget determinations, integrated planning processes also improve the methods by which individuals and departments make proposals for budgetary allocations if they can construct reasonable arguments for additional funding. Such proposals typically come in the form of business cases and project proposals that can show sufficient returns on investment. By integrating strategic planning and budgeting, managers can better judge both the financial and strategic viability of the proposals and place them in the firm's overall strategic direction. Generally, as per Blumentritt, (2006) these processes create at least two important outcomes. First, they ensure an interaction between a firm's strategies and its budgets as well as a dialog between the people responsible for them. As a result, budgetary allocations will be based on sound strategic rationale and strategic decisions will be developed in light of financial realities.

Second, the processes create more grounded and transparent methods for evaluating opportunities for strategic initiatives.

Managers will have improved means of evaluating strategic projects, along with their financial projections and assumptions, relative to other proposals and existing investments. This creates opportunities for entrepreneurial thinking within the context of the firm’s enduring strategies and budgets (Blumentritt, 2006).

2.4 Type of Budget

Essentially there are two types of budget: operating (revenue and expense) budget and a capital budget. Operating budget is each department’s input, summarized by function and displayed in the company’s profit and loss format. Each individual department has what is generally referred to as an operating expense report, so that each department manager can monitor his or her respective activities on a monthly basis.

In addition to submitting a departmental budget, each manager prepared a capital request budget which is an estimate of how much money each manager will need in order to acquire capital assets in the budget year to support activities. These capital budget requests are usually explained and supported with analysis in the submission package. On the basis of how they satisfy corporate criteria, some or all of the capital assets requests that are necessary or that can be justified to improve the overall operation of the business unit will be approved. Like the operating budget, active spending against the capital budget is usually monitored and compared on a monthly basis (Donnely, 1993, pp. 5.11).

2.5 Better Budgeting

Currently the value of budget challenged by different researchers; especially beyond budgeting group clearly points out the problems that traditional methods of budgetary control are encountering in contemporary organizations. Their central argument is that traditional budgetary control is proving increasingly unsuitable for the rapidly changing environment of the modern business world. Budgets become rapidly out-dated during the course of a budget year; indeed, many organizations state the budget is already out-of-date at the start of the budget period because of the time taken to put it together (Hope and Fraser, 2003).

However, better budgeting group discussed that to be effective, budgets must, firstly, be aligned with the organization's strategies, appropriate strategic planning and performance management processes introduced. And secondly, they must involve processes that are value based, consequential and continuous. They identify five different classes of budgets that fit these criteria; activity based budgeting, zero based budgeting, value budgeting, profit planning and rolling budgets and forecasts (Adams *et al*, 2003, pp.23-24).

2.5.1 Activity based budgeting

According the C. Adams *et al* (2003) activity based budgeting (ABB) is similar to activity based costing (ABC) and activity based management (ABM). It actually involves planning and controlling along the lines of value adding activities and processes. Resource and capital allocation decisions are consistent with ABM analysis, which involves structuring the organization's activities and business processes so that they better meet customers and external need. It is really a management process, operating at the activity level, for continuous improvement on performance and costs, (Wilhelmi and Kleiner, 1995, p.42)

2.5.2 Zero based budgeting

C. Adams *et al* (2003) stated that, under Zero based budgeting (ZBB), expenditures must be re-justified during each budgeting cycle rather than basing budgets on previous years or periods.

The author also noted that the value of this approach depends on the stability of operating environment. Although the business climate is continually evolving, the management tools available to top management have remained basically static. The traditional tools, especially planning and budgeting, have not evolved at the same pace in order to provide top managers with an effective tool for managing their business. Under the traditional planning and budgeting procedures, management's attention is focused primarily on the planned changes from the previous year's expenditure level. This is usually referred to as incremental budgeting. Although considerable thought goes into the development of these plans, it is primarily the year-over-year increment that receives the most critical and analytical attention by senior management. Thus, in many cases, the "base" to which the increment is added is treated as though it were already authorized and required little additional review or evaluation (Pyhrr, 1993).

2.5.3 Profit planning

It is about planning the future financial cash flows of profit centers (profit wheel). It ensures consideration of an organization's short and long-term prospects when preparing its financial plans (Welsch, et, el. 2001).

2.5.4 Rolling budgets and forecast

It enables firms improve their forecast accuracy and overcome the traditional budgeting time lag problem. This is by solving the problems associated with infrequent budgeting, being more responsive to changing circumstances, but requiring permanent resource to administer, and overcoming problems linked to budgeting to a fixed point in time - i.e. the year end and the often dubious practices that such cut-offs encourage.

2.6 Budgeting approaches

The budget setting processes of organizations could be top-down, bottom-up or some combination of the two.

2. 6.1 Bottom-up/Self-imposed Approach of budgeting

Bottom-up budgeting is also known as self imposed budget mainly due to the nature and degree of lower-level managers' involvement in the formulation of budget. In the bottom-up approach, the employees and managers at the department level complete the budget for their respective departments. Each department is rolled up into the consolidated budget, which is reviewed by the executives. Top management may initiate the budget process with general budget guidelines, but essentially bottom-up budgeting begins at the operational level.

According to Garrison and Noreen, in their book- Managerial Accounting, ninth edition, the success of the budget program will be determined in large part by the way in which the budget is developed. The most successful budget program involves managers with cost control responsibilities in preparing their own budget estimates rather than having a budget imposed from above. A bottom-up approach works best when doing revenue budgeting, since the managers will have the most intimate knowledge of the company's customers and products.

A self –imposed budget or participative budget is a budget that is prepared with the full cooperation and participation of managers and employees at all levels (Garrison/Noreen, P.382). To be successful, a self imposed approach to setting budgets requires that all managers understand and agree with the organization's strategy. Otherwise, the budgets proposed by the lower –level managers will lack coherent direction.

According to Roger L. M. Dunbar, Budgeting for Control- Administrative Science Quarterly, Vol. 16, No. 1, Organizational Leadership (Mar., 1971), pp. 88-96, the organization may allow the budgeted individual to be incorporated in to the goal setting machine. Such participation has consequences for goal setting, goal acceptance, and performance. Vroom(1964), after citing a number of empirical studies, concluded that as subordinates were given a larger influence in decisions, their performance improved, partly because of the ego involvement which participation generated. In a budgetary context this may be interpreted to mean a greater willingness by budgeted individuals to accept the budget goal; with a difficult goal, this acceptance would be likely to result in improved performance.Participation may also bring responsibilities that the budgeted individual was not previously aware of to his attention. Hofstede (1967) found that participation was associated with the relevance of financial standards, but not technical standards. First-line managers had considered technical standards, but not financial performance, until participation in the setting of financial budgets made financial standards relevant

However unless participation involves the setting of specific goals after discussion, there is little effect on performance. Lawrence and Smith (1955) introduced group discussion into four industrial work groups. Although there was a slight improvement in the performance of the two groups which did not set goals, production increased very significantly in the other two groups which had set objectives after the discussion. The timing of goal determination in the participation process may be important. Stedry (1960) found that subjects given a very difficult goal and then asked to specify their personal level of aspiration performed significantly better than subjects asked to specify their levels of aspiration and after wards given a very difficult goal.

2.6.2 Top-Down/Imposed Budget

In this case, top management initiates the budget process by issuing broad guide lines in terms of overall target profits or sales. Lower-level managers are directed to prepare a budget that meets those targets. Lower-level managers have very little, if any, input into the determination of the budget amount and setting the overall goals of the organization. The lower-level units' involvement in the process is essentially reduced to doing the basic budget calculations and adhering to the directives of top management. The difficulty is that the targets set by top management may be unrealistically high or may allow too much slack. If the targets are too high and employees know they are unrealistic, motivation will suffer. If the targets allow too much slack, waste will occur. The lower-level managers may view the budget as a dictatorial standard. Resentment can be fostered in such an environment. Further, such budgets can sometimes provide ethical challenges, as lower-level managers may find themselves put in a position of ever-reaching to attain unrealistic targets for their units.

By using a top-down approach, you will not get buy-in from the managers. There should be a top-down target for overall revenue that should be communicated to the managers; and it is imperative that the executives involve the managers in revenue budgeting. In conclusion, the executives should give direction and form a strategic plan that will give the managers the knowledge and understanding they need to budget the revenue for the coming year, but they should not budget the revenue for the entire organization (Rasmussen, et. el, 2003).

2.6.3 Blended approach

Blended approach is a combination of top-down and bottom-up budget process whereby top management sets objectives for financial performance and submits these to operating managers, who then develop budgets based on these objectives. Budgetees prepare the first draft of the budget for their area of responsibility, which is "bottom- up"; but they do so within guidelines established at higher level, which is “top- down”. Senior managers reviews and critique these proposed budgets.

Research has shown that budget participation has positive effects on managerial motivation for two reasons. There is greater acceptance of budget goals if they are perceived as being under managers’ personal control, rather than being imposed externally. This leads to higher personal commitment to achieve the goals. The other one is participation results in effective information exchanges. The approved budget amount benefit from the expertise and personal knowledge of the budge tees who are closest to the product /market environment. Further, budge tees have a clearer understanding of their jobs through interaction both with superiors during the review and approval phase. (Anthony and Govindarajan, 2001, PP. 373).

2.7 Budget as target

The existence of a budget standard can act as a target to be aimed for. There is substantial evidence from psychological studies that having a defined, quantitative target results in better performance when no such target is stated (Tosi, 1975). Further, the more difficult and demanding the target set, the better the resulting performance, although targets thought to be unattainable are counterproductive. In addition, it is important to note that although difficult goals can easily be assigned to people they are not necessarily accepted by them.

If people decide that a goal is impossible to attain, they are likely give up and turn the results that are worse than if a less demanding goal had been set. An industrial study on goal-setting (Stedry and Kay, 1966) found that difficult goals produced either very good or very bad results compared with goal of normal difficulty, with the poor result occurring particularly when several difficult goals were set at the same time. Another study concerned with the evaluation of a system of management by objectives (Carroll and Tosi, 1973) found that difficult goals led to reduced effort on the part of those managers who were less mature and experienced who had less self assurance. The psychological evidence therefore suggests that the best results will be obtained by setting the most difficult goal that will be accepted by managers and thus ‘internalized’ and accepted as their own personal objective. However, it is important that managers successfully attain their targets often to give positive reinforcement and to prevent them from falling into a cycle of failure.

Thus, to motivate the best level of actual performance the budget must be set at a level above that which will, on average, be attained. Adverse budget variance will thus be generated, but these are a sign that the budget system is working as intended. A budget that is always achieved with no adverse variance indicates the standard is too loose to motivate the best possible result. However, the central problem in setting motivational targets is to ensure that they are accepted by the manager to whom they are given. (Emanuel et al., 1990, PP. 171-175).

2.8 Budget as forecasts

The overall corporate budget may be used by managers in different parts of an organization as a forecast of what is likely to happen elsewhere as a basis for their own planning and decision making (Emanuel et al., 1990, PP.168).

However, there are a lot of problems associated with budget when it is used as forecast: the forecasting abilities of individuals, managers see it as being in their own interest to set easier budget rather than more difficult budget for themselves and thus incorporate ‘slack’ into their budget estimates, but there are also evidence that management operating in tough environments may bias their estimates in opposite direction and set themselves budget that are unlikely to be achieved, in addition there is also evidence that individual in uncertain situations find it difficult to estimate the expected value of an outcome, even when it is in their own best interest to do so (Peterson and Miller, 1964) although the fare somewhat better at estimating most likely outcome.

2.9 The budget-setting process

A according to Petter Atrill and Eddie Mclaney, budget setting involves the following process.

Step 1: Establish who will take responsibility

It is usually seen as crucial that those responsible for the budget-setting process have real authority within the organization. Quite commonly, a budget committee is formed to supervise the budget setting process.

Step 2; Communicate budget guidelines to relevant mangers

It is important that, in drawing up budgets, mangers are well aware of what the strategic plans are and how the forthcoming budget period is intended to work towards them. Mangers also need to be made well aware of the commercial/ environment in which they will be operating.

Step 3: Identify the key or limiting factor

There will always be some aspects of the business that will stop it achieving its objectives to the maximum extent. It is important that the limiting factor is identified. Ultimately, most, if not all, budgets will be affected by the limiting factor, and so if it can be identified at the outset, all managers can be informed of the restriction early in the process.

Step 4: Prepare the budget for the area of the limiting factor

The limiting factor will determine the overall level of activity of the business. The limiting factor budget will quite often be the sales budget since the ability to sell is frequently the limiting factor that simply cannot be eased.

Step 5: Prepare draft budgets for all other areas

The other budgets are prepared, complementing the budgets for the area of the limiting factor.

Step 6: Review and co-ordinate budgets

A business's budget committee must at this stage review the various budgets and satisfy itself that the budgets complement one another.

Step 7: Prepare the master budgets

The master budgets are the budgeted profit and loss account and budgeted balance sheet (and perhaps a summarized, budgeted cash flow statement).

Step 8: Communicate the budget to all interested parties

The formally agreed budgets are now passed to the individual managers who will be responsible for their implementation.

Step 9: Monitor performance relative to the budget

Much of the budgeting- setting activity will have been pointless unless each manager's actual performance is compared with planned performance, which is embodied in the budget.

2.10 Budgetary control

Budgetary control was largely invented in General Motors (GM) in the 1920s as most of the modern management control systems (Johnson & Kaplan, 1987; Kaplan, 1984). Johnson (1978) summarizes the main characteristics of the management control systems of GM.GM's management accounting system did three things to help management accomplish "centralized control with decentralized responsibility." First, it provided an annual operating forecast that compared each division's ex-ante operating goals with top management's financial goals. This forecast made it possible for top management to coordinate each division's expected performance with company-wide financial policy. Second, the management accounting system provided sales reports and flexible budgets that indicated promptly if actual results were deviating from planned results. They specified, furthermore, the adjustments to current operations that division managers should make to achieve their expected performance goals. The sales reports and the advanced flexible budget system provided for control of each division's actual performance. Third, the management accounting system allowed top management to allocate both resources and managerial compensation among divisions on the basis of uniform performance criteria. This simultaneously encouraged a high degree of automatic compliance with company-wide financial goals and greatly increased the division manager's decentralized autonomy (Johnson, 1978, p. 493-494). Donner (1932), General Motors' associate CFO during the thirties, highlights that these elements constitute the budgetary control system. A budget doesn't systematically imply budgetary control, “it is important to stress that if a company has a budget it does not necessarily mean that a system of budgetary control has been introduced. For budgetary control, the budget has to be used in a feed-back loop in which prediction and out-turn are continually examined to find ways of achieving greater certainty of outcome” (Quail, 1997, p. 618).

Ansari (1979, p. 153) underlines that “the central notion underlying budgetary control systems is that of responsibility accounting”. This implies budgetary evaluation and variance analysis. The description of the budgetary control in General Motors by Johnson (1978) leads us to consider that frequent re-forecasts throughout the year are also important to achieve budgetary control. Therefore, three tools characterize the classical budgetary control: variance analysis, frequent re-forecasts throughout the year and performance evaluation of the managers according to the achievement of their budgetary goals. Control is a mechanism according to which something or someone is guided to follow the predetermined cause” (R. Ramachandran, p.298).The exercise of control in the organization with the help of budgets is known as budgetary control. The process of budgetary control includes:

1. Preparation of various budgets.
2. Continuous comparison of actual performance with budgetary performance.
3. Revision of budgets in the light of changed circumstances. A system of budgetary control should not become rigid. There should be enough scope of flexibility to provide for individual initiative and drive

2.10.1 Essentials of Successful Budgetary Control

According to R.Ramachandran in his book, Management Accounting –first edition(2009), the following are the essential prerequisites for implementing budgetary control successfully:

1. The budgetary control system should have continuous support of top management which can ensure its all round acceptance.

2. The authority and responsibilities are to be properly defined to pin-point the responsibility of specific individuals in key positions.
3. The accounting system should provide the required information in time.
4. Efficient system has to be devised to reduce the differences between the budgets and actual performance.
5. Staffs are to be appraised of the budgets and benefits they are going to derive directly and indirectly
6. The targets set should be realistic so that they are achievable and budgets should not frustrate the workers by fixing unrealistic targets.
7. Budgets are to be set for all departments so that their participation in implementation will be effective.
8. Establish data collection, analysis and dissemination routines, which take the actual result and the budget figures, and calculate and report the variances.
9. Fairly short reporting periods, typically a month, so that things cannot go too far wrong before they are picked up.
10. Variance reports being produced and disseminated shortly after the end of the relevant reporting period. It is not until the end of the next month that a manager is informed that the performance previous month was below budgeted level.
11. Action being taken to get operations back under control if they are shown to be out of control.
12. Budgets are prepared on the basis of certain conditions. If there is change in conditions budgets also should be adjusted to accommodate the changes.

2.10.2 Installation of a System of Budgetary Control

The following steps should be taken in a sound system of budgetary control.

A. Organization chart

   There should be a well defined organization chart for budgetary control. This will show the authority and responsibility of each executive.

B. Budget center

   The evaluation of performance becomes easy when different centers are established. Thus each budget centers should have a separate budget and be subjected to independent budget –actual comparison (B.K. Chatterjee, 1989).

C. Budget committee

   According to Peter Atrill and Eddie Mclaney, a budget committee is formed to supervise and take responsibility for the budget setting process. The mangers of various departments prepare their budgets and submit them to this committee. The committee will make necessary adjustments, co-ordinate all the budgets and prepare a master budget. The committee s the final budget and resolve dispute and conflicts between departments (Garrison and Noreen, 2003, pp. 380).

D. Budget Manual

   Budget manual is a book which contains the procedure to be followed by the executives concerned with the budget. The entire systems and procedures embodied in the form of a budget manual, framed through a participative method and finally approved and accepted by top management, can rule out chaos and confusion, and possibility of over or under delegation in the area of budgetary control . Therefore, for any progressive organization, a budget manual is a must, B.K.Chatterjee, 1989, p.72.

2.11 Organizing and Administering the Budgeting

As per Anthony and Govindarajan, (2001) the budget department, which normally report to the corporate controller, administers the information flow of the budgetary control system. The department publish procedures and forms for the preparation of the budget, coordinates and publishes each year the basis of corporate wide assumptions that are to be the basis of the budgets, analyzes proposed budgets and make recommendation, and analyzes reported performance against budget, interprets the result, and prepares summary reports for senior management.

2.11.1 Issuance of Guidelines

Whether or not there is a strategic plan, the first step in the budget preparation process is to develop guidelines that govern the preparation of the budget, for dissemination to all managers. All responsibility centers must follow some of these guidelines, such as assumed inflation in general and inflation for specific items such as wages, corporate policies on how many people can be promoted, compensation at each wage and salary level, including employee benefits, and a possible hiring freeze. Other guidelines are specific to certain responsibility centers (Anthony and Govindarajan, 2001, pp. 369).

2.11.2 Initial Budget Proposal

Using the guidelines, responsibility centers managers, assisted by their staffs, develop a budget request. Because most responsibility centers the budget year with the same facilities, personnel, and other resources that they have currently, this budget is based on the existing levels, which are then modified in accordance with the guidelines. Changes from the current level of performance can be classified as changes in the external forces and changes in internal policies and practices.

2.11.3 Negotiation

The budgetee discusses the proposed budget with his or her superior. This is the heart of the process. The superior recognizes that he or she will become the budgetee at the next level of the process and, therefore, must be prepared to defend the budget that is finally agreed to.

2.11.4 Slack

In examining the budget, superiors attempt to discover and eliminate slack, but this is a difficult task (Anthony and Govindarajan, 2001 pp. 270).

2.11.5 **Review and Approval**

The proposed budgets go up through successive levels in the organization. Final approval is recommended by the budget committee to the chief executive officer. The CEO also submits the approved budget to the board of directors for ratification.

2.11.6 Budget Revisions

One of the principal considerations in budget administration is the procedure for revising a budget after it has been approved.

Clearly, if it could be revised at the will by the budgetee, there would be no point in reviewing and approving the budget in the first instance. On the other hand, if budget assumptions turn out to be so unrealistic that the comparisons of actual against are meaningless, budget revisions may be desirable.

2.12. Budget variance analysis and performance measurement

As per Anthony and Govendarajan ,(2001) a more thorough analysis identifies the causes of the variances and the organizational unit. Effective systems identify variances down to the lowest level of management. Variances are hierarchical. It is possible to identify each variance with individual manager who is responsible for it. Prrofit reports are worthless unless they lead to action. The action may consist of praise for a job well done, suggestions for doing things differently, “chewing out,” or more drastic personnel action. However, these actions are by no means taken for every business unit every month. As long as business is going well, praise is the most that may be necessary, and most people don’t even expect praise routinely (Anthony and Govindarajan, 2001 pp. 423).

2.12.1 Enforce Accountability

Accountability may be the most important aspect of budgeting, because all the hard work spent creating the budget will be for naught if the employees involved in the budget are not held accountable for their budget numbers. Managers’ reviews should include an evaluation of their budgets, which may affect their compensation if they are not meeting the targets of the organization. Another issue is that while the budget variances may be reported on, they are not investigated. What is the point of creating variance reports if the variances are not going to be questioned and investigated? Organizations should try to create ownership of the budget numbers among the managers, to make them responsible for investigating and explaining the variances in their budgets. Employees and managers must understand the impact that missing budget targets can have on an organization (Rasmussen, et. el, 2003).

2.12.2 Budget as a standard for performance evaluation

Budgets being a standard for performance are used to evaluate managerial performance (Seinivavasan, 1987). Similarly, Douglas (1994) found that budgeting places a high importance on the budget-to- actual comparison for performance evaluation purpose both at the corporate level and the subsidiary levels. When budget are used as standards for performance evaluation, rewards are connected directly with budget achievement. If rewards are attached to good performance, they will motivate managers to work hard to attain them. The problems of designing and operating a successful budgetary control system largely devolve into constructing an appropriate set of performance measure that when achieved, result in desired organizational performance. There is usually no difficulty in persuading managers to achieve the specific result; what is difficulty is ensuring they achieve them in the intended manner (Emanuel et al., 1990, PP.175).

2.13 Behavioral aspect of budgeting

Budgets, perhaps more than any other accounting statement, are prepared with the objective of affecting the attitudes and behavior of managers (Peter Atrill and Eddie Mclaney, p.201-202). Research shows that the existence of budget generally tends to improve performance. Demanding, yet achievable, budget targets tend to motivate better than less demanding targets. It seems that setting the most demanding targets that will be accepted by managers is a very effective way to motivate. Unrealistically demanding targets tend to have an adverse effect on mangers' performance. The participation of managers in setting their targets tend to improve motivation and performance. This is probably because those managers feel a sense of commitment to the target and a moral obligation to achieve them.

Chapter Three: Data presentation, analysis and interpretation

3.1 Introduction

This chapter deals with the presentation, analysis and interpretation of the data gathered through questionnaire and interview methods about the budget preparation and control system in Ethio Telecom (ET). The data is presented and analyzed according to the flow of budgetary process starting from planning and budget preparation followed by implementation, reporting and variance analysis, and lastly performance measurement and reward system. Therefore, he data collected through both methods is presented, analyzed and interpreted as below.

3.2 Plan and budget preparation

Table-01 budget users- technical and support divisions' response rate on plan and budget preparation

Questions in brief	SD	D	N	A	SA
Linkage of strategic plan and budget	18(31.58%)	21(36.84%)	5(8.77%)	9(15.79%)	4(7.02%)
Participatory budgeting	15(26.32%)	17(29.82%)	8(14.04%)	11(19.30%)	7(12.28%)
Budget allocation is based on the volume of activities	16(28.07%)	18(31.58%)	12(21.05%)	8(14.04%)	3(5.26%)
Budget is reduced without negotiation	5(8.77%)	10(17.54%)	10(17.54%)	18(31.58%)	14(24.56%)
Operational expense budget approval process is not rational	4(7.02%)	12(21.05%)	14(24.56%)	14(24.56%)	8(14.04%)

Source: survey data

As indicated on the above table-01 from the total number of 57 respondents, 31.58%) were strongly disagree, 36.82% disagree, 15.79% agree and only 7.02% respondents strongly agree that there is operational expense budget linkage with strategic plan of the company. Respondents who showed their disagreement on this issue reasoned out that the strategic plan of the company is not effectively communicated to lower level managers as the strategic document would have been used as a reference while they prepare their annual budget.

The result of the interview obtained from the budget manager shows that there is a three year strategic plan. However, the strategic plan has not been considered while preparing the annual budget. That is there is no integration between strategic plan and budget indicating that the annual budget is not emanated from the strategic plan

Regard to the respondents who were agree on the existence of operational expense budget linkage with strategic plan of the company, the researcher believes that they filled the question arbitrarily or they were denying the fact. This is because the budget manager who is directly responsible to manage and control the overall budget activities of the company disqualified their perception on integration of budget and strategic plan. If the budget were emanated from the strategic plan of the company, there would be linkage between the two.

According to Anthony and Govindarajan, (2001, pp. 361) the proper use of these tools relies on strategic development preceding budgeting decisions: an effective budget cannot be prepared unless the firm has made its strategic decisions. But strategy execution is likely to be inefficient and/or unprofitable without the financial guidance of budgets. There is reciprocal interaction between strategic management and budget. However, such a relationship between strategic management and budgeting does not exist at many firms. The problem of inappropriately using the two processes may arise when a firm does not properly integrate them or does not employ strategic management at all. Other problems arise when strategies are not based in budgetary realities (Blumentritt, 2006).

Companies should link their budgets to their corporate strategy to ensure that the projected resource requirements are available to support the expectations of the organization. The strategy must be effectively communicated to all employees so that they know and recognize all actions that lead to an enhanced operating profit.

The result of the above analysis indicates that in ET the strategic plan document is not fully communicated to budget holders and is not used as a reference while the budget is prepared. Therefore, there is no linkage between strategic plan and budget of the company.

Regarding budget participation, a significant number of respondents, thirty two out of fifty seven, i.e. 56.14% disagreed (26.32% strongly disagree and 29.82% disagree) that operational expenditure budget preparation in divisions/departments/sections is performed with the full participation of managers at all levels. As to the reason of their disagreement most of the respondents justified that although the budget of each department/section is prepared by lower level managers the top management modifies the amount without consulting them. On the other hand, for the question that the top management is following the practice of reducing the proposed budget without negotiation with lower level managers more than half (56.14%) of the respondents agreed that the top management is reducing the budget without negotiating with them.

The interview result also shows that though they have been participated at the early stage of budget preparation process, the amount prepared and presented by them is less acceptable by the top management. The main reason given by the top management on the reduction of the budget is not rational and acceptable. The interviewee responded that the top management is doing this with the assumption that the amount of budget requested is highly exaggerated. The response also confirmed that the decision of reducing the budget by the top management without having acceptable justification encourages budget holders to submit highly exaggerated budget in subsequent budget years. The reason is due to the fact that the top management who is responsible for budget approval allocates budget by reducing some percentage from the initial request. If budget holders submit actual demand without overestimation, the amount approved for that budget year will be less than what is expected.

According to the reply of the interviewee (budget manager), in ET operational expenditure budgeting approach is bottom-up and should be prepared with the full participation of lower level managers. But there are some divisions heads who do not involve their section managers participate in budget preparation because of attitude problems. These individuals are doing this as they have not given proper attention for budget preparation. As to budget reduction by the top management, the respondent confirmed that the top management has reduced the budget without negotiation on account of the following reasons. Most of the time the budget submitted from users lacks proper justification and because of this the top management assumes that it is highly exaggerated. For the question why budget holders could not submit proper budget and acceptable justification for their figures, the respondent confirmed that they have limitations in budget preparations, timely submissions of budget requests, and on the validity of assumptions taken in preparing the annual budget.

The process of developing a budget is essentially one of negotiation between the manager of the responsibility center and a superior to determine what the manager will do and in what manner (Anthony et. el. 1989, p. 27). Budget often serve as a means of motivating managers to strive towards the achievement of organizational objectives. They do this by acting as external standard that may be accepted by a manager as his own target, thus providing a motivational target. Further, extrinsic rewards and penalties may be attached to budget achievement (e.g. bonuses, performance awards) to increase its motivational effect further (Emanuel et. el., 1990, PP. 163). But all these are possible only if the budget is fully participatory and the budget holders can accept it as their own budget or target. According to Garrison/Noreen, in their book-

Managerial Accounting, ninth edition, the success of the budget program will be determined in large part by the way in which the budget is developed. The most successful budget program involves managers with cost control responsibilities in preparing their own budget estimates rather than having a budget imposed from above.

Therefore, the above analysis indicates that the lower level managers are not participating at the required level. In the initial stage of budget preparation the process seems participatory because lower level managers prepare and submit their annual requirement as they have the knowledge for the activities to be conducted and for which the budget is allocated in their respective units. However, the top management has been reducing the amount without negotiation or without requiring them to provide sufficient justification for the budget figure they submitted.

As to the basis of allocating budgets to activities and various working units of the company, 28.07% and 31.58% of the respondents were strongly disagree and disagree respectively. Respondents indicated their disagreement that budget allocated for some departments/sections are highly exaggerated and unreasonably low for some others. In contrast to this, the interview result shows that budget allocation in the company is based on work volume and the same basis has been applied for both operational and administrative budgets. However, as one can understand from the general process of budgeting though the company is following allocating budget based on volume of activities as the driver of budget assignment, the reality, however, does not show the proper implementation of this. This is because the top management reduces and approves the budget without negotiation at the end. If the top management do this without consensus there is high chance that the budget to be allocated without considering volume of activities of budget units.

<u>Table-02 budget controllers, budget section employees' response rate on plan and budget preparation</u>

Questions in brief	SD	D	N	A	SA
Interaction during budgeting	0(0%)	1(12.5%)	4(50%)	2(25%)	1(12.5%)
Negotiation power of divisions	0(0%)	1(12.5%)	2(25%)	3(37.5%)	2(25%)
Budget submission without plan	1(12.5%	1(12.5%)	3(37.5%)	2(25%)	1(12.5%)
Frequency of budget request by divisions	0(0%)	2(25%)	1(12.5%)	3(37.5%)	2(25%)
The power of divisions to establish budget slacks	1(12.5%)	1(12.5%)	1(12.5%)	4(50%)	1(12.5%)
The rationality of budget approval process	2(25%)	1(12.5%)	3(37.5%)	2(25%)	0(0%)

Source: survey data

As indicated on table 02, the degree of interaction between top management and lower level managers during budget preparation process, the majority of the respondents from budget section staffs showed their neutrality(50%) followed by having agreed (37.5%). However, the status of disagreed staffs became in contradiction with the response of managers from both support and commercial divisions for similar question. As noted above for the same question that the top management is not consulting lower level managers while it reduces the expense budget majority of the respondents gave confirmatory answers. The top management has not given the lower level managers the chance to discuss on the final budget amount to be approved. As a result, the expense budget amount might get the chance of being overstated or understated.

Therefore, the researcher believes that the budget section staffs who were agree on the above statement answered the question arbitrarily or without knowing the real situation across the company as they are more focusing on the control part of budgetary process.

A great number of budget section staffs (37.5%) indicated their agreement that budget holders have submitted budget without plan although the same number of respondents indicated their neutrality. On the other hand, from the analysis of table-01 it was confirmed that there is no integration between budget and strategic plan of the company. If there is no integration between the two, the annual plan of activities for which the budget is allocated is not emanated from the strategic plan. Therefore; there would not be consistent plan for which budget users can be questioned for the budget they submitted.

Regard to questions which compare Support and Operational (Technical plus commercial) divisions, majority of the respondents gave confirmatory answers. They responded that commercial and technical divisions have greater negotiating power with the management in setting budget targets and to establish budget slacks than support divisions can do. As to budget revision a great number of them did also confirm that operational divisions usually request additional budgets repeatedly throughout the budget year than support divisions. In ET, commercial and technical units commonly called operation divisions, and are responsible for the provisioning of telecom service to customers and for the public as a whole. They are considered important to the company. Whereas the support divisions are facilitators for operational divisions and they are given less attention. It might be because of this reason that the operational divisions have got strong power during budget preparation and revision than support divisions.

For the question that the overall budget approval process is not rational because resource is not allocated fairly based on work volume of budget holders, 25% of the respondents were strongly disagree, 12.5% were disagree, and 25% were agree. From this, even though majority of the respondents were confirmed that the budget approval process is rational but one fourth agreed on the subsistence of the problem. As indicated above the top management has been reducing the budget without negotiation with budget holders and because of this budget of some units is highly exaggerated and some others are highly understated. From the responses given above, in ET there is problem in the rational allocation of budget based on volume of activities.

Table-03 budget users-Commercial divisions' response rate on plan and revenue budget preparation

Questions in brief	**SD**	**D**	**N**	**A**	**SA**
Linkage of revenue plan with strategic plan	6(26.09%)	13(56.52%)	2(8.70%)	2(8.7%)	0(0%)
Participation during budgeting	8(34.78%)	7(30.43%)	4(17.39%)	1(4.35%)	3(13.04%)
The fairness of budget allocation basis	6(26.09%)	8(34.78%)	4(17.39%)	3(13.04%)	2(8.70%)
Revenue plan revision frequently	4(17.39%)	7(30.43%)	4(17.39%)	5(21.74%)	3(13.04%)
Budget negotiation	2(8.70%)	5(21.74%)	2(8.70%)	8(34.78%)	6(26.09%)
Rationality of revenue budget approval process	5(21.74%)	7(30.43%)	6(26.09%)	3(13.04%)	2(8.70%)

Source: survey data

Table-03 indicates that majority of the respondents disagreed (26.09% strongly disagreed and 56.52% disagreed) that they are preparing their revenue budget based on the strategic plan of the company. The respondents who disagreed on this point reasoned out that the strategic plan is not effectively communicated to lower level managers. Furthermore, the interview result confirmed that the document has not been communicated and used for their revenue budget preparation. In addition to this, it was confirmed by the budget manager that the budget preparation is not based on strategic plan. It is also noted that the same opinion was given from technical and support division respondents as indicated on table-01 above. Regard to participation during revenue budget preparation, more than half of the respondents disagree (34.78% strongly disagree and30.43% disagree) that revenue budget preparation is participatory. The respondents who were agreed are only one fifth of strongly disagreed and disagreed respondents in total. As to the reason for their disagreement, 66.67% of the respondents stated that the total budget of the company is determined by top management only and then is directly distributed among departments, and the remaining 33.33% of the disagreed respondents specified that lower level managers have little role on the budget preparation process. The interview result also showed that revenue budget preparation approach in ET is top-bottom in which the higher management has decided the amount of revenue to be generated during the year. Thus revenue budget preparation in the company is not participatory and the researcher believes that the respondents who were agree on the existence of participatory budgeting might be the members of top management (division heads) or middle level and lower level management members who had answered the question arbitrarily or without knowing the reality in the company.

In addition, majority of the respondent disagreed (26.09% strongly disagree and 34.78% disagree) on the statement that revenue budget allocation to departments/sections is fair and based on resource availability. From the respondents who were strongly disagree and disagree, majority of them reasoned out that revenue budget allocated for some departments/sections is highly exaggerated, and unreasonably low for some others. The remaining confirmed that the company has not at all any basis of revenue budget allocation. As indicated on the analysis of the previous question, revenue budget preparation is not participatory. Therefore, the researcher believes that the budget allocation could be unfair as non participatory budgeting is not expected to be fair.

On the other hand, regarding frequent revenue budget revision throughout, majority of the respondents (17.39% strongly disagree and 30.43% disagree) confirmed that they do not revise their revenue plan based on the approved budget throughout the year. The top management is following the practice of increasing the proposed revenue budget without negotiation with lower level managers. This is ascertained by majority (60.87%) of the respondents who showed their agreement. Analysis of table 03 also indicates that the overall revenue budget approval process of ET is not rational. More than half of the respondents were disagree (21.74% strongly disagree and 30.43% disagree), 21.74% agreed that the overall revenue budget allocation process is rational.

3.3 Budget implementation

Table-04 budget controllers, budget section employees' response rate on budget implementation

Questions in brief	**SD**	**D**	**N**	**A**	**SA**
Budget utilization	2(25%)	1(12.5%)	2(25%)	2(25%)	1(12.5%)
Spending not in the approved budget	1(12.5%)	2(25%)	2(25%)	1(12.5%)	3(37.5%)
Spending above the approved budget	0(0%)	2(25%)	2(25%)	3(37.5%)	1(12.5%)

Source: survey data

As indicated on table -04 above, a large number of respondents showed their disagreement (25%, strongly disagree and 12.5% disagree) on the view that budget users/holders utilize the approved budget based on the corresponding annual plan of activities. For the question that there is a practice of spending by budget holders for activities which are not included in the approved budget of ET, half of them were agree and 37.5% were disagree. There is a practice of over spending by budget holders above the approved budget for line items; a great number of respondents gave confirmatory answers, 5o% agreed, and 25% disagreed. Therefore, all the analysis of the above table shows the problem of budget utilization in the com

Table-05 Technical and support divisions' response rate on budget implementation

Questions in brief	SD	D	N	A	SA
Budget revision and approval process	18(31.58%)	23(40.35%)	10(17.54%)	5(8.77%)	1(1.75%)
The managements' attention on budget utilization	7(12.28%)	12(21.05%)	5(8.77%)	21(36.84%)	12(21.05%)

Source: survey data

From the table above it is indicated that a little more than half of the respondents disagreed on the existence of continuous budget revision and approval process in the company. As to the attention of top management on budget utilization, the majority of the respondents confirmed that the top management requires the utilization of the budget within the scope of the approved budget and timetable while the lower level management focuses on accomplishing activity plans regardless of how much amount is utilized.

Table-06 Commercial divisions' response rate on budget implementation

Questions in brief	SD	D	N	A	SA
Revenue budget revision is throughout the year.	6(26.09%)	12(52.17)	3(13.04)	2(8.7%)	0(0%)

The managements' attention on budget achievement	2(8.70%)	2(8.70%)	4(17.39%)	8(34.78%)	7(30.43%)

Source: survey data

For the inquiry that there is revenue budget revision throughout the fiscal year, 26.09% and 52.17% strongly disagree and disagree, respectively. The result of interview on the issue under discussion also indicates that there is budget revision in the company but it is not regular and continuous rather it is made when situation demands. That means budget revision is not made periodically with in some period interval. Instead, it has been made when changes/situations affect the whole business significantly. In addition, the respondent confirmed that budget revision in the company will not be made unless majority of the budget holders are affected by the new situation.

3.4 Budget reporting and variance analysis

Table-07 budget section employees' response rate on reporting and variance analysis

Questions	**S D**	**D**	**N**	**A**	**S A**
The management's attention on spending	0(0%)	2(25%)	1(12.5%)	2(25%)	3(37.5%)
Adequacy of Periodic performance report	2(25%)	4(50%)	0(0%)	2(25%)	0(0%)
Explanation on budget variance	3(37.5%)	2(25%)	2(25%)	1(12.5%)	1(12.5%)
The managements' attention on over spending	0(0%)	1(12.5%)	1(12.5%)	4(50%)	2(25%)
Efficiency and effectiveness of budget monitoring	3(37.5%)	1(12.5%)	2(25%)	1(12.5%)	0(0%)

Management of financial resources	2(25%)	3(37.5%)	2(25%)	1(12.5%)	0(0%)

Source: survey data

As indicated on table -07 above, the analysis revealed that the attention of the management on budget variance, majority, i.e. 62.5 %(25% strongly agree and 37.5% disagree), of the budget staffs confirmed that over spending of costs and expenses gets more attention by the management than under spending. As to budget report and analysis of variance, the result of the above table also shows that the majority of the budget section staffs confirmed on the presence of limited periodic performance reports, prepared and submitted by budget holders as it is not adequate and complete to evaluate their performance, and the explanation on budget variance line-by-line basis periodically is not detail enough to identify the cause, and to take action accordingly. The analysis also revealed that over spending of costs and expenses gets more attention by the management in operational divisions than support (administrative) divisions as the majority, i.e. 75%(50% agree and 25% strongly agree) were agree, indicating that the top management might focus little on support divisions' activities. It could also be true for the fact that much of the budget is allocated to operational divisions. Regarding the effectiveness and efficiency of budget holders on monitoring their budget, the rating from budget staffs were 50% 12.5% disagree and agree, respectively. However, the response on the question that ET is not managing its financial resources resulting from weak budget formulation and controlling process, majority of the respondents showed their disagreement. From this, the researcher believes that the respondents from budget section who were disagree on this issue were biased on the assumption that majority of the problem is their responsibility.

Overall, the researcher believes that a company cannot be strong in budget formulation and monitoring without out being participatory in budget preparation, without having proper budget report which can show budget and actual performance or the variance in detail, without analyzing the variance line by line, and, above all, without identifying the unit manager who is responsible or accountable for the variance and without taking appropriate action based on the report.

Table- 08 Technical and support divisions' response rate on reporting and variance analysis

Questions in brief	**SD**	**D**	**N**	**A**	**SA**
Periodic performance report	7(12.28%)	12(21.05%)	4(7.02%)	22(38.60%)	12(21.05%)
Comparison of budget and actual utilization	12(21.05%)	17(29.82%)	6(10.53%)	15(26.32%)	7(12.28%)
Investigating budget variances factors	15(26.32%)	18(31.58%)	4(7.02%)	14(24.56%)	6(10.53%)
Managements'' attention on over spending	8(14.04%)	10(17.54%)	7(12.28%)	22(38.60%)	10(17.54%)
Identifying the responsible manager for the variance	16(28.07%)	20(35.09%	8(14.04%)	8(14.04%)	5(8.77%)
Action based on budget performance	13(22.81%)	21(36.84%)	10(17.54%)	11(19.3%)	2(3.51%)
Explaining budget variances on a line-by-line basis	12(21.05%)	24(42.11%)	6(10.53%)	9(15.79%)	6(10.53%)
Unfavorable achievement of budget	3(5.26%)	8(14.04%)	10(17.54%)	18(31.58%)	11(19.**30%)**
The focus of management on budget utilization	7(12.28%)	12(21.05%)	5(8.77%)	21(36.84%)	12(21.05%)

Source: survey data

Table-08 above revealed that the majority of the respondents confirmed the existence of periodic report in their division. The same question was presented, through interview, to the budget manager of the company and replied that periodic performance report has been prepared and submitted, monthly, by budget holders though the report is not consistent, complete and timely. From this, the researcher believes that respondents who were disagreed on the presence of periodic report might not participate in reporting or their divisions are not preparing the report at all or else they responded in a biased manner. As to the content of the periodic report, more than half of the respondents replied that the report does not show the comparison of budget and actual utilization, and the variance accordingly. For the question that factors leading budget variances are investigated and control measures taken, 57.90% and 35.19% were disagree and agree respectively.

With respect to the management attention, a great number of respondents (56.14 %%) confirmed that over spending of costs and expenses gets more attention from the management than under spending. Furthermore, whether identification of each variance with individual manager who is responsible for it is possible or not, the analysis indicated that a significant number of respondents (63.16%) showed their disagreement. The interview result also shows the same result. In addition, according to the data presented on table -08, majorities (59.65%) of the managers confirmed that appropriate action has not been taken based on the budget performance evaluation result, followed by 28% are agreed on the view presented to them. The analysis also showed that a great number (63.2%) of respondents assured that managers are not required to explain in detail about budget variances on a line-by-line basis. Moreover, respondents confirmed that their achievement on their budget was unfavorable because of the fact that operational expenditure budget was highly understated and the top management requires the utilization of the budget within the scope of the approved budget and timetable while the lower level management focuses on accomplishing activity plans.

Overall analysis of the above table shows that the rate of response to each question indicates the existence of serious weakness on budget reporting and variance analysis. Moreover, although budget report is prepared and submitted periodically by budget holders the report does not show comparison of budgeted amount and the actual utilization, and the variances accordingly. In addition, each unit manager is not required to explain in detail about budget variances on a line-by-line basis periodically throughout the budget year for his/her respective unit/section. As a result, it is not possible to identify each variance with individual section manager who is responsible for the variance. Factors leading to operational expenditure budget variances are not also investigated and control measures are not taken.

Table-09 Commercial divisions' response rate on budget reporting and variance analysis

Questions brief	SD	D	N	A	SA
Periodic budget performance report	0(0)	0(0)	3(13.04%)	8(34.78%)	12(52.17%)
Comparison of budget and actual utilization	4(17.39%)	7(30.43%)	4(17.39%)	5(21.74%)	3(13.04%)
Identifying the responsible manager for the variance	8(34.78%)	10(43.48%)	0(0.00%)	3(13.04%)	2(8.70%)
Action based on performance report	9(39.13%)	7(30.43%)	2(8.70%)	4(17.39%)	1(4.35%)
The cause of favorable variance	5(21.74%)	8(34.78%)	7(30.43%)	3(13.04%)	0(0.00%)
The managements' attention on under achievement of sales	0(0.00%)	1(4.35%)	0(0.00%)	9(39.13%)	12(52.17%)
The top management's attention on revenue budget achievement	2(8.70%)	2(8.70%)	4(17.39%)	8(34.78%)	7(30.43%)

Weakness on budget monitoring and control	4(17.39%)	3(13.04%)	6(26.08%)	7(30.44%)	3(13.05%)

Source: survey data

The result of the above table- 09 indicates that the majority of the respondents, i.e. 86.95%, agreed that divisions are preparing periodic performance reports.

However, as to the question on the content of the report, 47.82% of the respondents disagreed that the budget report of their division shows the comparison of budget and actual utilization and the variance accordingly while 34.78% of the respondents showed their agreement. The above table also shows most of the respondents confirmed that it is not possible to identify each revenue budget variance with individual section manager who is responsible for it. This implies that identification of accountability is not possible without having proper and detail performance report which can compare between what was planned with what is actually performed.

In budgetary control system, performance measured by comparing the actual performance with the budgeted and the difference between the two should be analyzed. As per Anthony and Govendarajan (2001) a more thorough analysis identifies the causes of the variances and the organizational unit. Effective systems identify variances down to the lowest level of management. Variances are hierarchical. Therefore, it is possible to identify each variance with individual manager who is responsible for it. This type of analysis is powerful tool, without which the efficacy of budget would be limited.

In the question of appropriate action has been taken by divisions based on the budget performance report, majority of the respondents (69.56%) disagreed that appropriate action has been taken. As confirmed above, in ET periodical performance report is prepared but the report is not proper as it does not show the budget and actual performance and the variance accordingly. As a result, it is not possible to identify the responsible unit/section for the variance. If it is not possible to identify the responsible section for the variance it is not also possible to take appropriate action. If appropriate action could not be taken, preparing the budget and submitting a report is meaningless. According to Anthony and Govendarajan ,(2001) profit reports are worthless unless they lead to action.

The action may consist of praise for a job well done, suggestions for doing things differently, “chewing out,” or more drastic personnel action. Accountability may be the most important aspect of budgeting because all the hard work spent creating the budget will be for naught if the employees involved in the budget are not held accountable for their budget numbers. While the budget variances may be reported on, they should be investigated. What is the point of creating variance reports if the variances are not going to be questioned and investigated? Organizations should try to create ownership of the budget numbers among the managers, to make them responsible for investigating and explaining the variances in their budgets. Employees and managers must understand the impact that missing budget targets can have on an organization (Rasmussen, et. el, 2003)

Analysis of table-09 also shows that majority of the respondents (56.52%) showed their disagreement that favorable achievement of revenue budget is because of the fact that the revenue budget itself was easily achievable. For the two questions), under achievement of sales gets more attention from the management than over achievement, and the top management requires the achievement of revenue target within the scope of the approved operational expenditure budget and timetable while the lower level management focuses on accomplishing activity plans and target revenue regardless of how much amount is utilized, a great number of respondents gave confirmatory answers. In other words, respondents confirmed that the management has given more attention for unfavorable sales variance than favorable sales variance. Regarding, revenue target and corresponding expense budget allocated, the top management requires the achievement of revenue target within the scope of the approved operational expenditure budget and timetable while the lower level management focuses on accomplishing activity plans and target revenue regardless of how much amount is utilized.

The table also indicates that 17.39% strongly disagree, 13.04%) disagree, 30.44%) agree, and 13.05% strongly agree that revenue budget monitoring and control system of the company is weak:

Over all, the above table and the result from the analysis of each question indicate that there is periodic budget performance report in ET. But the content is not detail enough to show the budget –actual variation. As the report is not prepared in the way in which each line item is presented in the budget, identification of factors leading for the variation is not also possible. In addition, the responsible unit manager who should be hold accountable for the variation ca not be identified. Above all, the management is not taking appropriate action based on performance report. With all these realities, it would be difficult to say that the company's budget controlling and monitoring system is sound.

3.5 Performance measurement and reward system

Table-10 Technical and support divisions' response rate on performance measurement and reward system

Questions brief	**SD**	**D**	**N**	**A**	**SA**

Budget as benchmark for performance evaluation	20(35.09%)	28(49.12%)	6(10.53%)	3(5.26%)	0(0%)
Unfavorable achievement is because of budget understatement	3(5.26%)	8(14.04%)	10(17.54%)	18(31.58%)	11(19.30%)
Budget achievement as performance measurement	21(36.84%)	28(49.12%)	4(7.02%	3(5.26%)	1(1.76%)
Rewarding managers based on budget achievement	19(33.33%)	24(42.11%)	9(15.79%)	5(8.77%)	0(0.00%)
Job satisfaction and budget based performance evaluation have direct relationships	7(12.28%)	11(19.30%)	0(0.00%)	22(38.60%)	14(24.56%)
The impact of budget attainability on the behavior of managers	3(5.26%)	6(10.53%)	2(3.51%)	23(40.35%)	13(22.81%)
The impact of inappropriate budget allocation on motivation	0(0 %%)	2(3.51%)	6(10.53%)	32(56.14%)	17(29.82%

Source: survey data

From the above table it is indicated that majority (81.25%) of the respondents did not agree that operation expense budget as benchmark for performance evaluation for y which they reasoned out that the budget is unreasonably understated and some others stated that the budget is highly exaggerated and still others reflected that the budget itself is approved without their negotiation. Regarding the reason for unfavorable budget variance, 50.88 percent of the respondents agreed that it was because of the operational expenditure budget was highly understated. The disagreed respondents' answer for this question also coincides with the response for the reason that the approved budget is not a good bench mark for performance evaluation. Most of the respondents who disagreed on the question that the approved budget is a good bench mark for performance evaluation reasoned out that the budget is highly understated. Some other replied that the unfavorable variances were happen because budget users were provided additional duties (which were new and outside of the annual plan) to be executed from their approved budget without supplementary funds. It, thus, produces further burden on the available budget.

ET uses operational budget achievement as performance measurement criteria for managers, except 14.02% of the respondents who showed their agreement and neutrality in total, the whole respondents showed their disagreement. ET rewarded managers based on budget achievement, majority disagreed (33.33% strongly disagreed, 42.11% disagree) showing that ET has not been rewarding managers based on their achievement. In the two questions that “the relationship of job satisfaction and budget based performance evaluation and “the impact of the attainability of budget goals on the behavior of managers the same number of respondents, i.e. 63.16%, agreed that job satisfaction and budget based performance evaluation have direct relationships from the managers’ point of view and the attainability of budget goals has significant impact on the behavior of managers in ET. With respect to linkage of reward management and budget achievement, the above table also shows that majority, i.e. 75.44 percent, disagreed that ET rewarded managers based on their budget achievement. Only five (8.77 percent) respondents showed their agreement. For the question that the impact of budget allocation on motivation, 3.51% respondents disagree d, 56.14% agreed, and 29.82% strongly agreed that the inappropriate allocation of expense budget by the top management has created negative impact on your motivation.

Table-11 Commercial divisions’ response rate on performance measurement and reward system

Questions	**SD**	**D**	**N**	**A**	SA

Linkage of performance evaluation and revenue budget performance	10(43.48%)	5(21.74%)	4(17.39%)	2(8.70%)	2(8.70%)
Revenue budget as benchmark for performance evaluation	11(47.83%)	7(30.43%)	3(13.04%)	2(8.70%)	0(0.00%)
Favorable achievement because of easy revenue budget	5(21.74%)	8(34.78%)	7(30.43%)	3(13.04%)	0(0.00%)
Top management focuses more on revenue budget achievement	2(8.70%)	2(8.70%)	4(17.39%)	8(34.78%)	7(30.43%)
The relationship of Job satisfaction and revenue budget based performance evaluation	0(0.00%)	0(0.00%)	4(17.39%)	8(34.78%)	7(30.43%)
Attainability of revenue budget impacts managers' behavior	2(8.70%)	4(17.39%)	1(4.35%)	9(39.13%)	7(30.43%)
The use of budget achievement as a performance measurement	11(47.83%)	8(34.78%)	2(8.70%)	2(8.70%)	0(0.00%)
Rewarding based on revenue target achievement	13(56.52%)	9(39.13%)	1(4.35%)	0(0.00%)	0(0.00%)
Inappropriate budget allocation impacts managers' motivation	2(8.70%)	1(4.35%)	9(39.13%)	5(21.74%)	6(26.09%)
Weakness on overall revenue budget monitoring and control	4(17.39%)	3(13.04%)	6(26.08%)	7(30.44%)	3(13.05%)

Source: survey data

Table-11 above revealed that a great number of respondents, i.e. 65.12%, confirmed that performance evaluation of managers is not highly linked with the revenue budget performance. The revenue budget approved is a good benchmark for your performance evaluation throughout the budget year, majority of the respondents disagreed; only 8.7% showed their agreement. As to the reason for their disagreement, most of the respondents stated that the revenue budget is highly exaggerated, and the remaining others said that the revenue budget is the ambition of top management. If the revenue budget is approved without the consultation of the lower level managers or budget holders in the first place the process is not participatory.

Secondly it cannot be fair and rational. If it cannot be fair and rational, it cannot be a good bench mark for performance evaluation .For the question, if your achievement during the budget year was more than targeted, it is because of the revenue budget was low and easily achievable, only 13.04% showed their agreement. Majority (56.52%) of the respondents showed their disagreement.

Regard to the focus and attention of top management on revenue budget achievement two questions as indicated in the table above were forwarded to respondents. The reply from majority of the respondents confirmed that under achievement of sales gets more attention from the management than over achievement and the top management requires the achievement of revenue target within the scope of the approved operational expenditure budget and timetable while the lower level management focuses on accomplishing activity plans and target revenue regardless of how much amount of operational expense is utilized. Regarding Job satisfaction and revenue budget based performance evaluation have direct relationships from the manager’s point of view, and the attainability of revenue budget has significant impact on the behavior of managers in ET, table 11 indicates confirmatory responses from majority of the respondents.

Table-11 also presents that a significant (78.5%) number of respondents showed their disagreement on the existence, in ET, of using revenue budget achievement as performance measurement criteria for managers. Moreover, as indicated on the table above almost all (95.65%) respondents confirmed that the company is not rewarding managers based on their revenue target achievement. Regard to the issue of revenue budget allocation on motivation, a large number of respondents confirmed that the inappropriate allocation of revenue budget by the top management has created negative impact on their motivation. As to the overall revenue budget monitoring and control system of the company, 43.49 %(10 of 23) of the respondents agreed that the budget monitoring and control system of the company is weak and as a result there exists inefficient utilization of resource. In contrast to this, 30.43% of the respondents were disagree (strongly disagree 17.39% and disagree 13.04%).

From the response of the previous questions, in ET there is no proper budget report which shows the comparison of budget and actual achievement and the variation accordingly, the responsible unit for the variation could not be identified; reward management and budget achievement are not linked. Above all the revenue budget allocation is not based on volume of activity and the top management focuses on the achievement of revenue budget within the scope of the allocated expense while the lower level management focuses on target achievement regardless of how much is expensed. From this there is no ground to confirm that the revenue budget monitoring and control system of the company is strong and resource has been allocated efficiently.

Regard to the group of respondents who were disagree that the overall revenue budget monitoring and control system of the company is weak as there is inefficient utilization of resources, the researcher believes that they denied facts or they filled the question arbitrarily.

In general the two tables (10 and 11) above indicate that in ET performance is not measured by budget/target achievement, and the reward system of the company is not linked with performance measurement. In addition the allocation of budget by the top management is not fully accepted by lower level managers as it is not being fair and based on resource availability. As a result it creates negative impact on their motivation. Overall with the existence of all these problems the revenue budget control and monitoring system of the company could not be strong.

Chapter Four: Conclusion and Recommendation

This chapter presents conclusion, and forwards recommendations derived from data presentation and analysis.

4.1 conclusions

As it has been clearly indicated in the introduction part, the main objective of this research was to examine the overall budget formulation and budgetary control system of Ethio Telecom and to locate the key problem areas that seek attention and improvement. Therefore, based on the major findings the researcher concludes the following points.

4.1.1 Planning and budget preparation

- The strategic plan of the company has not been communicated to lower level managers and the document has not been used to prepare the annual budget of the company. Therefore, the budget is not emanated from the strategic plan of the company, and as a result there is no systematic linkage between the two.
- Even though the operational expenditure budget preparation approach in the company is bottom-up and lower level managers has been preparing their budget at the early stage of the same but the top management is reducing the amount without negotiation with them. Hence, operational expenditure budget preparation in the company is not fully participatory
- Revenue budget preparation follows top-bottom approach in which the total amount of the revenue to be generated during the budget year is decided solely by the top management. Lower level managers who are responsible to collect the income have no say on the amount to be generated from the activities they perform. Therefore, the revenue budget preparation process is totally non-participatory.
- Since the revenue and expenditure budget prepared by lower level managers is increased and reduced, respectively, by the top management without negotiation or without requesting them to provide justification, and because of absence of fairness in approving

and allocating the budget among the various units of the company as the amount is highly exaggerated for some budget holders and unreasonably low for some others, the researcher concluded that overall budget allocation process is not based on volume of activities.

4.1.2 Budget implementation

- The company has a problem of budget utilization. This is because budget holders are not using the approved budget based on the annual plan of activities; they are spending for activities which are not included in the annual plan, and above the approved budget for line items
- Absence of continuous budget revision and approval process is another problem of the company.

4.1.3 Budget reporting and variance analysis

- The periodic budget report which is prepared by budget holders is not detail enough in showing the budget and actual expenditure of each line item.
- The report does not also show the responsible unit for the variation and it does not assist to take remedial action. Factors leading budget variances are not also investigated and control measures are taken
- The management is not using the budget report to take appropriate action.
- Because of all the above problems in every stage of budgeting, the overall budget monitoring and control system is weak

4. 1.4 Performance measurement and reward system

- Budget is not used in the company as performance measurement tool. Performance evaluation of managers is not linked with budget performance. That is the company does not use operational budget achievement as performance measurement criteria for managers.
- The operational expense and revenue budget cannot be used as a standard for performance measurement since allocation among the various units of the company is not fair and based on volume of work.
- The reward system of the company is not aligned with budget performance, and as a result, budget holders/managers are not rewarded based on their budget achievement.
- The unfairness of budget allocation and absence of reward system based on budget achievement is highly affecting the motivation of lower level managers.

4.2 Recommendations

The main intention of this study is to assess the budget formulation and control system of Ethio Telecom, identify the fundamental causes of budget management and control weaknesses observed in company, and suggest possible recommendations to overcome such problems. Therefore, the following recommendations are suggested.

4.2.1 **With regard to plan and budget preparation, the following actions should be taken**

- The company should communicate the strategic plan to lower level managers and employee as a whole and it has to be sure that adequate awareness has been created.
- The annual budget should be derived from the strategic plan of the company. To do that annual plan of activities for which the budget is prepared should be in the strategic plan, and the budget should be prepared for the execution of these activities
- Budget preparation should be participatory. In doing so the top management should not reduce the budget without requesting justification from lower level managers or without negotiation with the same.
- The revenue budget preparation approach can be top-bottom as currently followed by the company. But it should not be implemented in the strict sense. The lower level managers should be allowed to prepare their target based on the general direction given from the top management.
- The company should design and implement a fair and rational basis of resource allocation among the various working units.

4.2.2 With respect to budget implementation, the researcher suggested the subsequent recommendations

- The company should design and implement strong budget utilization follow up mechanism to check whether budget holders are using their budget as per approval.
- The budget revision process should be continuous and throughout the year as far as circumstances demands and the market condition forces the company to do so.

- Appropriate action should be taken by the management on those budget holders who are expending above the approved limit and for activities which are not included in the annual plan**.**

4.2.3 **As to budget reporting and variance analysis, the company should take the following actions**.

- The company should design and implement a reporting system which can assure adequate and completed report to be prepared and submitted from all budget holders.
- The report should show the budget, actual performance, variance and the reasons for the variances accordingly for every budget line item.
- Based on the report factors leading variations should be investigated, the responsible unit for the variation should be identified and appropriate remedial action should be taken by the management/budget holders.
- Appropriate system should be designed to check whether budget holders have been preparing and sending their periodical budget report in a completed and timely manner.

4.2.4 With respect to performance measurement and reward systems

- The company should use budget achievement as one tool for performance measurement, and it should start to reward managers and employees based on their budget achievement.

  In doing so, the budget should be fair, rational, and should be participatory and get acceptance from lower level managers.

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Appendix-01 Questionnaire distributed to Technical and Support divisions

Instruction: Please tick a box which can reflect your best answer

Section A. Budget preparation, allocation and its linkage with strategic plan

1. Your operation expense budget is linked with strategic plan of ET

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

2. If your answer to the above question is disagree or strongly disagree, what is the reason for this?

☐ The budget is not prepared based on strategic plan

☐ The strategic plan is not prepared based on the financial plan of ET

☐ The strategic plan is not effectively communicated to lower level managers and that the strategic document would have been used as a reference while they prepare their annual budget

☐ Others, please specify____

3. Operational expenditure budget preparation in your divisions/department/section is performed with full participation of managers at all levels

   Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

4. If your answer to the above question is '**disagree'** or '**strongly disagree'** what is the reason for your disagreement?

☐ The lower level managers have no any role on the budget preparation process

☐ The total budget of the company is determined by the top management and then is directly distributed among divisions and departments

☐ Although budget of each department/section is prepared by lower level managers the top management modifies the amount without consulting them.

5. Over all operational expenditure budget allocation to the various working units of the company is based on the volume of activities

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

6. If your answer to the above question is disagree or strongly disagree would you explain the reason?

   ☐ Budget allocated for some departments/sections is highly exaggerated

   ☐ Budget allocated for some departments/sections is unreasonably low

   ☐ The company has not at all any driver of budget allocation

   Others, please specify_______________________________________

7. The top management is following the practice of reducing the proposed budget without negotiation with lower level managers

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

8. The overall operational expense budget approval process is not rational as resource is not allocated fairly based on work volume of budget holders

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

Section B. <u>Budget reporting, variance analysis and performance measurement</u>

1. Your division prepares periodic performance reports (e.g. monthly, quarterly), which compare against the corresponding budget amount

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

2. The budget report of your division shows the comparison of budget and actual utilization and the variance (budget amount less actual expenses/revenues) accordingly.

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

3. Factors leading to operational expenditure budget variances are investigated and control measures taken

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

4. Over spending of costs and expenses gets more attention from the management than under spending

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

5. It is possible to identify each variance with individual section manager who is responsible for it

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

6. Appropriate action has been taken by your division/department/section based on the budget performance evaluation.

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

7. Managers are required to explain in detail about budget variances on a line-by-line basis Periodically throughout the budget year

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

8. There is continuous periodic budget revision and approval process in your division

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

9. Performance evaluation of managers is highly linked with budget performance

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

10. The operational expense budget approved is a good benchmark for your performance evaluation throughout the budget year

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

11. If your answer to the previous question is strongly disagree or disagree, what is the reason for this?

☐ The budget is highly exaggerated

☐ The budget is unreasonably understated

☐ The budget is prepared without your participation

Others, please specify___________________________

12. If your operational budget achievement during the last two budget years (2004 and 2005 E.C) was favorable (your actual expenditure is less than your budgeted expense amount), what was the reason for this?

☐ The budget amount was highly exaggerated

☐ Your were efficient in meeting activity plans within the scope of approved budget

☐ Because some activities in the annual plan were not done

Other, please specify________________

13. If your achievement was unfavorable (your actual expenditure is more than your budgeted expense amount), it was because of the operational expenditure budget was highly understated/

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

14. There is budget revision throughout the fiscal year in your division.

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

15. If the answer for the above questionis agree or strongly agree, at which interval period the revision process is made?

Every month ☐ Quarterly ☐ Every six months ☐ Rarely Whenever ☐ the instruction comes from the top management.

16. ET uses operational budget achievement as performance measurement criteria for managers

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

17. ET rewarded managers based on their budget achievement

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

18. The top management requires the utilization of the budget within the scope of the approved budget and timetable while the lower level management focuses on accomplishing activity plans regardless of the budgeted amount

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

19. Job satisfaction and budget based performance evaluation have direct relationships from the managers' point of view

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

20. The attainability of budget goals has significant impact on the behavior of managers in ET.

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

21. The inappropriate allocation of budget by the top management has created negative impact on your motivation

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agre ☐

Appendix-02 Questionnaire to Budget section employees

Instruction: Please tick a box which can reflect your best answer

Section A. Budget preparation, allocation and its linkage with strategic plan

1. The interaction between top management and lower level managers during budget preparation process is strong
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

2. Commercial and technical divisions have greater negotiating power with the management in setting budget targets than general support divisions?
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
3. There is a tendency of budget submission without plan by budget holders/users.
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
4. Operational divisions usually request additional budgets repeatedly throughout the budget year than support divisions
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
5. Operational divisions have greater power to establish budget slacks than support divisions can do.
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
6. The overall budget approval process is not rational because resource is not allocated fairly based on work volume of budget holders
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

Section B. Budget reporting, variance analysis and performance measurement

1. Budget users/holders utilize the approved budget based on the corresponding annual plan of activities.
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
2. There is a practice of spending by budget holders for activities which are not included in the approved budget of ET
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
3. There is a practice of over spending by budget holders above the approved budget for line items
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
4. Over spending of costs and expenses gets more attention by the management than under spending.

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

5. The periodic performance reports (e.g. monthly, quarterly), prepared and submitted by budget holders is adequate and complete to evaluate their performance
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
6. The explanation on budget variance line-by-line basis periodically is detail enough to identify the cause and to take action accordingly
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
7. Over spending of costs and expenses gets more attention by the management in operational divisions than support (administrative) divisions
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
8. Budget holders are monitoring their budget effectively and efficiently as per the approved budget amount
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐
9. ET is not managing its financial resources resulting from weak budget formulation and controlling process
   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

Appendix-03 Questionnaire to Commercial divisions

Instruction: Please tick a box which can reflect your best answer

Section A. Budget preparation, allocation and its linkage with strategic plan

1. Your division/department/section prepares its annual revenue plan based on strategic plan document of the company

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

2. If your answer to the above question is disagree or strongly disagree, what is the reason for this?

   ☐ The budget is not prepared based on strategic plan

   ☐ The strategic plan is not prepared based on the financial plan of ET

   ☐ The strategic plan is not effectively communicated to lower level managers and that the strategic document would have been used as a reference while they prepare their annual budget

   Others, please specify____

3. Revenue budget preparation in your division is performed with the full involvement of managers at all levels.

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

4. If your answer to the above question is 'disagree' or 'strongly disagree' what is the reason for your disagreement?

   ☐ Section managers have no any role on the budget preparation process

   ☐ The total budget of the company is determined by top management only and then is directly distributed among departments.

   ☐ Although budget of each division is prepared by lower level managers top management modifies and approves the amount without consulting them.

5. Revenue budget allocation to departments/sections is fair and based on resource availability

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

6. If your answer to the above question is disagree or strongly disagree would you explain the reason?

☐ Revenue budget allocated for some departments/sections is highly exaggerated

☐ Revenue budget t allocated for some departments/sections is unreasonably low

☐ The company has not at all any basis of revenue budget allocation

Others, please specify_______________________________

7. Your division/department/section revises its revenue plan frequently based o the approved budget throughout the budget year

Strongly disagree☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

8. The top management is following the practice of increasing the proposed revenue budget without negotiation with lower level managers.

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

9. The overall revenue budget approval process of ET is rational

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

Section B. Budget reporting, variance analysis and performance measurement

1. Your division prepares periodic performance reports (e.g. monthly, quarterly), which compare against the corresponding budget amount

Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree ☐

2. The budget report of your division shows the comparison of budget and actual utilization and the variance (budget amount less actual expenses/revenues) accordingly.

Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

3. It is possible to identify each revenue budget variance with individual section manager who is responsible for it

Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

4. Appropriate action has been taken by your division based on the budget performance report

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

5. Performance evaluation of managers is highly linked with the revenue budget performance.

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

6. The revenue budget approved is a good benchmark for your performance evaluation throughout the budget year

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

7. If your answer to the previous question is strongly disagree or disagree, what is the reason for this?

   ☐ The revenue targeted is highly exaggerated

   ☐ The revenue targeted is unreasonably low

   ☐ The revenue targeted is prepared without your participation

   ☐ The revenue targeted is the ambition of the top management

8. If your revenue budget achievement during the last two budget years (2004 and 2005 E.C) was below target, what was the reason for this?

   ☐ The revenue targeted was highly exaggerated

   ☐ Your effort to meet the target was weak

   ☐ Due to unexpected challenges which were not seen during the time of target setting

   ☐ Lack of necessary resources to achieve the target .

9. If your achievement was more than targeted, it is because of the revenue budget was low and easily achievable

   Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

10. Under achievement of sales gets more attention from the management than over achievement

    Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree ☐

11. The top management requires the achievement of revenue target within the scope of the approved operational expenditure budget and timetable while the lower level management focuses on accomplishing activity plans and target revenue regardless of how much amount is utilized

    Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

12. Job satisfaction and revenue budget based performance evaluation have direct relationships from the manager's point of view

    Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

13. The attainability of revenue budget has significant impact on the behavior of managers in ET.

    Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

14. There is revenue budget revision throughout the fiscal year in your division

    Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

15. ET uses revenue budget achievement as a performance measurement criteria for managers

    Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

16. ET rewarded managers based on their revenue target achievement

    Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

17. The inappropriate allocation of revenue budget by the top management has created negative impact on your motivation

    Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

18. The overall revenue budget monitoring and control system of the company is weak as there is inefficient utilization of resources

    Strongly disagree☐ Disagree☐ Neutral☐ Agree☐ Strongly agree☐

Appendix-04 Interview questions to Budget section manager and their answers

The purpose of this interview is to assess the overall budgetary control system in ET

1. Does ET have a five year or more strategic plan? Yes. It has a three year strategic plan.
2. Is the strategic plan (five year more) of the company considered while preparing annual budget? No
3. Strategic planning and budgeting should be integrated each other. Strategic planning should be prepared prior to budgeting, while each year budget has to emanate from strategic plan of the company. Are these logics consistently applied in ET? No. The strategic plan is not considered while budget is prepared.
4. What are the main objectives of preparing ET budget? The main objectives of ET budget are: Planning and resource allocation, and controlling activities and coordinating the various units of the company
5. What is the basis for setting budget of ET? Annual Plan and volume of activities
6. Are operational and administrative budgets prepared at the same basis of assumptions or differently? The same basis has been applied.

7. Is there budget committee in ET? If so, who are the members of the committee? There is no budget committee in ET

8. What type of budgeting ET is using (incremental, zero-based, etc)? ET is using zero-based budgeting

9. Which type of budget (fixed, flexible, etc) preparation is the usual practice in ET? Is it consistently applied from year to year? Fixed

10. Is there budget guide line or manual in ET? If there is, have you communicated to budget holders? No, there is no budget manual in ET.

11. Does revenue budgeting follow a top down or bottom up procedure or both? If both how it's applied?

Revenue budget follows a top-down approach in which the total revenue budget is decided by the top management.

12. Does administrative (support divisions) budgeting follows a top down or bottom up procedure or both? If both how it's applied? Bottom-up

13. Does the base of assumptions for revenue budget preparation different from operational expenditure budgets? Yes, the same basis of assumption has been applied

14. Is the budget section structured at the head quarter adequate to manage all budget issues for the whole organization? If not, why?

No, because the organization and man power is not adequate to discharge its responsibility efficiently and effectively. Lack of adequate and trained man power is the other challenge of the section.

15. Why is the top management reducing the budget proposed by budget holders without consulting them? This is because of lack of justification for their budget and the top management assumes the budget is highly exaggerated.

16. Why budget holders could not submit proper budget and acceptable justification for their figures?

They have limitations in budget preparations, timely submissions of budget requests, and on the validity of assumptions taken in preparing the annual budget.

17. Have you communicated the approved budget on time to budget holders? If not, what is the reason? The approved budget is communicated to budget holders on time. But the problem is delay of budget approval by the top management. Most of the time budget approval is delayed up to the end of the second quarter of the budget year.

18. Is there a budget revision? If there is, when this happens and how is the procedure? There is budget revision. But the revision is made only when the company as a whole is significantly affected by unforeseen situations.

19. Are budget transfers (from division to division or from one budget line to another) or alterations allowed? If allowed what is the procedure for approval? Is the procedure same for both for administrative and operational expenditures? Budget transfer from one division to another is possible when the two budget holder divisions are agree. The procedure of budget transfer is the same for both administrative and operational divisions.

20. Can each budget holder submit supplementary budget request if there are unforeseen circumstances through time? Is it the same for both for administrative and operational expenditures? Yes, but it is only when the total business is affected significantly.

21. What is the main function of budget controls sections established in some key divisions in the company? Is there an overlap of responsibilities between the budget section and these sections? If overlaps exist, why isn’t that resolved? Their function, when they are organized, is to control the budget activities of their respective divisions. But in reality they are not working as they are supposed to do. There is no overlap of activities because there is no role played by them.

22. At which interval period the performance evaluation is conducted at various managerial levels? Semi- annually

23. Is there periodical report prepared and submitted by budget holders? Yes, there is monthly report but the report is not timely, complete and consistent

24. How are the results of variance analysis used? It is not used to take remedial action

25. How the adverse variance is evaluated by operational and administrative divisions. Is it treated equally or not? Yes. Both are treated equally.

26. When variance analysis is for revenue, operational and administrative prepared? For which one more emphasis is given? They are given equal emphasis

27. Is there follow up / checks from Finance to ensure that appropriate action has been undertaken? No, because the budget section has no adequate and trained man power.

28. What should be improved to make the budgetary control system of ET more effective and useful? The management should give proper attention for budget, every working units of the company which are involved in budget control and monitoring activities should discharge their responsibility efficiently and effectively, to enhance their awareness managers and budget holders should be trained about budget and appropriate action should be taken based on budget report

29. Why some divisions do not make their sections participate during budget preparation? The reason is attitude problem.

30. Why some divisions are not submitting completed budget report which shows budget, actual figure and the variance? Because they do not give attention as action is not taken on them by not preparing and submitting the report. Therefore, the top management should assure that proper training has been given to all budget holders and their mangers who are working under them.

31. What is the periodicity of budget report (from budget holders), monthly, quarterly, semiannually, in ET? Monthly

32. Why factors leading to budget –actual variations are not investigated? This is because action is not taken based on the variance.

33. Why identification of the responsible section manager for budget -actual variation is not possible? The budget system, especially the budget reporting does not enable to do so.

Appendix -05 Interview questions to managers in support and commercial divisions and their answers

The purpose of this interview is to assess the overall budgetary control system in ET

1. Does ET have a five year or more strategic plan? I am not sure.
2. Is the strategic plan (five year more) of the company considered while preparing annual budget? No.
3. Strategic planning and budgeting should be integrated each other. Strategic planning should be prepared prior to budgeting, while each year budget has to emanate from strategic plan of the company. Are these logics consistently applied in ET? No.
4. What are the main objectives of preparing ET budget? Resource allocation
5. Have you been issued with any written guidance in respect of budget setting, budgetary control or monitoring? No
6. Does your budgeting follows a top down or bottom up procedure or both? If both how it's applied? It seems bottom-up but in reality it is not.
7. To what extent is your budget proposal accepted & approved regarding Operating & administrative budgets? Very little
8. Why the top management is reducing your budget proposal without negotiation? Because the top management assumes that the budget is highly exaggerated. It is doing this without asking justification on the budget requested.
9. What effect will the practice of reducing the budget without negotiation by the top management have in the future? The practice encourages budget holders to submit highly exaggerated budget in subsequent budget years. The reason is due to the fact that the top management who is responsible for budget approval allocates budget by reducing some percentage from the initial request.
10. Do you receive approved budget before start of fiscal year (i.e., before July 1 EC)? No. I have never got the approved budget before the end of the second quarter of the budget year
11. Do you undertake staff meeting or discussion regarding budget preparation, implementation, controls and budgetary position review? No
12. Are you convinced with reasons given to reduce your section's budget level? No. Even I have not been requested by the top management to justify my budget request
13. Is there a budget revision? If there is when this happens and how is the procedure? I don't know.
14. Can you submit supplementary budget request if there are unforeseen circumstances through time? Yes. But the request is rarely getting acceptance from budget section.
15. Do you use budget as performance measurement tool of your section? If so, how is budget used as a performance measurement tool in your section? No.
16. At what interval period the performance evaluation is conducted at various managerial levels? Every six months.

17. How are the results of variance analysis used? It has not been used to take remedial action

18. Does any follow up / checks from Finance to ensure that appropriate action has been taken? No.

19. What is your reaction (feeling) about ET's budgeting practice? Non participatory and rigid budgeting, I don't feel that the budget is my own budget.

20. What should be improved to make the budgetary control system of ET more effective and useful? The top management should give proper attention, the process should be participatory, the budget should be flexible, every budget holder should aware the usefulness of budget, efficient and effective budget monitoring and control system should be put in place.