



Cape Peninsula  
University of Technology

**FACTORS AFFECTING MANAGEMENT OF BUDGETS AT A DEPARTMENT IN  
THE WESTERN CAPE GOVERNMENT, SOUTH AFRICA.**

**by**

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## DECLARATION

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**Signed**

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**Date**

## **ABSTRACT**

Budgets are inevitable strategic tools used in the planning of the effective delivery by any organisation. In a sense budgets become the financial interpretation of work, services or products to be produced or services to be delivered by the organisation. In the same vein, government departments have plans and programmes to be implemented, and these programmes are quantified in the form of budgets. The budgeting processes are determined by the strategic imperatives and the type of leadership in an organisation, thereby differing from organisation to organisation. The traditional approach in government budgeting is that the activities to be undertaken start as political decisions which will be cascaded down to the different departments. Though the different department units construct their own budgets, the ultimate budget comes top down more than it comes top up. This research aims to identify the extent of the involvement of budget managers in the budget development process and the possible limiting factors if any. The study goes further to try to understand why there is always a seeming perpetual difference between budgets and deliveries at the end of every year. This empirical research focussed on the 'budget practitioners' in the particular department under study with emphasis on how they operate. Questionnaires were used to collect data which was analysed using Excel Spreadsheet and the findings were interpreted. The findings imply a need for extensive training as well as empowerment of the budget practitioners to be able to create congruence between budgets, budgeting processes, project implementation and envisage delivery to the citizens.

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### **Enkosi**

## **DEDICATION**

I would like to dedicate this thesis to my Mother Nomaphelo Zweni, to my siblings, to my kids, to my Family and friends

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# CHAPTER ONE: INTRODUCTION AND BACKGROUND TO THE STUDY

## 1.1 Introduction

Although there are absolutely major difficulties the way budgets are developed in some organizations, it is important to have a budget in an organization than not having a budget at all (Carreras, Mujtaba and Cavico, 2011:5). For the purpose of this study, Abogun and Fagbemi (2012:177) explain budgeting as a numerical plan of money inflows and outflows that determines how an organisation will meet its goals and objectives. Budgeting is a tool that converts data into decision. Schick (2007:109) and Silva and Jayamaha (2012:354) further mention that a budget is used as a benchmark and as a control tool that assist management to compare performance with the anticipated outcome. However according to Sivabalan, Booth, Malmi and Brown (2009:849), budgets are usually criticized for performance evaluation reasons.

The selected department is operating in the public sector, namely the government. According to Graham (2011:1) the government is responsible for bringing together large amounts of resources to achieve public goods and these- are monitored through mechanisms such as budgeting. Thus it is important to investigate if there are any challenges in order to determine how they affect management's ability to make effective decisions and to optimally utilize the resources of the department. Ghias (2014:5) states that, one major objective highlighted in the literature is operational efficiency, which means the budget allocated to line functions and departments should be completely used to provide the goods and services needed by the state. Unspent funds or funds not appropriated at the end of the fiscal year cannot be rolled over to the next fiscal year (Chukwemeka and Ugochukwu (2013:44).

## 1.2 Background of the study

There is a need to investigate whether there are factors affecting the effectiveness of management of budgets at the selected department. In this case managers refer to the officials who are classified as responsibility managers in the Public Finance Management Act (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA). According to (Djurovic-Todorovic and Djordjevic 2009:282) “the government has to collect resources from the economy, in an appropriate and well-organized manner and allocate and use those resources efficiently and effectively”. According to Faleti, Faleti and Ojeleke (2014:44) “a national budget serves as an important tool for resource allocation, financial and economic management”.

According to Raghunandan, Ramgulam and Raghunandan-Mohammed (2012:111) budgets are formalized plans of management’s objectives. Budgeting is used to identify public priorities and is defined by distributing resources to carryout organisational activities (Takana 2007:148). For example; compensation of employees, procurement of goods and services, procurement of current and capital assets. Therefore national budget is the main instrument that is used to plan the transactions of a country (Djurovic-Todorovic *et al* 2009:282), the provincial budget is a microcosm of the state budget.

Ljungman (2009:3) postulates that budgeting is a process that maximizes benefits from public expenditure with available resources. The budget process starts essentially as estimates of requirements for operations of the organisation for the year ahead. Ugoh and Ukpere (2009:837) posits budget is a detailed plan that outlines financial and non-financial activities the government wishes to do. Public and private sector budget shares many characteristics, but it often requires the application of different criteria when budgeting between the two sectors (Lee, Johnson and Joyce 2013:21).

The most realistic budgets should start from the bottom up, instead of budgets being pushed down from the top. Thus budget execution and control may differ as organisations design different strategic objectives and goals (Silva *et al* 2012:354). Tanaka (2007:141) posits that budget is an important activity of the public sector, representing a clear agreement between public and the government. The budget

tells the country where the politicians' interests are focused. Raghunandan as mentioned by Faleti *et al* (2014:44) state that some governments and non-profit organisations, whether big or small in any sector it relies greatly on budgeting and budgetary systems to accomplish its goals and objective.

Tanaka (2007:142) suggests that budgeting is one of the most problematic responsibilities of government. For example lack of monitoring, analysis and execution of budgets. The significance of budgets narrates to identification of organisational goals and objectives (Faleti *et al*, 2014:44).

The most important use of budgets is to interpret organisational objectives to achieve plans of action, instead of using budgeting as a cost cutting measure and confining organisations to spend less due to scarce and limited resources (Abogun *et al* 2012:176). However Carreras *et al* (2011:6) states that a budget is a management instrument that guides management in planning and controlling resources.

According to Silva and Jayamaha (2012:354) budget assist managers in identifying potential problems and advantages early, thus helping management act promptly to avoid potential problems. Carreras *et al* (2011:6) identified problems with budgets in table 1 below:

**Table 1.1: Problems with budgets**

<b>Budgets</b>	Are time waiting and costly to maintain
<b>Budgets</b>	Are too inflexible and constricted
<b>Budgets</b>	Protects organisations instead of reducing of costs
<b>Budgets</b>	Focuses on employees spending the budget fully instead of focusing on satisfying clients and other stakeholders.
<b>Budgets</b>	Focuses on fulfilling negotiation thank focusing on assessing performance

**Source: Own construction from Carreras (2011:6)**

The use of budgeting as a planning and control tool may be problematic, due to the fact that budgets are used as an evaluation tool (Sivabalan *et al* 2009:855). Many



countries use budgets as a national and management control tool to encourage optimal utilisation of resources (Faleti *et al*, 2014:44).

Abogun *et al* (2012:177) perceives management control system as a sound plan for getting and utilising data to ensure that planning and control decisions are made accurately and in time. Ghias (2014:3) argues that inadequacy of budget allocation happens in many developing countries due to a lack of proper planning and the failure to priorities programs and activities.

Jooste (2007:1) established that budgeting information as a forecasting tool assists in assessing earnings, financial stability and it assists in projecting cash flows. Hanini and Abdullati (2013:123) found that cash flows are important in giving a view of an organisation's financial performance. The author further postulates that financial statements help managers to better understand and judge the quality of the financial statements and their importance to making financial decisions. Blessing and Onoja (2015:13) defines financial statements as an official and comprehensive statement describing financial activities of an organisation. The PFMA encourages the need for monitoring of resources on monthly basis, and the PFMA requires that managers must ensure that there are effective in-year monitoring tools in place (National Treasury 2000:3). For example managers can use mechanisms such as In-Year Monitoring reports and Cash Flow Statements.

For budgeting to be an effective controlling too for organisational activities depends on the volatility of the environment that is it is operating in (Abogun *et al* 2012:176). Economic changes and rapidly changing environment and business processes leads to evolutions in budgets (Goode and Malik, 2011:208). Managers should monitor and assess progress on the departmental budgets and report on monthly and quarterly basis to the executive authority, national treasury and the relevant treasury (National Treasury 2000:3).

Djurovic-Todorovic *et al* (2009:285) maintains that, when preparing budgets the process should be clearly outlined and define so that it is well understood by everyone, so as to allow enough time for the process to be implemented effectively and efficiently. In practice, all budget starts from top to bottom (Ljungman, 2009:3). For instance the budget process starts from management to employees at the

bottom of the organisational structure, and from bottom level to upper level employees which is management. The budget process improves performance to attain organisational goals and objective which were set by the organisation during the planning phase (Silva *et al* 2012:355).

GFOA as cited by Faleti *et al* (2014:45) posits that the mission of budgeting process is to help management to make right choices encourage stakeholder involvement in decision making process. Ljungman (2009:3) state that top-down budgeting shifts the balance of the budgeting process with purpose of certifying that decisions at all stages of the process correctly mirror collective economic policy priorities.

Budgets are used as monitoring means by management of what is expected in future and then to regularly assess performance against the budget (Sivabalan *et al* 2009:854). The author further states that, the budget is a formal financial control tool that provided to management and it represents financial prospects that are communicated from senior management to the board directors. According to Diamond *et al* (2006:98) unreliable and timely revenue and expenditure information may have a negative impact in terms budget management. Systems for monitoring employee's expenditures should be robust as compared other parts of the budget (Djurovic-Todorovic *et al* 2009:286).

Shan and Von Hagen (2007:27) outlined some significant basic functions of budgets in the public sector, which are as follows:

- ❖ Prioritisation of allocating of public resources.
- ❖ Planning to achieving departmental goals
- ❖ Budgets ensure that there are financial controls in place so that there is continuous harmonious input.
- ❖ To allow managers to carry out their functions and possibly save money.
- ❖ Encourages the government to be honest and account to the taxpayers.

The other purpose of a government budget is to provide guidance on economic growth and increase job opportunities and redistribution of income in the economy (Djurovic-Todorovic *et al* 2009:287). Abogun *et al* (2012:178), suggest the following

prerequisites in terms budget management, thus table 1 outlines those essential prerequisites.

**Table 1.2: Prerequisites of budget management**

<ul style="list-style-type: none"> <li>• Well defined organisational structure.</li> </ul>	<ul style="list-style-type: none"> <li>• Organisational goals and objectives.</li> </ul>
<ul style="list-style-type: none"> <li>• Clear responsibility centres.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete financial management system.</li> </ul>
<ul style="list-style-type: none"> <li>• Performance measures.</li> </ul>	<ul style="list-style-type: none"> <li>• Proper cost classification and coding.</li> </ul>
<ul style="list-style-type: none"> <li>• Efficient information technology method.</li> </ul>	<ul style="list-style-type: none"> <li>• Prompt access to external information.</li> </ul>

**Source: Abogun *et al* (2012:178)**

National Treasury (2000:6) advocates that, management information for internal reporting should comprise of:-

- A clear presentation of what is expected for a period, showing Key Performance Indicators (KPIs).
- Operational and financial KPIs which focus on senior management performance areas.
- Transcribed notes on the whole performance of the organisation including deferent departments.
- Financial statements (preferably compiled on the accrual accounting systeme, reflecting limitations of the current cash-based system.
- A brief report from each department or directorate, showing discrepancies against budgets if the is any.

PFMA stresses the need for managers to frequently assess and report on the progress of their directorates or departments against the approved budget for the financial year under review (National Treasury 2000:4). The act further stresses that budget monitoring reports should be submitted by the accounting officer to the Departmental Minister or Member of the Executive Committee and the applicable treasury (National Treasury 2000:4).Public budgeting is all about managing the government's money, enhancing performance of departments, assisting departments to prepare, spend and report their budgets (Webber 2004:104). Kauzya (2007) as cited by Okpala (2012:172) states that, people in the third world countries have higher expectations such political and socio-economic expectations.

According to Webber (2004:104), it is crucial to consider to what the public wants, and therefore what public wants highlights three basic concerns:

- What is the purpose and need for the money?
- Details on how the money will be spent
- What are the objectives and goals of spending the money on certain projects?

After all the money the departments are managing and spending belongs to the taxpayers (Webber 2004:104). Thus, a budget circle consists of planning, execution and monitoring (Okpala 2012:173). According to Graham (2011:1) financial management helps the government to safe guard the resources in an orderly, efficient, transparent, and appropriate manner. The author further outlines 3 cornerstones of public sector financial management, which are:

- ✓ Allocation of resources
- ✓ Monitoring how the money spent, and
- ✓ Reporting to the expenditure

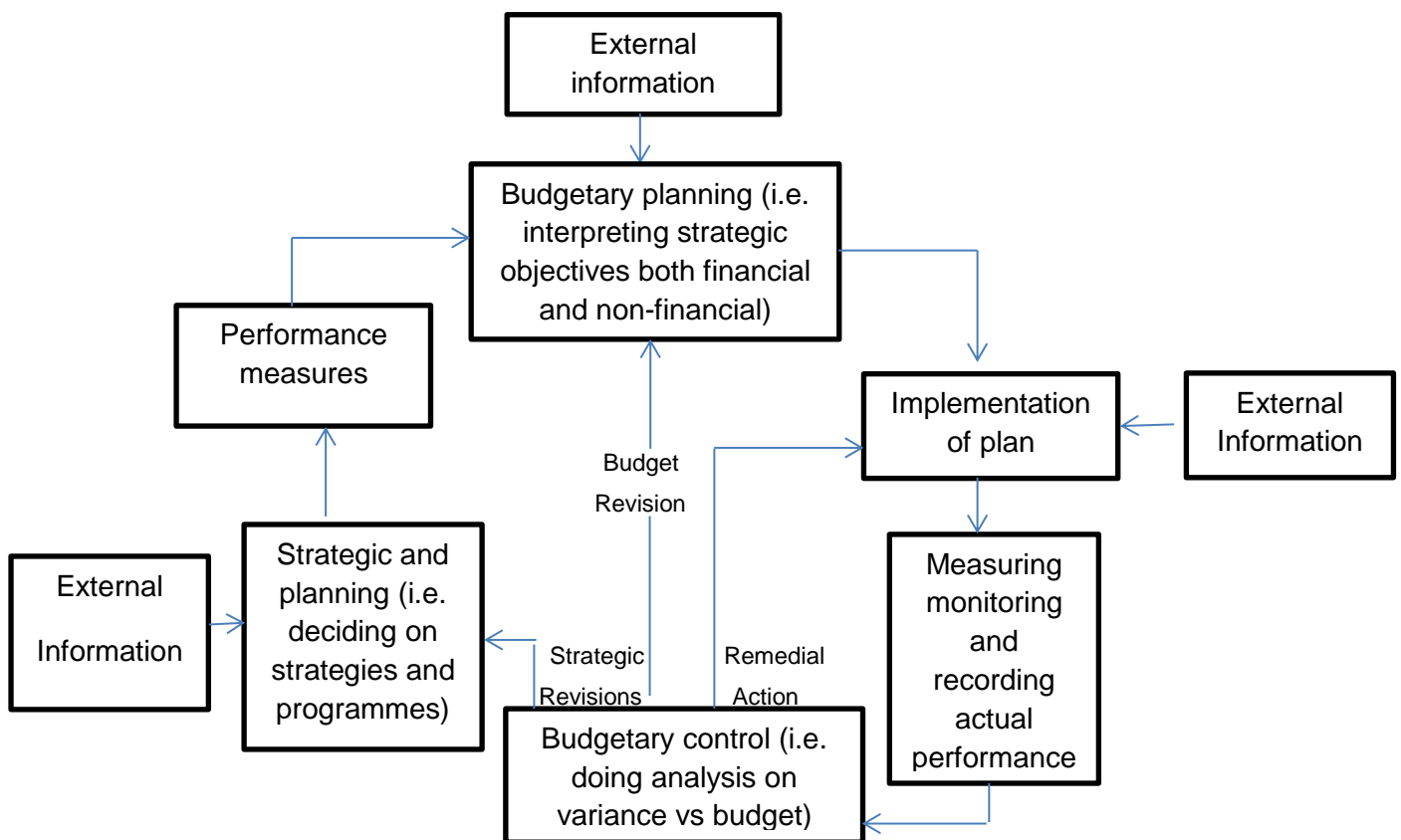
Many of Public institutions have a tendency of focusing on certain components of the financial management (Webber 2004:104).

Planning is a method of formulating a comprehensive short term plan for function, activities, departments (Okpala 2012:173). Hou as quoted by Djurovic-Todorovic *et al* (2009:287) states that, in terms of administration, legislation, planning and organisational unit's coordination precisely improves management productivity. It is important to be accountable and transparent when managing budgets, and also have a significant value, as required by the four pillars good governance (Djurovic-Todorovic *et al* 2009:290). Sivabalan *et al* (2009:854) also posits that, a budget is also as a mechanism of formulating an action plan for an organisation. Carreras *et al* (2011:6) states that, a budget is merely a tool that assist managers to plan and control resources, and therefore any management instrument can be misused. A budget is one of the effective tools of communication (Silva *et al* 2012:355). Chukwemeka *et al* (2013:42) argues that, a budget is a short-term financial plan, a political document turned to numbers, and further a budget is a management instrument used for equally for planning and control purposes, an instrument that ensures that continuous monitoring, assessing and gauging performance with

reference to previously events, thus a budget an complete tool for improving operations. When a budget is voted for and approved by parliament, it becomes an Appropriation Act (Okpala 2012:173) .However If budget holders do not comply with the legislation it will difficult to maintain financial discipline or to manage resource in order to achieve goals and objectives (Djurovic-Todorovic *et al* 2009:290). When a budget is to be used for planning purposes, there has to be a link between organisation’s strategies and the budget, however if the budget is used a controlling tool, there has to be level flexibility (Carreras *et al* 2011:6). According to Sivabalan *et al* (2009:851) there are three important key performance assessment concepts used in budget research which are: Budget importance; Budget participation; Budget utilisation

Budget is one of the tools used by management in allocation of resources to satisfy needs of the organisation (Suberu 2010:170). Abogun *et al* (2012:178) states that, using a budget control model (organisational control) in figure 1, management control through budgeting is illuminated.

**Figure 1.1: Management control process and budgeting**



Source: Wickramasinghe & Alawatage as cited by Obugun *et al* (2012:182)

In figure1, it is apparent that a budget is the essential for planning and control in an organisation, budgeting is important function of organisation (Abogun *et al* 2012:178).

Cieslack and Kalling as cited by Silva *et al* (2012:356) posits that, the implementation budget control mechanism to management control system is required to act swiftly to ever changing environment and protect the organisation from threats competition. Omopariola as cited by Okpala (2012:173) states that, in recognition of the implications of the budget on broad economic objective, government seek to direct all levels of revenue, expenditure and debt to achieve the general macro-economic objectives.

### **1.3 Problem statement**

Ugoh and Ukpere (2009:842) assert that the majority of government departments are managed by political “deployees,” as such they may not always be qualified to operate in the positions in which they operate. By implication it may be that the managers do not comprehend the importance of the “budgeting process” as a strategic operational plan. Constantly the departments run out of funds and there is no money for certain projects or so much money is returned to the national “fiscus” (unused) and yet services are not always provided. The difficulty however originates from the uncertainty about how budget managers come to be in that position if they are not clear about budgeting. Consequently, the department has had auditors reporting on anomalies in the way budgeting and operations are handled. Together with the failure of management of the management process, there has been constant shortages of professionals in critical areas.

The research seeks to identify the involvement of “budget managers” in the budget planning and the budget implementation processes. This will enable the department to understand the possible cause of the variance occurring between the budgeted and actual costs every year. This research seeks to identify factors that impact on the ineffective use of the budget vote which is disbursed to the departments because it was asked for or budgeted for, and yet the funds are returned without any service being provided to the people. It is important to study this aspect of departmental

operations to address problems of slow transformation, poor service delivery and possible consequential pilferage of the unutilised resources.

## **1.4 Research objectives**

There is very little literature in business management books and journals covering this aspect of the study; finding out the impact of budgeting on the effectiveness of managers in an organisation. The objectives to this study are;

### **1.4.1 Primary objectives**

- a) Identify the extent of involvement of budget managers in the development of the budget processes.
- b) To assess the effect of training on the budgeting processes and the extent to which corrections could be made.

### **1.4.2 Secondary objectives**

- a) To identify the enablers and constraints encountered by the responsibility managers for the use of budgets in the department.
- b) To explore mechanisms to improve budgeting in the WCDOSD.

## **1.5 Hypothesis**

A hypothesis is an assertion made to explain a phenomenon which is subject to research to confirm or disapprove (Jowah, 2015:63). The assertion is made on the basis of limited evidence, or merely as a starting point for a research. It is characterised by the presence of variables (dependent and independent) which can be measured against each other. In view of the type of problem understudy here, the following hypothesis has been advanced;

**H<sub>1</sub>** The section managers in the government department of the WCDOSD are largely not from a financial background.

**H<sub>2</sub>** The section managers in the government department of the WCDOSD are largely need training in financial literacy

**H<sub>3</sub>** The section managers in the government departments of the WCDOSD are largely uninformed about the benefits of budgeting as a management tool

## 1.6 Research design and research methodology

Although the two terms, research design and research methodology are too often used interchangeably, Jowah (2015:72). Asserts that these are two different processes with one leading to the other. Research design is defined as a logical road map to be followed in the research process and is comprised of different activities that are coherently put together. A **research design** refers to methods and procedures which are seen to be ideal for the effective collection and analysis of the data from research. The design includes decision on whether the study type will be experimental, correctional or descriptive. The design is the framework designed to find answers research question through research

On the other hand the research methodology is the theoretical analysis of what methods to be used and how they should be used to get the correct information required. The *methodology* is generally about how the research will be undertaken by identifying methods that may be ideal for the purpose. This involves the means and or ways that will be used in the data collection processes, the how of the research. The two methodologies are contrasted in table 1.2 below.

**Table 1.3: Contrasting the research design and research methodology**

<b>Research design</b>	<b>Research methodology</b>
Strategic master plan	Operational plan
Stresses the road to be walked	Stresses how the walking is done
Puts emphasis on what results are expected	Puts emphasis on tools/techniques for results
Guided by research problem / question	Guided by the tasks and work packages
Focuses on rationality of research	Focuses on procedures and processes

**Source: Jowah (2015:116)**

### 1.6.1 Research design

Is a plan or program of action showing the process that will be used by the researcher in response to clearly stated problem and research question (Jowah 2015:102). Thus this research will deliberate on research design which will provide framework for data collection and data analysis as an important element. The study will use a combination of quantitative and qualitative research (mixed methods research) as this will enable the use of the advantages of these two different



systems. Qualitative research is a all-inclusive approach that involves discovery (Williams, 2007:67), primarily focussed on those aspects of perceptions and attitudes that are not measurable. The research will involve administration of the questionnaires personally with the help of trained personnel. On the other hand, part of the questionnaire to be used will solicit for information that can be quantifiable, to complement the qualitative aspects of the research.

### **1.6.2 Target population**

A Population consists of people, things, groups of measurements or characteristics, depending on what is to be studied (Jowah 2015:123). The target respondents for this study comprised of employees from different Directorates within WCDOSD who are involved in managing budgets. The majority of respondents were senior managers who are budget holders.

### **1.6.2 Sampling frames and sample size**

The sample involved the populations that directly dealt with management of budgets. The population is referred to as budget holders in the department. The sample was set a minimum of 40 respondents. Jowah (2015:126) suggests that a researcher should take a portion of the population, investigate the small portion and use it to inform or infer on the whole population.

### **1.6.3 Data collection method and research instrument**

A questionnaire was used as an instrument to collect data from the selected respondents at WCDOSD. Jowah (2015:149) defines a questionnaire as a set of questions used as an instrument to collect or gather information from target population for the sake of researching to understand phenomenon or relationships. Therefore the questionnaire will assist in collecting the data from the respondents and further analyzing it.

### **1.6.4 Data collection instrument.**

The instrument was designed based on the research design, and was tested using 10 budget managers in the department to identify any weaknesses. Corrections were made and the final instrument used comprised of three distinct sections. Section A focused on the biography, which enabled the researcher and indeed the respondents to know if they were relevant to the study. Section B focused on the perceptions,

attitude and understanding of the budget process. The Likert scale alternating from 1 to 5 was used to extract information on their problems, perceptions, etc. about the budget. The last section, Section C had open ended questions which allowed the respondents to say other issues left out in the questionnaire.

### **1.6.5 Data analysis**

This research followed seven (7) steps, which are; the planning phase, the testing of the research instrument, the correction of the research instrument (to improve on reliability), collection of the data, the data was then edited to remove any improperly filled in questionnaires, capturing of the data on the computer and the analysis. The first step for the analysis was descriptive statistics which allowed for ordering and the Summarising of the data by converting it to tables, pie charts, histograms and graphs. The second step is statistical inference, which entails drawing inferences about the population from which the sample was drawn. This is done by using descriptive measures that have been calculated. The descriptive and inferential statistics emanating from this was interpreted as reported in the next chapter. The excel spread sheet was used for the purpose because of availability and user-friendly nature of the software.

### **1.7 Ethics**

The researcher first obtained permission from the Department and the respondents about the study they were going to participate in. The data was only collected once the researcher received ethical clearance from Cape Peninsula University of Technology's ethical committee. All the participants names and identity were not be disclosed to anyone expect the people who are working in the research. Thus the participants remained anonymous, their dignity, freedom to participate, privacy was protected. The participants were told beforehand about the nature of the study. The respondents were notified of their right to pull out from the study if they wished to do so. The data that was collected was used only for research purposes within the Universities not for any other purpose, and the findings are kept anonymously. The information given to me was handled with confidentiality and reported in a comprehensive and honest manner, without falsifying the data or intentionally misleading anyone.

## **1.8 Conclusion**

Budgeting is an effective management tool that should be utilized as a guiding tool towards executing organisational plans and strategies. If budgeting is implemented and monitored properly and therefore taking all the factors effecting proper management of budgets into consideration, the organisation should be able to utilize its resources optimally so as to reach its goals and objectives. Thus real views will have to be obtained from the affected, real feelings from the affected people (Managers) and their expectations about budgeting as a management tool. The study will also draw attention to problems that managers are facing with regard to budgeting in the public service. To set out why the present situation has arisen, together with constructive proposals for the future, which if acted upon now, could have significant effect on how managers use budgets as an effective management tool.

## **1.9 Chapter-classification**

- ❖ Chapter one [1] – introduction of the study, background literature to the study, problem statement, research objectives, research methodology, data collection and data analysis.
- ❖ Chapter two [2] – Organisational planning – its origins, setting objectives, making projections, converting strategic plans to monetary value, time value for money, cvp, and the budget.
- ❖ Chapter three [3] – the budgeting process, types of budgeting, budgeting for 1. NGO, 2. Government and 3 For Profit organisations – Budget consolidation – translating budgeting to operations.
- ❖ Chapter four [4] Conceptual framework – theoretical framework – work experience, existing models of budgeting, and new / envisaged model for effectively involving government managers to utilize budgets.
- ❖ Chapter five [5] Research methodology and Research Resign – population, sampling, sampling techniques, the instrument, the data collection process, data analysis.
- ❖ Chapter six [6] Data analysis and interpretation
- ❖ Chapter seven [7] conclusions and recommendations

# **CHAPTER TWO: ORGANISATION, PLANNING AND SETTING OBJECTIVES**

## **2.1 Introduction**

Organisations are created because people have goals and objectives they seek to achieve, setting up an organisation is therefore a process of trying to use available resources to achieve the objectives. To establish an organisation a lot of planning takes place from the position of origin to the level of function. In this chapter relationship between organisation, planning, strategic objectives and the formulation of realistic projections is discussed. Daft, Kendrick, Vershinina (2010:9) explains an organisation as an entity that is goal orientated and formally organised. Literature on the different types of organisations and their varied structures as well as budgeting will be explored.

## **2.2 An organisation**

An organisation is a group of people who work together towards achieving some purpose (McShane and Von Glinow, 2010:4) which as thought to be understood by all working in that entity. Tran and Tian (2013:229) affirm that organisations are formed by people with the aim of achieving the same goal as a group not as individuals. Agar (2012:3) state that people make a structure named as the organisation, which controls the relationships between duties, authority, responsibility, and directs jobs for fulfilling different personal and social needs that a person cannot realize as an individual. Clegg, Kornberger and Pitsis (2011:11) suggest that an organisation should have a purposes, objectives, and goals. Accordingly, actions that occur within the organisation should be oriented toward achieving these purposes, objectives and goals.

An organisation and its activities are moulded by the manner in which the organisation designed which is often expressed through its routine practices and specific structure. An organisation is not fixed, it is fixable, as it changes all the time. Change occurs as organisations revise their practices occasionally as they gain experience in the industry (Clegg *et al*, 2011:11). An organisation has three different meanings in structural, functional and institutional senses (Agar, 2012:5).

According to Clegg et al (2008:10) when members of an organisation want to achieve both desired and future goals and objective, then an organisation will be considered to be future oriented. The future is often articulated in terms of important performance targets. Every organisation has a function in society. Such can be defined in terms of the pattern of input, output and procedures for transforming inputs into outputs. Organisations will employ hierarchy and division of labour to make different and connected roles that are laterally different from each other and vertical. Hierarchy can be defined as an arrangement of powers of command and control to influence those being managed (Hunt as quoted in Ager, 2015:5).

Duties are explained as roles and actions and they can be reviewed in light of experience as upcoming activities unfold. Special weight of activities, roles and duties are continuously assessed by programmes of change management and organisation restructuring.

The values of the organisation are clarified below in table 2.1.

**Table 2.1: Values of an organisation**

Unity of command	Standardisation
Unity of direction	Co- ordination
Chain of command	Responsibility, Authority and Accountability
Span of control	Power
Division of work	Delegation

**Source: Nel and De beer (2014:58-59)**

Organisational design talks to the internal structure of the organisation or the organisation of positions in the organisation into divisions (Lussier, 2008:173). Since organisations are made up of people, management must accomplish its objectives by working through people (Seal, Garrison and Norren, 2009:4). Organisation design is the most important tool for legitimising authority in a form of official rights (Aalto, 2012:18). Each participant in the organisation has a function that is tied to some financial value in terms of organisational or individual success. Organisations can be distinguished in three proportions, namely:

- The key part of the organisation: “the part of the organisation that plays the major role in determining its success or failure.
- The main harmonising instrument: the major method the organisation uses to coordinate its activities.
- The type of decentralisation used: the extent to which the organisation involves subordinates in the decision-making process” (Henry Mintzbergas cited in Lunenburg (2012:1).

According to Maleka (2010:11) an organisation has different functions that it wants to achieve, the type and structure of the organisation pre-determines the functions and tasks to be performed. The table 2.2 below summarises organisation functions.

**Table 2.2: Functions of an organisation**

<b>Support Function</b>	“Organisations "purchase" a resource or input like human resource personnel in order to accomplish an output which in this instance could be 'services.
<b>Production Function</b>	Involves the production of goods and services at the lowest cost, without compromising quality.
<b>Maintenance Function</b>	Organisations recruit skilled personnel thus ensuring that a culture of ongoing learning and skills development is developed
<b>Adaptive Function</b>	In order for an organisation to survive, it needs to constantly learn from its environment, adapt to changing needs and increase in areas of expertise.
<b>Managerial Function</b>	Functions of a manager is to control, direct and account resources to improve organisation ability so as to create value”

**Source: own construction from Jones as cited in Maleka (2010:10)**

According to Rishipal (2014:56) in his own words “Every organisation has goals to achieve and these goals can be achieved only by combined efforts of various resources”. Work has to be divided and grouped in numerous activities that are performed within the organisation in relation to the objectives which the organisation was established. The structure of the organisation should be linked to the strategy of the organisation, the two are extremely linked (Steiger, Hammou & Galib, 2014:43). The structure of the organisation performance implications which may impact on the financial demands, every organisation needs funds for different reasons and at different levels.

### 2.3 Organisational Structures

Elsaid, Okasha and Abdelghaly (2013:1) characterise a firm's or an entity's structure as the tool that a firm or entity organises its people and jobs to enable it to reach its objectives. A Firm's or an entity's structure is defined as the arrangement and communication of how work will be done, and gives authority to relationships within an organisation (Covin & Slevin as cited in Ager 2012:5). There should be a strategic fit of the structure and the strategy to operations, because this is where all the plans are converted to deliverables.

The structure is essentially a framework (Agbim, 2013:57) indicating the roles, responsibilities, accountabilities and the reporting (communication) structure and how departments relate to each other in the organisational matrix. There should be a direct relationship between the corporate strategy, the operational strategy and the structure given the tasks to be performed to meet the objectives. According to Jiang (2011:15) when an organisational structure is designed, the design should determine if whether or not an organisation can adapt to its internal and external environments in order to influence its competitiveness in industry it operates in. Different forms of organisational structures have been suggested, Mintzberg as cited by Lunenburg (2012:4) proposes five organisational structures as illustrated in table 2.2 below.

**Table 2.3: Different Organisational Structures**

Structural Configuration	Prime Coordinating Mechanism	Key Part of Organisation	Type of Decentralization
Simple structure	Direct supervision	Strategic apex	Vertical and horizontal centralization
Machine bureaucracy	Standardization of work processes	Techno-structure	Limited horizontal decentralization
Professional bureaucracy	Standardization of skills	Operating core	Vertical and horizontal decentralization
Divisionalized form	Standardization of outputs	Middle line	Limited vertical decentralization
Adhocracy	Mutual adjustment	Support staff	Selective decentralization

**Source: Lunenburg (2012:4)**

The effectiveness of the structures depends largely on the core business and responsibilities to be performed and the maturity and skills required for the type of operations (Agbim 2013:57). Evidently the availability and or unavailability of the

required skills will create a demand-supply situation which will actually have financial implications. Jowah (2013: 23) posits that the type of tasks and the level of operations affect the type of structure required hence the effectiveness of the operations. The ability to effectively match the structure to tasks in the best form of strategic fit becomes an important management function.

The organisational structure consists of actions such as job and resource allocation, coordination and management of tasks and resources, this is all done in the spirit of achieving organisational goals and objectives (Elsaid *et al*, 2013:1). The structures used also depend on the envisaged strategy and the size of the organisation dependent on the operations and the ability of the managers to formulate a relevant strategy, structure and task relationship.

The requirements for a manufacturing organisation, for example, are different from a government department whose core business is to provide a service to the citizens. The most dominant difference in describing important differences in organisational structure is that of mechanistic and organic structural forms (Nedeljkovic, 2011:33). Table 2.4 below presents fundamental dimensions of an organisational structure.

**Table 2.4: Fundamental dimensions of organisational structure**

<b>Specialisation</b>	“The division of labor within the organisation, the distribution of official duties among a number of positions.
<b>Standardisation</b>	Procedures that occur regularly, are legitimized by the organisation, have rules that cover circumstances and apply invariably.
<b>Formalisation</b>	The extent to which rules, procedures, instructions, and communications are written.
<b>Centralisation</b>	Place where the authority to make legitimate decisions that affect the organisation is located”.

**Source: own construction from Nedeljkovic (2011:32-33)**

As shown above different dimensions of structure assist organisations to construct a structure based on specialization, standardization, formalization and centralization (Nedeljkovic, 2011:32-33). The structures are used by management to predict how



effectively the organisation can work, and specifically as a control mechanism to monitor and evaluate employee work outcomes (Al-Qatawneh, 2014:30).

This control and monitoring ensures that activities and tasks are performed correctly and cheaply so as to attainment organisational goals and objectives. The rapid changes in the globalised business village add to the management some great anxieties and uncertainties of the future of their businesses and organisations amidst aggressive global competition (Isaac, Lawal & Okoli, 2015:4).

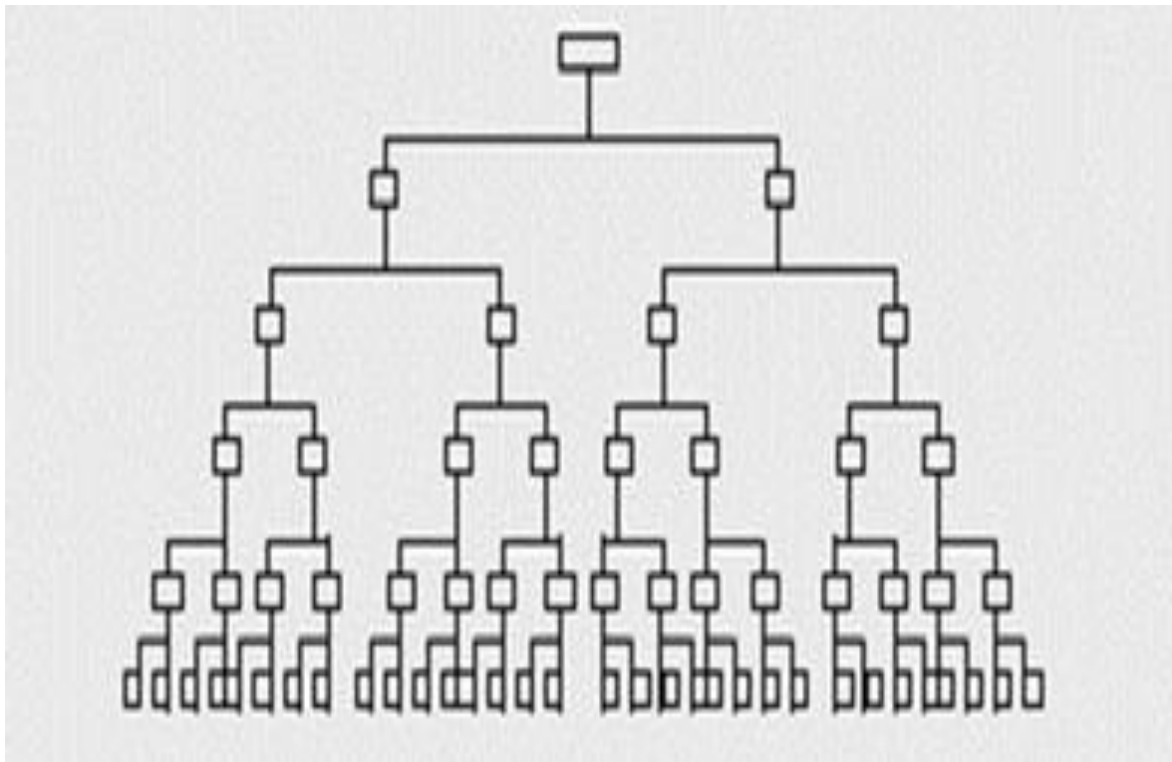
When an organisation operates in a certain environment it is likely to have a centralised structure with formalised rules and policies (Tran *et al*, 2013:229). These rules and policies will ultimately determine the culture of an organisation which in turn characterises the attitude about output by the organisation. The culture in a government structure (where they do not work to make profit) will inevitably be different from that of private business where profitability is the main purpose for existence.

### **2.3.1 Tall structure**

Anderson & Zbirenko, (2014:9) in his own words states “A tall organisational structure is categorised by few people being managed by one supervisor and the command chain being large”. Tall organisational structures are common in the public and the private sector (Rishipal, 2014:58). Tall organisational structures are used to minimize personal influence on decision making structures (Razia, kieti and Maru, 2015:80)

Tall structures limit employee involvement in decision making structures of the organisation, and they are inflexible and time wasting as decisions are made from the top and they usually take time to reach the people which the message is intended for (Kubheka, Kholopane & Mbohwa, 2013:217). Figure 2.1 shows an example of a tall organisational structure.

**Figure 2.1: Tall Organisational Structure**



**Source: Khubheka *et al.* (2013:218)**

A tall organisation has many hierarchical levels and few employees reporting to each boss, that is narrow span of control (Robbins as cited in Razia *et al.*, 2015:79). This structure allows interaction between the supervisor (who does not have much authority) with the operational people who almost always need responsive leadership.

According to Juma and Wachira (2013:3) “flaws of tall structures are slower decision-making, high levels of supervision and lack of employee freedom”. Too many levels create too many bottlenecks to quick decision making which impacts on tasks performance, which becomes a cost on its own. According Carreras *et al* (2011:7) organisational difficulties in most cases start from the top level of an organisation, and the people at the top too often have no complete understanding of the realistic and practical problems at operational level.

### 2.3.2 Flat structure

According to Rishipal (2014:58) a flat organisational structure has lesser middle managers who report to senior management from seeing the real problems at operational level. The structure allows for easy operations and quick feedback which will enable the subordinates to get the instructions from the senior management, directly and in time. Anderson *et al* (2014:9) advocates that managers in the flatter organisation take on much more responsibilities than managers in an organisation with a taller structure.

Organisations with a flat structure reduce costs by pushing decision making downward, those organisations do not focus on customer satisfaction and gaining and increasing market share, but also focus on improving accountability and morale (Wulf, 2012:2). According to Spencer and Muchnick (2015:19) firms, when they flatten, tend to reduce the number of positions (lowering employee expense and shortening the communication path from Chief Executive Officer to lowest level workers).

According to Wulf (2012:1) flattening an organisation means eliminating some of the layers of the organisational structure and thus widening manager's span of control. Flat firms have fewer layers or one layer of management in their organisational structure (Rishipal, 2014:58). Rishipal (2014:58) suggests characteristics of a flat organisation and these characteristics are unpacked in table 2.5 below.

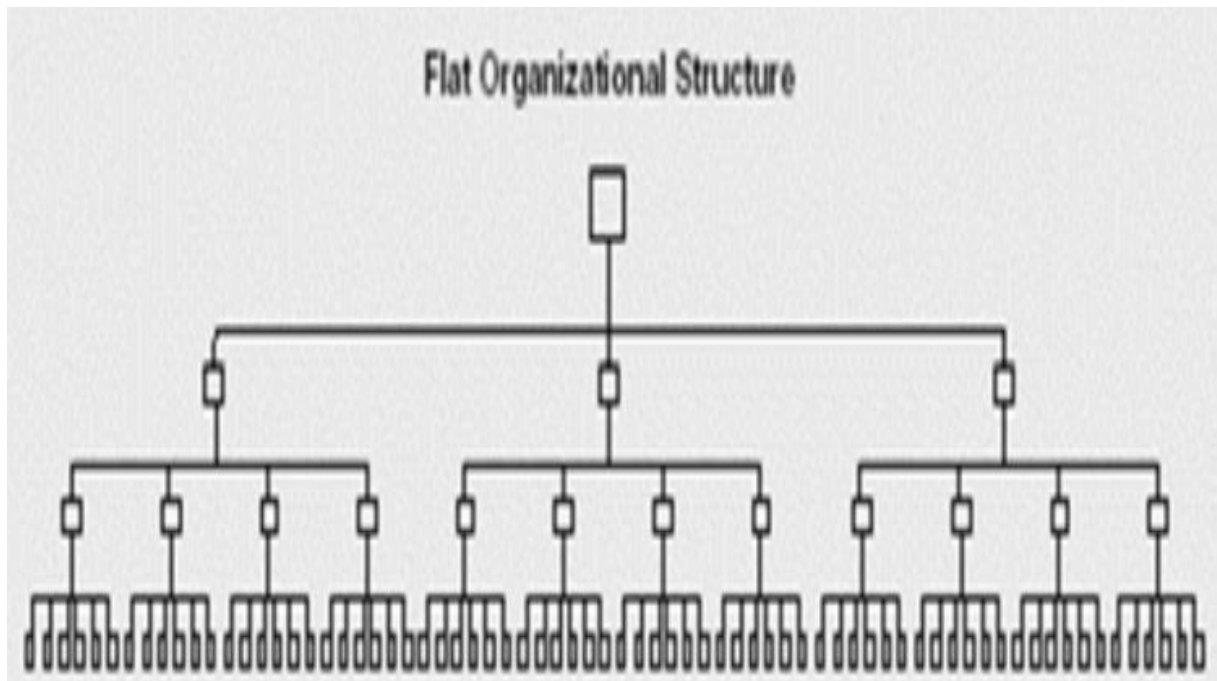
**Table 2.5: Characteristics of a flat organisation**

<b>Flat organisation</b>	Decentralised management Approach
<b>Flat organisation</b>	Have few levels of management
<b>Flat organisation</b>	Have horizontal career paths
<b>Flat organisation</b>	Have broadly defined jobs
<b>Flat organisation</b>	Have general job descriptions
<b>Flat organisation</b>	Have flexible boundaries between jobs and departments
<b>Flat organisation</b>	Puts strong focus on the customer

**Source: own construction from Rishipal (2014:58)**

According to Table 2.5 a flat structure has few hierarchal levels and decision making is decentralised as opposed to a taller organisational structure. Figure 2.2 below shows an example of a flat organisational structure.

**Figure 2.2: Flat Organisational Structure**



**Source: Khubheka et al (2013:218)**

According to Razia *et al* (2015:79) in a flat organisation there are few hierarchical levels with many employees reporting to each boss. This structure reduces the delays found in a bureaucratic structure (tall structure) and allows for speedy resolutions. The rate of feedback is accelerated thereby promoting a responsive leadership model that promotes effective communication between the different levels. Such structures enable the senior management easy understanding of the problems encountered by staff at lower levels.

#### **2.4 Planning in an organisation**

Daft *et al* (2010:7) posit that the purpose of planning in an organisation is to identify goals and objectives for future organisational performance and to further assist management in deciding on the operations and the resources that are needed to achieve the goals and objectives. Rao (2009:618) refers to planning as a thoughtful process by management to improve operations in order to use resources effectively and efficiently. This accelerates the rate at which decisions and corrections are made giving the organisation a competitive advantage in a highly competitive globalised terrain.

Planning has to do with making choices between alternatives, and therefore planning is mainly a decision-making process which is undertaken with the type of business, type of tasks and the expected deliverables in mind (Drury, 2005:8). As observed by Okpala, (2012:173) planning is a strategic process of preparing and compiling detailed short term plans (usually one year) for tasks, events, divisions, and departments, thus translating those short term plans to long term measurable plans. Seal *et al* (2009:4) posits that, when planning the initial step is to detect alternatives and then select from them the one that are best suitable for the business in order to achieve the organisational objectives. Nel *et al* (2014:50) concurs with the other authors on this issue and identifies certain benefits derived from planning. These are illustrated in table 2.5 below.

**Table 2.6: The benefits of planning for an organisation**

<b>Planning</b>	Provides direction for the organisation to follow
<b>Planning</b>	Helps managers know what to do to reach goals
<b>Planning</b>	Enables an organisation to evaluate its performance
<b>Planning</b>	Creates a participatory environment for the workers
<b>Planning</b>	Reduces the impact of change and possible risks
<b>Planning</b>	Helps the organisation to plan for the possible risks
<b>Planning</b>	Sets the standards to be adhered to by the organisation

**Source: own construction from Nel *et al* (2014:50)**

Planning is the most important component of management at all levels, since entities are created today with the future in mind. The planning activity begins by setting targets and objectives of an organisation, or department within the organisation itself (Sado, 2014:59). In a sense, planning is proactively focussing into the future of an organisation using expected trends or changes in the organisation's environment

According to Robbins and Coulter (2007:196) planning is done at different management levels with an organisation, top management is involved in strategic planning while lower management is involved in operational planning. Daft (2006:242) in his own words define strategic plan as "a blueprint that defines the organisational activities and resource allocations in a form of cash, personnel, space, and facilities required for meeting targets", while operational plans are "designed to assist in executing key strategic plans and to achieve specific parts of organisational strategies. When the environment is uncertain planning should be realistic and

specif. According to Lussier (2008:122) planning has several dimensions, these dimensions are summarized in the table below:

**Table 2.7: The different dimensions of planning**

<b>Management Level</b>	<b>Type of Plan</b>	<b>Scope</b>	<b>Time</b>	<b>Repetitiveness</b>
Upper and Middle	Strategic	Broad/directional	Long-Range	Single-Use Plan
Middle and Lower	Operational	Narrow/specific	Short-Range	Standing Plan

**Source: Lussier (2008:122)**

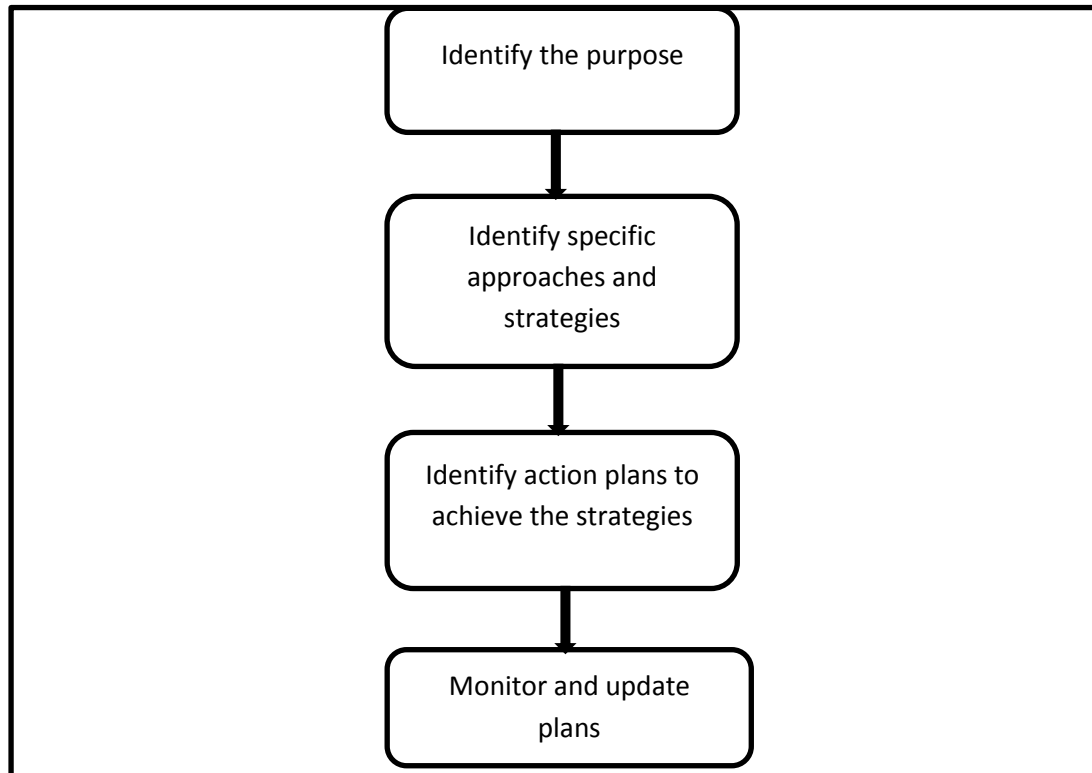
It is evident from the table above that different levels of management require different types of planning. Planning differs in terms of scope and duration, thus some plans are long-term whilst other plans are short term. Jordan, Ross, and Westerfield (2010:89) opine that planning in an organisation automatically involves the financial needs to accomplish the goals and objectives set out by the organisation. From the planning stage the business has to be able to project the costs and calculate the affordability of the plan. In a sense, the budget is intertwined with any plans by whoever gets involved in planning for an organisation. The different types of planning as identified by Sado (2014:61) are detailed below.

- **Long- term plan:** this type of planning determines objectives of an organisation, policies and ways in which the organisation will attain and allocate resources in order to achieve its goals. The planning may stretch to many years ahead, ten years, sometimes up to 30 years for most governments. This kind of planning is done by top management.
- **Medium- term plan:** this plan is an alternative action plan that might have to be used just in case the initial plan does not work towards achieving the objectives of the organisation. Generally a shorter version of the long term, these are much more predictable into the future compared to long term plans – these may last up to 5 years.
- **Short- term plan:** Is a plan that details what needs to be done, by who and when. Short-term plan addresses instant plans of the organisation, this plan is mostly executed by lower level managers. These are also referred to as tactical

or operational planning, they are comparatively easier to quantify in terms of the budgeting process.

Any organisation that plans any activity should have a planning model that it should follow so as to ensure that the planning phase goes smoothly. Figure 2.3 below outlines the planning model.

**Figure 2.3: Planning Model**



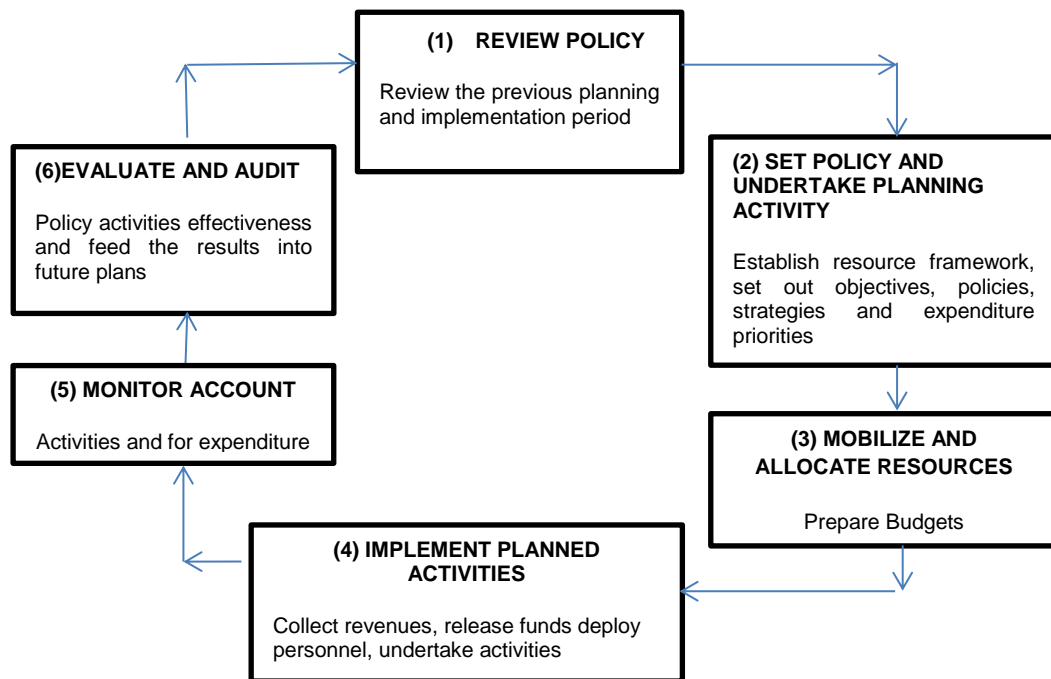
**Source: Own construction from literature**

## **2.5 Policy Planning and Budgeting**

Okpala (2014:27) assert that failure to link policy, planning and budgeting might amount to destruction in the system, and this could be the most significant factor contributing to poor budgeting, implementation of strategic and operational plans in developing nations. A **policy** is a set of principles that are constructed to form a system that will be used as a tool to guide in decision making. Hicks, Hicks and Maldonado (2016:46-60) say that a policy is a statement of intention by the people who construct the policy which is implemented as a procedure. Policy is not a rule or a law, it is a tool used to guide in the making of decisions. The purpose for

constructing policies differs from company to company and the types of problems encountered. Generally policies are meant to help in reducing actions that may impact the organisation negatively. Figure 2.3 below illustrates the linkages between policy, planning and budgeting (Okpala, 2014:28).

**Figure 2.4: Linking policy, planning and budgeting in the planning and resource management cycle**



**Source: Le Houerou & Taliercio as cited by Okpala (2014:28)**

One of the most significant policymaking tools in a firm is budgeting, budgeting can be defined here as the quantification of policy. Through budgeting organisations can indicate and set policy priorities. As it can be seen in figure 2.3 in stage 3, policy and planning are important in terms of setting objectives, identifying resources and managing expenditure in an organisation.

## 2.6 Setting Objectives

Oxford English Dictionary (1989) defines an objective as a “specific result that an individual or a system seeks to achieve over a period of time”. According to Kanagal (2014:2) setting objectives is a significant exercise which needs unambiguous attention so that the goals, vision and mission of the organisation can blend in well together for the success of the organisation. Top management establishes comprehensive objectives that serve as organisational goals the firm’s employees



should work hard to realise (Lanen, Anderson and Maher, 2014:490). Objectives are not necessarily the same as goals, whilst objectives are quantifiable and thus measurable.

Poku (2012:16) asserts that goals are the broad, long-term accomplishments that an organisation wants to attain, achieve or where it wants to be. Goals in the organisation have a huge impact and a positive connection with organisational commitment. That simply means if and when the goal setting phase is managed and executed effectively organisational commitment will be improved (Swarnalatha and Prasanna, 2012:42). The table below distinguishes goals from objectives:

**Table 2.8: Objectives vs Goals**

<b>Objectives</b>	<b>Goals</b>
Objectives have to be specific	Goals need to be specific
Objectives have to be measurable	Goals must be acceptable
Objectives have to be action-oriented	Goals are used to evaluate performance
Objectives have to be realistic	Goals must be challenging but achievable
Objectives has to have a time period	Goals must have deadline for completion

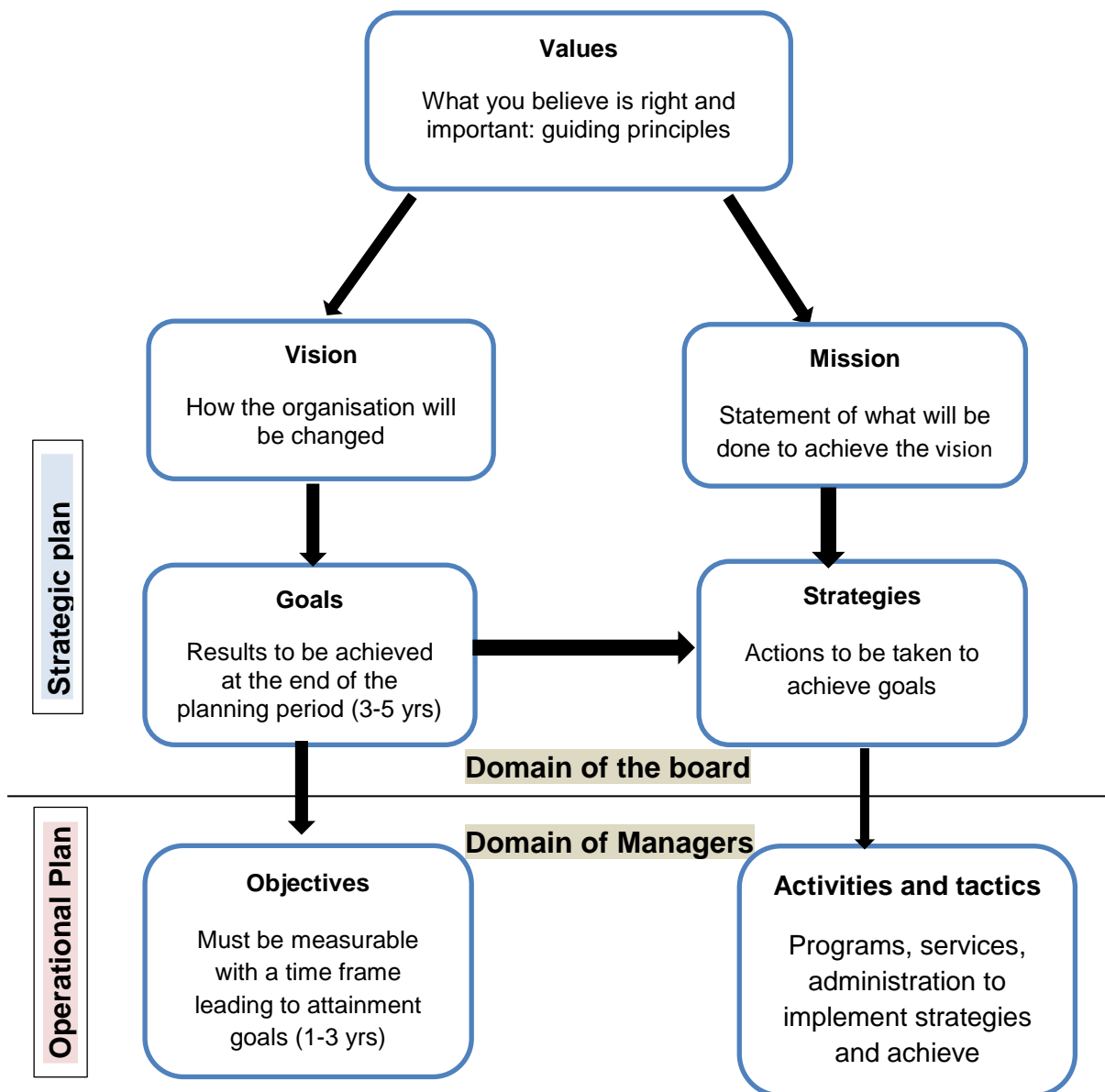
**Source: own construction from (CIMA,np) and Lunenburg (2011:2-4)**

An organisational culture that focuses on high performance as well as ethical standards, should also have better planning and controlling instruments, so that everyone in the organisation has common and clear understating so as to put more effort in achieving objectives and goals (Carreras *et al*, 2011:7). Locke and Latham as mentioned by Lunenburg (2011:1) suggest that goals have a persistent influence on the way people performance in an organisation. Organisational objectives are the foundation of founding an organisation and through objective an organisation can then be managed effectively (KraleV, 2011:83). KraleV (2011:84) posits that organisational objectives need to be:

- Achievable and realistic
- Concrete and measurable
- Time- determined
- Clearly defined
- Must be in writing and available to all employees.

It is important for employees to know and understand the objectives of the organisation they work for them to have a buy in. Research has established that employee engagement has positive results and leads to employee commitment so as to know what the organisation seeks to achieve in a short-term and long-term run, and how the resources of an organisation can be utilised effectively and optimally to achieve organisational goals. When people understand their roles in an organisation they begin to see if their contribution is reasonable (Fairholm, 2009:08). People are guided by objective model when it comes to their role in formulating and execution of goal and objective. Figure 2.4 below gives an overview of the objective based model.

**Figure 2.5: Objective based model**



Source: Authors construction from literature review

The upper level section in figure 2.4 is solely dominated by the board of directors who are entrusted with setting the strategic direction of an organisation. Whereas the lower level is dominated by managers who are entrusted with the implementation of strategies in order to achieve the organisational objective.

Swarnalatha *et al* (2012:42) advocates that goals are set in line with the responsibilities, activities and resources available to fulfil a specific job in an organisation, when people are pleased with the goals that completely enhance the organisational commitment. People who are given complex but achievable goals tend to accomplish results better than those who are given simple goals (Lunenborg, 2011:1). Jones & George as cited in Carreras *et al* (2011:7) validate that workers with challenging but measurable goals and objectives tend to be more effective than people who do not have goals. Little and Nel as quoted in Ogedegbe (2014:18) concur with the sentiments and emphasize that when employees are encouraged and supported to reach their potential, organisations become successful.

## **2.7 Making projections**

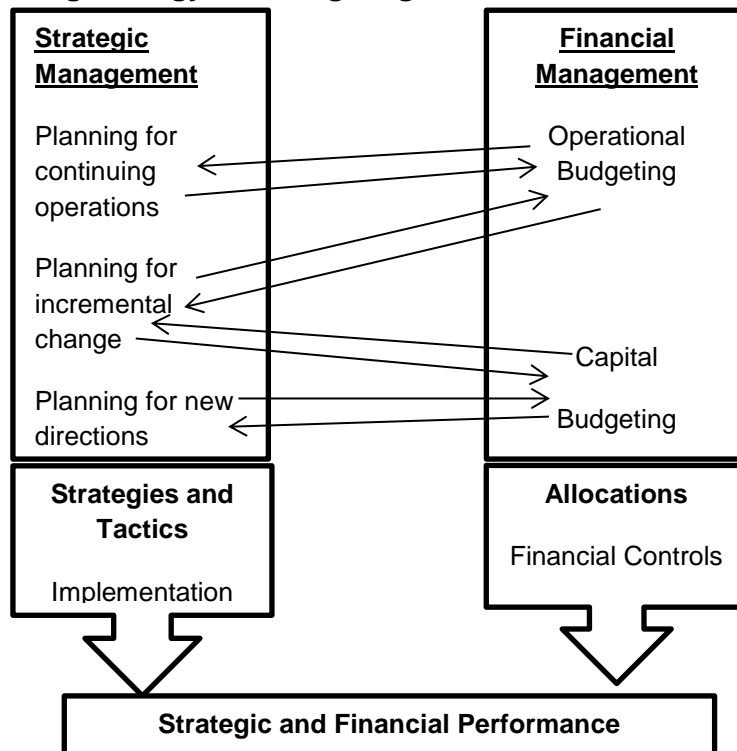
Ulla (2006:129) postulates that the common approaches used to determine imminent problems for sustainable development are long-term budget projections. The technical element of budgeting deals with a mathematical calculation of anticipated expenditure and has been profoundly stressed in the government (Raghunandan *et al*, 2012:111). According to Anderson and Sheppard (2009:41-42) financial projections should be prepared on yearly basis to draw attention to the long-term financial consequences of current policies and eliminate discretion over when projections are made.

The ability to plan and to make realistic future projections is important in ensuring that the budgeting process is effective (Sussman and Alter, 2012:np). The period of spending is determined in cash flow projection for the period when the expenditure is expected (Felix *et al*, 2012:146). Budgeting is a form of projection into the future – estimating what supplies would cost a year and beyond from now. Care should be taken to estimate considering factors like inflation, cost of living, and monetary policies (Umaru and Zubairu, 2012:184).

## 2.8 Converting strategic plans to monetary value

Strategic planning is a term that is used in most organisation and it includes activities such as planning, performance measurement, program budgeting, and it has been proven to be very valuable (Fairhilm, 2009:1). Blumentritt (2006:74) posits that a firm can have multiple strategies, for an example: One for customer retention, another for operational improvement, and another for development of its human resources. Clark (2012:33) advances that organisations use strategic thinking to ensure the longevity of their operation, while others use it to become or remain number one in their market. Strategic management is designed to set a firm's courses of action, identifying the strategies it will use to compete in the marketplace and how it will organize its internal activities (Blumentritt, 2006:74). Strategy in effect is management's game plan for strengthening the organisation's position, pleasing customers, and achieving performance targets (Festus and Adeniren, 2013: 319). Thus according to Ali and Ali (2015:478) an organisation without a strategy appears to be directionless and wasteful. Blumentritt (2006:74) describes the interactions between strategic management and budgeting in figure 2.4 below.

**Figure 2.6: Integrating strategy and budgeting**



Source: Blumentritt (2006:75)

There should be congruency between the planning and the budgeting provided to achieve the set organisational objectives. There is a great link between strategic management and financial management. Figure 2.4 above illustrates how these two elements should interact in order for an organisation to meet its goals and objectives and to further utilise resources optimally. Whilst budgeting is of such importance to the operation of a business, Abogun et al (2012:177) emphasise that in too many cases, budgets for allocation and spending money have little connection with business or operational strategies and the expected deliverables.

According to Fairholm (2009:2), strategic planning is a bottom up process that ensure that there is a link between organisational procedures, corporate goals and strategies, however strategic thinking is a top down process, that ensures that the purpose and core business of the organisation is known throughout the organisation so that proper goals and strategies are established to meet the needs of the organisation.

John and Ngoasong as cited by Silva *et al* (2012:356) suggest that, incorporating strategic management and budgeting allows an organisation to be competitive and enhance organisational performance. The purpose of budgeting is to assist in implementing organisational strategies, thus its purpose is not limited to controlling and planning (Goode *et al*, 2011:208). Budgeting process provides a structure for implementing strategic decisions and to ensure that scarce and valuable resources allocated to achieve specific measurable goals that are in line with the strategies (Raghunandan et al, 2012:111). Strategic decisions are broken into three types:

- ❖ “Maintaining and improving continuing operations,
- ❖ Evaluating incremental but substantial opportunities for change, and considering investments in new business activities.
- ❖ Separating operational and capital budgeting indicates the differences between allocating funds to existing activities and to new activities “(Blumentrii, 2006:74).

Khan and Khalique (2014:165) argue that strategic planning plays an important and key role in the success and survival of all kinds of business organisations. The financial plan takes the actions developed in the strategic plan and converts them into monetary value (Wilhems and Li, 2016:9). A budget is an important planning, execution, and control instrument, with its primary function being the conversion of

strategic objectives into operational goals and values, creating a guide for operations and managerial decision-making (Codesso, Lyrio, Lunkes, Pinto, 2015:585). With this in mind the budget is indispensable as a management tool to measure organisational performance. This therefore demands that the budgeting process be as accurate as can be since it reflects on both the organisational goals (from the planning perspective) and as a performance measure against the actual expenditure.

## **2.9 The Budget**

Budgeting is a complete and coordinated plan which is compiled by the management of an organisation, and expressed in financial terms for the operations and resources of an organisation for some specific period ( Isaac, Lawal and Okoli, 2015:1) and (Carreras et al 2011:6) concurs and suggests that budgeting is simply a tool that can help management plan and control resources. A budget is a comprehensive document that outlines what economic and non-economic activities a government wants to undertake with special focus on policies, objectives and strategies for accomplishments that are substantiated with revenue and expenditure projections (Ugoh *et al*, 2009:837).

According to Raghunanda, Ramgulam and Mohammed (2012:110) a budget is one of the most useful management tools that can realize huge rewards if understood and implemented properly. Suberu (2010:17) further notes that budgeting is one of the modern management tools that aids in the allocation of available resources of Government to satisfy private and public needs. There are important operational reasons to budget in organisations, including planning, control and evaluation (Sivabalan *et al*, 2009:850). Grief, (1993) and Peter *et al*, (2007) as quoted by Abogun *et al* (2012:177) affirms that, some of the major roles of budgeting in management are:

- for planning,
- control,
- coordination,
- evaluating and directing performance improvement,
- communication and decision making

According to Olurankinse (2012:145) the use of budgeting originated from the central government of Great Britain. For this reason the budget is an effective and indispensable tool used by managers and subordinates to measure their performance against their expectations. Consequently all organisations, be they private or public institutions operate on budgets (Isaac *et al*, 2015:2) as tools to measure their actual performance. Daft (2008:384) asserts that budgetary control is one of the most commonly used management control tools for the purpose of reaching / fulfilling the set targets for the organisation's expenditure, these are compared to the actual performance.

The budget is regularly compared against the actual expenditure (Carreras *et al* 2011:6) and variances will be indicated allowing for management to identify performance indicators. This allows for changes where necessary, be they reduction of the budget, change of plan, modification of tasks and other items used in the execution of the processes.

## **2.10 Conclusion**

The direction government is "heading to" can be read in the budget, and as such the budget is a measurable purpose of government intent. The government depends on the finances coming from the taxpayers and other sources, if ever they are there. Budgeting becomes therefore the foundation and basis on any financial planning on government expenditure which tells people the direction the government wants to follow. The budget tells you where the money is going to, and in so doing enables planners to priorities their spending before they use the money. Budgeting allows you to understand how much money you have and where it is going to, thereby enabling you to allocate the funds in the best way possible to maximum benefits to reach the set objectives. No matter how tedious the financial planning process may be, budgets enable you to monitor and evaluate the spending patterns. Other hitherto unknown cash flow problems may be identified in the process of budgeting or the implementation of the budget.

## CHAPTER THREE: BUDGET PROCESS, TYPES OF BUDGETS USED IN OTHER ORGANISATIONS

### 3.1 Introduction

This chapter will look into relevant literature and earlier studies that were carried out regarding budgeting. The purpose of a budget, Medium-term Expenditure Framework (MTEF), budget approaches, budget as a performance measuring tool, criticism of budgets, budget principles, link between budgets and strategies, and the budget process will be discussed in this chapter. These are critical for proper understanding of budgeting processes. Considering that the budget is the mirror image of what is planned by the organisation

### 3.2 How to budget

Budgeting deals with a mathematical calculation of projected costs and expenses and has been heavily emphasised in the public sector (Rughunandan *et al*, 2012:111). As alluded to in previous sections above, Ambe *et al* (2008:238) suggests that an organisation should have a master budget that will summarise the financial projections contained in all the individual budgets of the organisation and it should consist of two sets of budgets, namely the operating budget and financial budget. Rughunandan *et al* (2012:116) further gives more budgeting principles as follows:

**Table 3.1: Budgeting Principles**

<b>“Governance</b>	Use clear values and boundaries as a basis for action, not mission statements and plans.
<b>Performance responsibility</b>	Make managers responsible for competitive results, not for meeting the budget.
<b>Delegation</b>	Give people the freedom and ability to act, do not control and constraint them.
<b>Structure</b>	Organise around the networks and processes, not functions and departments
<b>Co-ordination</b>	Co-ordinate cross company interactions through process design and fast information systems, not detailed actions through budgets.
<b>Leadership</b>	Challenge and coach people, do not command and control them.



<b>Strategy processes</b>	Make the strategy process a continuous and inclusive process, not a top-down annual event.
<b>Anticipatory management</b>	use anticipatory systems for managing strategy, not for making short-term corrections
<b>Resource management</b>	Make resources available to operations when required at a fair cost, do not allocate them from the centre.
<b>Measurement and control</b>	Use a few key indicators to control the business, not a mass of detailed reports.
<b>Motivation and rewards</b>	Base rewards on a company and unit level competitive performance, not predetermined targets”

**Source: Own construction from Rughunandan *et al* (2012:116)**

According to table 3.1 above, it is important to involve people who are knowledgeable about projects that need to be implemented and the costs of implementing them. The spirit of team work should prevail when preparing and implementing budgets, and further consult all the stakeholders so that realistic and attainable objectives are reached through implementation of budgets. Budgets should serve as a tool by which the legislature provides the government with money to spend and specifies what this money is spent on, to support sound macroeconomic development, and budgets are further designed to support the efficient use of public resources (Ulla, 2006:131). Budgeting and budgetary control entails the establishment of goals by the management of an organisation and designing a process which serves as a framework within which an organisation effectively articulates overall planned activities (Isaac *et al*, 2015:1).

### **3.3 Budget Process**

According to Raghunandan *et al* (2012:111) the budgeting process nurtures coordination, cooperation and communication among the different business units. The budget shows how these units are interrelated in their operations making it possible to create bridges between the organisational silos. Because budgeting involves individual units starting from cost centers and utilizing activity based costing (ABC) to identify where funds are needed and in what quantities, it becomes necessary to bring together the whole organisation. This is a process on its own

since bottom up budgeting involves the independent and interdependent cost centres which should be united through the budgeting process. Ekeocha (2012:65) defines the budget process as a system of rules governing the decision-making that leads to a budget, from its formulation, through its legislative approval, to its execution and evaluation. Anderson, Curristine and Merk (2006:12) further add that the legal framework for the budgetary process is based on the budgetary regulations adopted by Parliament for all government operations.

The process of budgeting generally involves an interactive cycle which moves between targets of desirable performance and estimates of feasible performance until there is, hopefully convergence, to a plan which is both feasible and acceptable (Emmanuel *et al*, as quoted by Banovic, 2005:7). Balancing the figures and agreeing on combining these cost center budgets is cumbersome but necessary. Ugoh *et al* (2009:839) outline certain fundamental principles that accompany the budgeting process as follows:

**Table 3.2: Fundamental Principles of budgeting**

<b>“Comprehensiveness</b>	Budget should be able to contain all financial estimates that government intends to work with.
<b>Clarity</b>	The documents called budget should be very clear for the people to understand and be able to make input.
<b>Regularity</b>	Regularity should be maintained in the budget process.
<b>Publicity</b>	Budget should be given an open publicity.
<b>Exclusiveness</b>	Budgeting should be seen as an exclusive financial process and nothing else.
<b>Accuracy</b>	There is need to ensure that the revenue and expenditure in a budget is correctly estimated.
<b>Adequacy</b>	Budget estimates should represent the needs of the government and the citizens”.

**Source: Own construction**

From the table 3.1 above it can be seen that there is always a need to ensure that no other funds or extra budgetary expenditure is entertained in any organisation. The citizens should know how the resources are utilized, the reason is money that it

affects the lives of the people and how their taxes are distributed. In essence, the estimates should be close enough to reality. Budget also should be able to identify altogether the goals and objectives and glitches of the state and the economy.

The budget preparation process requires a call circular to the various departments, establishments, ministry or representatives who are expected to participate in the budget discussion as well as serve as budget committees (Malgwi *et al*, 2012:1). This coming together of people from different units is necessary to remove the “silo nature effects” of government units and identify costs that may be shared and thus integrated into the final budget.

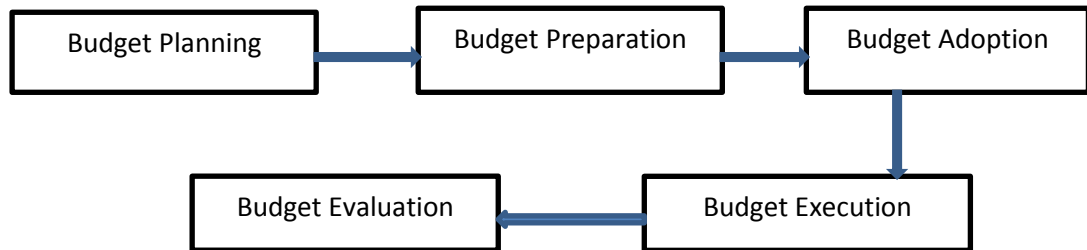
According to Deng and Peng (2011:79) the budgeting process can be divided into four stages, which are:

- **Preparation:** The government should give forecasts of the anticipated revenue and expenditure per programme, large and small.
- **Review and adoption:** Once the budget is prepared and submitted to the legislature, the legislative budgeting process begins
- **Execution stage:** During the execution stage, the legislature exerts its oversight power over the government mainly in two ways: periodic reporting and revision to the adopted budget.
- **Financial reporting and auditing stage:** Once the fiscal year ends, the government should present a comprehensive report on the results of its financial operation over the past year.

It should be understood that the bottom up concept of budgets includes all the stakeholders from their different activity sites. The numerous activity sites in a unit therefore compile a synchronised budget for the unit as a whole after co-opting all other expenses. Such a process would inevitably reduce unforeseen costs should extra care be used in the preparation of these budgets.

According to Pungprawat (2009:51), the process follows certain stages or steps as illustrated in the figure 3.1 below.

**Figure 3.1: The budget formulation process**



**Source: Pungprawat (2009:51)**

The MTEF budget is a rolling process repeated every year and aims at reducing the imbalances between what is affordable and what is demanded by line ministries (Anohene, 2011:27). Too often units do not get what they budget for either because of the absence of the necessary funding, or because the final planners think the figures are exaggerated. Folscher & Cole (2006: 3) advocate that the highlights of the reform programme have been, namely;

- the roll-out of a new intergovernmental system that requires all three levels of government to formulate and approve their own budgets, and
- the introduction of three-year rolling spending plans for all national and provincial departments under the Medium-term Expenditure Framework (MTEF).

MTEF constitutes an approach to budgeting and public financial management (PFM) that addresses well-known shortcomings of annual budgeting (Wildavsky, 1986 as cited by Okpala, 2014:26). As one approach to budgeting, MTEF is also intended to achieve efficiency and effectiveness of the budget (Afiah *et al*, 2014:3). Afiah *et al*, (2014:3) further states that, efficiency in the sense to achieve the targeted results can be done using the budget provided as economical as possible, while effectiveness means that goods/services or activities are undertaken to provide optimal benefits.

According to Djurovic-Todorovic *et al* (2009:291) MTEF is estimation for sources affecting political changes and new programs and arranging budget necessities in

future with multi-year revenue and expenditure planning applications. This process is intended to facilitate a number of important outcomes such as: greater macro-economic balance, improved inter-and intra- sectoral resource allocation, greater budgetary predictability for line ministries, and more efficient use of public monies (World Bank, 1998 as cited by Okpala, 2014:28).

Le Hoerou & Taliercio as quoted by Okpala (2014:27) assert that failure to link policy, planning and budgeting which amounts to system fragmentation may be the single most important factor contributing to poor budgeting outcomes at the macro, strategic and operational levels in developing nations. MTEF is an expenditure planning that orients all expenditures with political priorities making it possible to connect to a definite method with budget realities and presenting a connective frame (Djurovic-Todorovic *et al*, 2009:291).

The system has been realized in the form of planning the next three years of government expenditure and it depends on the limits of expenditure, aimed income, financial posture of government and loan management policies (Djurovic-Todorovic *et al*, 2009:291). Sulemane (2006:10) claims that the MTEF has not yet developed into an instrument for strategic, medium-term resource allocation; it remains essentially a technical forecasting tool, used internally within the National Directorate for Planning and Budget for projecting resource envelopes and setting limits for budget formulation using an incremental approach. MTEF is known as a transparent planning and budgeting process where all stakeholders (Cabinet and central agencies) making the necessary contracts to allocate public money to strategic priorities. The process essentially involves setting fiscal targets and allocating the necessary resources to the relevant strategic priorities.

### **3.4 Budgeting as a planning tool**

Carreras *et al* (2011:6) state that, when the budget is to be used as a planning tool, it must be closely linked to the organisation's strategic planning process. Operational planning budget reasons include among others, coordination of resources, formulation of action plans, management of production capacity, determination of required selling prices, encouragement of innovative behaviour and provision of information to the external (Sivabalan *et al*, 2009:853). According to Malgwi *et al*

(2012:1) Government uses budgets as a guiding tool for planning and control of its resources, be it financial or otherwise. Consequently, budgeting without a planning ceases to be a blueprint for action (Suberu, 2010:19). Budgeting can be viewed as the planning quantified in monetary value or the translation of the plan into measurable resource units.

### 3.5 Budgeting as a control tool

The budget is one of the few formal financial controls provided to directors and presents financial expectation communicated from senior management to directors (Sivabalan *et al*, 2009:854). With the budgets the senior management is able to measure the performance of the individuals or the organisation based on a standard performance management tool. According to Malgwi *et al*, (2012:2) budgets are used to assist management control and provide legal authority to levy taxes, collect revenue and make expenditure in accordance with the budget provisions. For budgets to serve as effective control tools, the following prerequisites as tabulated below (table 2.8) are essential:

**Table 3.3: Prerequisites for effective budget controls**

“Well defined organisational structure	Sound accounting information system
Well defined responsibility centres	Proper cost classification and coding
Performance measures	Prompt access to external information
Efficient information technology method	Organisational goals and objectives”

**Source: (Abogun *et al*, 2012:178)**

According to Rughunandan *et al* (2012:116), too often, organisations tend to expect results from budgetary control and fail to recognize that most problems of budgeting are behavioural. This may entail extensive training and regular involvement of the budget users to enable them to understand and change their behavioural attitudes.

### **3.6 Budgeting as a communication tool**

According to Malwi *et al* (2012:2) it is the budget that establishes and communicates the objectives and priorities of governing units. Budgets promotes dialogue and understanding by linking various departments together thus ensuring that attainment of overall objectives (Raghunandan *et al*, 2012:111). Raghunanda *et al* (2012:111) further states that, budgets can also act as an instrument to remind everyone of the agreed targets and to measure progress to date.

The single most important part of budgeting is that it integrates and coordinates activities across the organisational silos (units) by specifying the resources and where they overlap with other units. In the process an impeccable record of organisational activities is provided for with the possible improvement on resource allocation. If employees are not involved or allowed to participate in the budgetary processes, they may lead to demotivation. Otherwise budgets are a strong communication tool that integrates organisational goals as set in the different units and speaking to one purpose.

### **3.7 Budget as an evaluation and performance measurement tool**

Meign & Meigs (1981) as cited by Abogun *et al* (2012:178) explains that another use of budget for management control purposes is in evaluating performance. The role of performance measurements in budgeting cannot be ignored as its exclusion may greatly reduce control potentials (Abogun *et al*, 2012:177). According to Afiah and Rusmana (2014:3) through performance-based budgeting approach, each allocation is intended to achieve a performance goal. Performance budgeting initiatives tend to go hand in hand with performance management (Curristine, Lonti and Joumard, 2007:12).

Hoper and Fisher (2003, 4) as cited by Silva *et al* (2012:355) states that, budgeting is not so much as a financial plan but as the performance management process that leads to and executes that plan. A comparison of actual results against budgeted projections provides a basis for evaluating performance and signals the need for corrective action (Raghunanda *et al*, 2012:111). Performance budgeting is an analytic tool that provide information and insights which are not available through conventional approaches (Schick, 2007:110). So budgeting is the entire performance management process (Silva *et al* 2012:355).

National budget has to be well design, effectively and efficiently implements and adequately monitor and its performance must be effectively evaluated (Faleti *et al*, 2014:45). Sivabalan *et al* (2009:851) posits that, if an organisation places a high emphasis measure on using budgets for planning and control but not evaluation, the budget emphasis measure will classify the organisation as having low budget emphasis, as there are no items in this measure to acknowledge the use of budgets for planning and control.

### **3.8 Budget approaches**

There are a number of different approaches to developing a budget (Lunenburg, 2010:1). Lunenburg (2010:1) further outlines three common approaches which are as follows:

- Line-item budgeting (LIB);
- Zero-based budgeting (ZBB);
- Planning-programming- budgeting system (PPBS); and

#### **3.8.1 Line-item budgeting**

The line-item budgeting is a procedure where individual lines are used to describe allocations for various items of expenditure, such as salaries, textbooks, supplies and materials, contracted services, and capital outlay (Lunenburg, 2010:1). According to Ibrahim (2013:88) the LIB approach is also known as the “traditional budget approach”, “incremental budget approach”, “object expenditure or object approach”, “commodity approach”, “line-item” is the most commonly used term among writers .

Odden and Picus (2008) as cited buy Lunenburg (2010:1) states that, line-item budgeting is a common form of budgeting that was used exclusively in all public sector budgets prior to the 1960s. Consequently, Henry (1980) as quoted by Ibrahim (2013:88) posits that, all governments have always had some form of LIB. LIB is the simplest form of budgeting that connects the inputs of the system to the system (Faleti *et al*, 2014:46).

#### **3.8.2 Zero-based budgeting**

ZBB is a management process that provides for systematic consideration of all programs and activities in conjunction with the formulation of budget requests and



program planning (Ibrahim, 2013:95). According to McKay as quoted by Lunenburg (2010:2) under ZBB, administrators must start the budgeting process at zero every year, and they must substantiate all expenditure, new and continuing.

Banovic (2005:55) advocated that ZBB is a system where managers need to build each year's budget from the ground up, building a case for their spending as if no baseline exists- start from zero, and present their requests for appropriations in such a fashion that all funds can be allocated on the basis of cost/benefit or similar kind of evaluative analysis. However Faleti *et al* (2014:46) notes ZBB as a response to an incremental decision making process whereby the budget of a given fiscal year [FY] is largely decided upon by existing budget of FY-1.

Ambe *et al* (2008:2540) proposed four questions that need to be considered when using ZBB, these questions are:

- Should the functions be performed at all?
- At what level of output is the function to be performed
- Is the organisation doing too much?
- Is the function performed in the current way?
- What should the cost be?

According to Ighodaro & Oriakhi, 2010; Kighir, 2013 as cited Okpala (2014:28), ZBB approach which optimizes intra- sectoral allocations. ZBB was originally developed for use in government organisations as a way to justify budget requests for the succeeding year (Lunenburg, 2010:2). Ibrahim (2013:95) further explains that, the purpose of ZBB is actually to force management to identify and analyse what they are going to do in total, and consequently, to set goals and objectives, make necessary operational decisions, and evaluate changing responsibilities and workloads as an internal part of the budget process.

### **3.8.3 Planning-programming- budgeting systems**

PPBS were developed to provide managers with objective information to aid in planning programs and for making choices among the alternative ways of allocating funds to achieve organisational goals (Lunenburg, 2010:4). According to Ibrahim (2013:93) the PPBS is an attempt to integrate the decision that involves how much money to raise and spend into a more comprehensive process of program planning

and analysis. PPBS is the link between the line-item and program budgets and more complex performance budget (Faleti *et al*, 2014:46).

PPBS focus on output of programs, whereas traditional budgeting approaches tend to emphasize on expenditure inputs (Lunenburg, 2010:4). Mikessell as quoted by Ibrahim (2013:92) in PPBS process, programs are valued so highly that government functions are classified into a hierarchy of programs, sub-programs, activities, and sub activities, which may or may not correspond to the organisation of government.

### 3.9 Budget criticisms

According to Goode *et al* (2011:209) the budget culture has restricted the ability for a firm to reshape into a modern business because the budgets reign and contain management behaviours into old paradigm. While the use of budgets for planning and control also may be problematic, these difficulties may partly result from the use of budgets for evaluation (Sivabalan *et al*, 2009:855). Sivabalan *et al* (2009:855) further states that, when companies use budgets to evaluate staff, staff may engage in game-playing during the period of the planning stage. Therefore, planning and control difficulties result from the use of budgets for evaluation (Sivabalan *et al*, 2009:855).

Carreras *et al* (2011:6) identified problems with budgets such as:

- Time consuming and expensive
- Too rigid and narrow
- Protectors rather than reducers of costs
- Focusing employees on meeting the budget rather than satisfying customers and other stakeholders.
- Rewarding negotiation not performance

Cardos (2014:485) outlines most cited weakness of traditional budgeting in the table below:

**Table 3.4: Weaknesses of traditional budgeting**

<b>Budgets</b>	“Are time consuming and costly to put together
<b>Budgets</b>	Limit responsiveness and are regularly a barrier to change;
<b>Budgets</b>	Are seldom strategically focused and often inconsistent;
<b>Budgets</b>	Add little value
<b>Budgets</b>	Concentrate on cost reduction and not value creation;
<b>Budgets</b>	Are established and updated rarely, usually annually;
<b>Budgets</b>	Are based on unfounded expectations and guess-work
<b>Budgets</b>	Strengthen vertical command and control;

<b>Budgets</b>	Reinforce departmental obstacles rather than encourage knowledge sharing
<b>Budgets</b>	Makes people feel underrated
<b>Budgets</b>	Budgets predominant theme in the literature is used merely as a planning tool.
<b>Budgets</b>	budgeting processes used in organisations are failing to deliver results
<b>Budgets</b>	Add limited value to the business management.
<b>Budgets</b>	Are too time consuming and costly to undertake
<b>Budgets</b>	Encourage internal politics rather than driving business performance”

**Source: Own construction from Cardos (2014:485)**

Budget weaknesses lead towards businesses underperforming (Cardos, 2014:485). However Goode *et al* (2011:209) suggests the following budget weakness:

- ✓ Budgets lack strategic focus and value creation, instead the aim is always cost reductions.
- ✓ The bureaucratic style restricts flexibility which in turn impacts a firm’s creative instincts.
- ✓ Annual budgeting is too infrequent therefore feeding into the unresponsive argument.
- ✓ Employees may not react well to having controls forced onto them thus having the potential to de-motivate.
- ✓ Also the top down style of budgets strengthens vertical command structures, which can lack adaptability and responsiveness.
- ✓ Working to budgets can cause dysfunctional behaviour as managers are often under pressure to meet targets, this behaviour is also known as budget games.

### **3.10 Employee participation**

Raghunandan *et al* (2012:112) posits that the success of controlling an organisation depend largely on the actions of top management and their gratitude of the importance of thorough interpersonal relationships between different levels of the hierarchy. The author further states that management accountants through the budget process can motivate employees and improve attitudes amongst managers towards budgetary control. Involving all people in the budget process is necessary to ensure that budget implementation becomes a success.

### **3.11 Budgeting for:-**

#### **3.11.1 Non-Governmental Organisations**

According to Kostianen (2012:10) the term NGO is used to describe a wide range of organisations from small to large, from local to international, and from advocacy groups to project implementers. Non-governmental organisations are supported financially through a variety of sources including government contracts and grants, private foundations, multilateral organisations and private corporations and individuals (Tanaka, 2007:163). Non-profit organisations compete with other non-profit organisations for limited funds, which can restrict their organisational life cycle and opportunity for growth (Clark, 2012:33).

Purtell and Fossett (2009:100) state that non-profit agencies are likely to feel increasing pressure to adopt many of the financial-accountability measures that currently are in place for publicly-traded companies. According to Shume (2015:31) budgets are generally more important to not-for-profit organisations than to commercial enterprises because a not-for-profit organisation's budget is a blueprint of how it expects to use its limited resources to further its programmatic mission, while it is nice for a commercial organisation to have a budget that anticipates a profit increase. However, Clark (2012:37) notes that Non-profit organisations are confronted with depleting budgets as a result of limited financial resources.

#### **3.11.2 Company**

The budget of a company is considered as one of the important tools in the business management process (Vaznoniene, 2012:37). According to Schick (2007:134) in companies the budget is an internal tool or document that is exempted from accounting norms and standards. Each company prepares a budget in a format that is suitable for the firm (Schick, 2007:134). Budgets differ from company to company because a budget serves many purposes. The spirit of financial management in the private sector is to regulate which capital investments are important and profitable to the firm (Ermasova and Vick, 2015:2). Profit making organisations considers budgets and budgetary controls as important components in their policy making (Anohene, 2011:15).

### 3.11.3 Government

The use of budgets in government circle long preceded its application in enterprises or the business sector (Isaac *et al*, 2015:1). Public sector/service budgets have the same characteristics as private sector budgets however the major difference is that the former is an instrument of governmental control and is not designed with a focus on profitability (Raghunandan *et al*, 2012:114). Olurankinse (2012:146) suggests that budget is prospective in the sense that it refers to expected future revenue and expenditure, in the Federal Government circle the budget is greatly limited in legal status. According to Tyler & Willard, and Mikesell as mentioned by Purtell *et al* (2009:96) Government accounting and budgeting systems historically have been designed to maximize central control and prevent theft through the use of fund accounting, line item budgeting, and central budget agency control over allocations and transfers.

Freeman, Shoulders, Allison, Patton and Smith (2011:121) notes that budget provisions in the government constitutions and laws are designed to ensure that government revenues and expenditures are properly planned, authorized, controlled, evaluated, and reported to the citizenry, legislature, and creditors. Therefore through budgets, governments indicate how much it is willing to spend on public purposes, set substantive policy priorities within overall spending levels, determine the amount that must be borrowed in order to finance approved spending levels, and thus influence the economy (Ekoecha, 2012:64).

Schick (2007:2) advocates that without reliable financial controls, the budget cannot be used for other important government functions such as managing the economy, improving administrative efficiency, and formulating public objectives and priorities. Thus the budget approval in the public sector (Government) occurs at three stages namely ministerial approval, executive approval and legislative approval (Olurankinse, 2012:147). Deng *et al* (2011:76) postulates that the public budget, serving as a reflection of the collective public interest and as a legal constraint on government spending, is an effective tool in ensuring good governance and public interest.

Financial management in government generally consists of three major components which are:

- ✓ budgeting, that is, the process of resource generation, allocation and managements;
- ✓ Accountability which aims at honesty and judicious use of public funds and,
- ✓ Control which provides organisational structures for effective implementation (Ugoh *et al*, 2009:839).

In Governmental circles, as opined by budgets are used to assist management control and to provide the legal authority to levy taxes, collect revenue and make expenditure in accordance with the budget provisions (Malgwi *et al* 2012:2). Given the importance of the budget in government, government officials must have timely, useful, up- to-date information on how actual operations during the year compare to the budget (Freeman *et al*, 2011:121).

Public finance is a political system by which a society decides the kind and level of resources that should be collected as well as the kind and level of public goods and services that should be provided, and ensures that the resources are used as intended (Deng *et al*, 2011:77).

### **3.12 Types of Budgets**

#### **3.12.1 Cash budget**

A cash budget is defined as a tool used to alert business owners about potential problems such as cash shortages as well as the opportunities that could arise from cash surpluses (Amoako *et al* as cited in Mungal, 2014:16). Budget decisions are made based on cash injections and cash outflows from the business (Abdurahman, Addinall, Chader, Daniels, English, Green, Shade and Bruwer). Spending ministries are given budgets which are defined in terms of accrual concepts and, in particular, that the budget sets quantitative limits on the expenses which they incur rather than the cash payments they make (Robinson, 2009:2). Cash budgeting is more reliable indicator of a firm's current situation (Schick, 2007:134).

### **3.12.2 Capital budget**

Capital budgeting is about making decisions on capital projects such as land and buildings, purchasing vehicle and infrastructure. Thus like any other organisation, the government is involved in budgeting for all the aspects of government including purchasing of assets, maintenance, construction of infrastructure, running of schools and hospitals and many other projects. The Capital budget provides an explicit expression of the government's role in the economy and the society (Tanaka, 2007:148). When one creates a budget, they are creating a plan for spending and saving money through control (Malgwi *et al*, 2012:2).

Capital budgeting is practiced in both public and private businesses, in societies and organisations (Suberu, 2010:17). Therefore Isaac *et al* (2015:1) suggests that budgeting is a key policy tool for public management and management of the firm; it is a familiar activity to many as it is practiced in our private lives as well as in businesses and in, government. Capital budget identifies public priorities by allocating resources and distributing the responsibility for financing those activities (Tanaka, 2007:148). Malgwi *et al* (2012:2) further state that, budgeting involves understanding of how much money you earn and spend over a period of time.

For a budget to be translated into concrete planning tool, goals and objectives should be clearly defined and targets should be met in times (Malgwi *et al*, 2012:2). In a nutshell, organisations both public and private should ensure that capital projects are completed in time so as to encourage investors. According to Isaac *et al* (2015:2) a budget protects and controls the way management reacts to proposals brought before it, while also examining the present and future cost as well as benefits associated with such a proposal. Carreras *et al* (2011:6) concludes that the budget should not be considered absolute or infallible, it should not place managers in financial "straitjacket" but rather hold them responsible for keeping the organisation on schedule in reaching its objectives, and the budget must not be an end to itself but rather a means to an end.

### **3.12.3 Sales budget**

Sales budgets should be given special attention as they have a major impact on other budgets (Tenovici, n.d.: 261). Hansen, Mowen and Guan (2009:254) define the

sales budget as the projection of expected sales for each product in units. According Tenovici (n.d.:261) lack of sales budget in an organisation can cause difficulties, table 3.4 below unpacks those impediments:

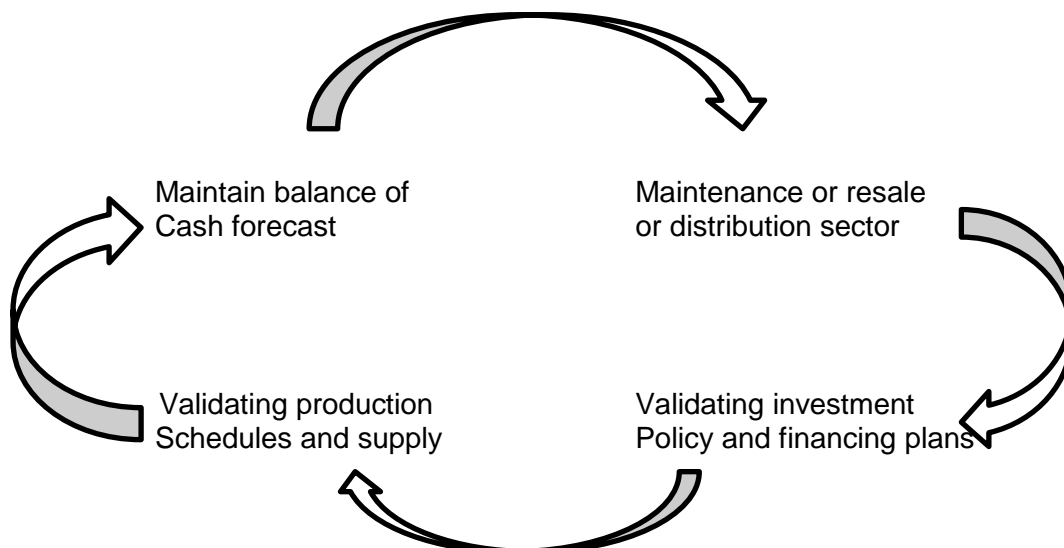
**Table 3.5: Obstacles of non-implementation of a sales budget**

<b>Lack of sales budget</b>	“Can cause inability to assess the global performance of an organisation
<b>Lack of sales budget</b>	Can cause inability for an organisation to react swiftly to changing market conditions
<b>Lack of sales budget</b>	Can influence management of an organisation to limit or reduce expenditure for products or other departments
<b>Lack of sales budget</b>	Can cause impossibility of sales models and limit the identification of deviating in terms of sales targets”.

**Source: Own construction from literature**

The sales budget has a huge impact within an organisation, it determines the profit margins and the future growth of the organisation. If and when sales are low or sales targets are not met, management should think of a turnaround strategy to ensure that the firm remains competitive in any market that it competes in. figure 3.2 below illustrates the influence the sales budget in an organisation.

**Figure 3.2: Influences on sales estimates in a firm**



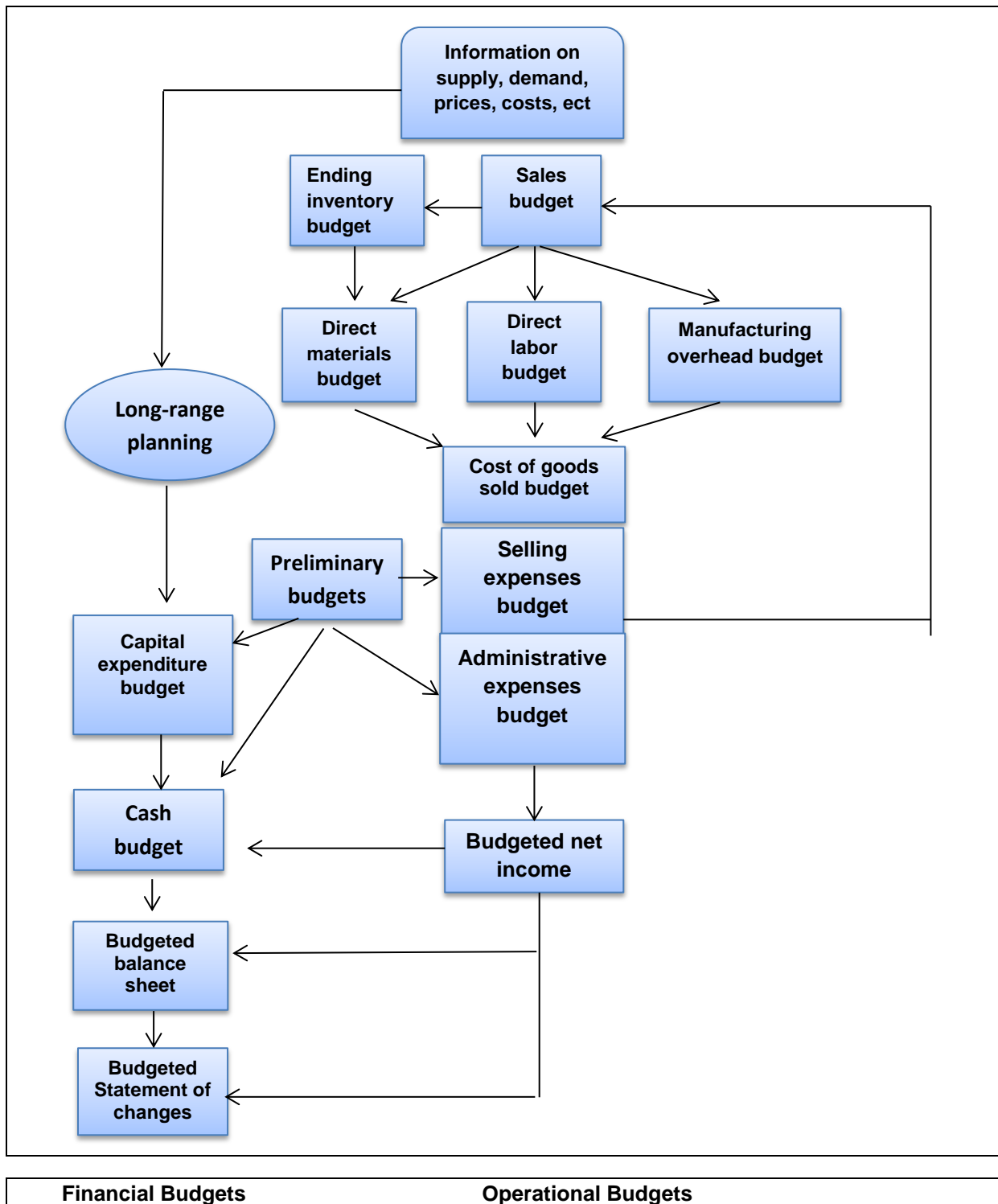
**Source: Tenovici (n.d.:257)**

It is management’s primary goal to ensure that sales forecast are attainable. Budgeting depends on accurate sales forecast. Sales forecast are projection of



possible sales for a company. Figure 3.2 below illustrates the master budget that has to be utilised in an organisation. One the aims of a master budget is to connect all the different budgets to the lowest level activities or items of the organisation.

**Figure 3.3: The Master budget**



Source: Author's own construction

According to figure 3.3, the master budget is developed in a sequential process whereby information from another budget is used to develop, monitor and control another budget. The master budget's purpose is to bring all budgets of an organisation together, which means each and every department within an organisation should put together its own budget to show how it will spend the money. If the master budget is not implemented effectively the organisation may not make profits. A master budget is part of an overall organisational plan for the next year made up of three components: (1) the organisation goals, (2) the strategic long-range profit plan, and (3) the tactical short-range profit plan (Lanen et al, 2014:490).

### **3.13 Existing models of budgeting in the Western Cape Government**

According to Gollwitzer (2010:5) the World Bank and the International Monetary Fund developed a framework named Medium-Term Expenditure Framework (MTEF), which was formally adopted by some African countries in 2001. The introduction of MTEF led to improvement of budget preparation, budget execution and monitoring (ed. Shah, 2007:19). The MTEF is intended to facilitate a number of outcomes such as macroeconomic balance, improve resource allocation, budget predictability for ministries and efficient use of public funds (Le Houerou and Taliervo, 2002:4). The MTEF system in South Africa utilises key sets of budget documentation to extract strategic information for decision making, to ensure commitment to decisions taken and to enable accountability (Folscher *et al*, 2006: 15).

The South African government plans its budget by using the MTEF budget process. MTEF is a key tool that supports and improves planning of budgets in the government, it further brings resources, key policy issues and government programmes together. According to Shah (2009:238) in his own words state that "The initial experience with the MTEF in South Africa, started in 1994, lacked political involvement, and had no clear link with the budget preparation process". Thus taking these challenges into account, the government in year 1997 merged the MTEF and the budget process.

It is important for the MTEF to have political involvement and a clearer link between the MTEF and the budget preparations process. After a rocky start South Africa had

a turnaround strategy in 1997 and formulated a framework that will link the preparation stages and the MTEF. Table 4.1 gives further detail about how the preparation and the MTEF link.

**Table 3.6: The Link between the MTEF and Budget preparation in South Africa**

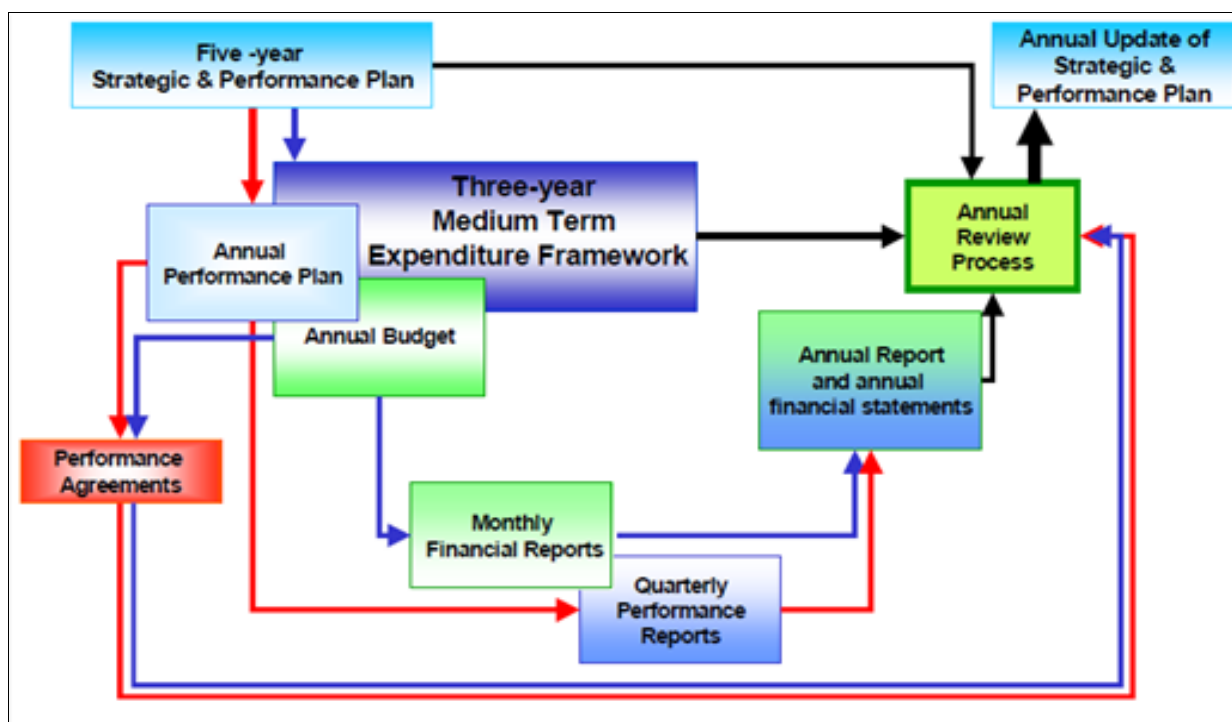
<b>Initial Policy review</b>	“The review takes place from May to September, where cabinet considers spending priorities.
<b>Preparation of MTEF/ budget proposals</b>	Line ministries or departments must submit proposals to the Ministry of Finance by August.
<b>Review of proposals</b>	During August and September, the provincial and national MTEC, composed of senior officials from the Ministry of Finance and other ministries evaluate the MTEF budget.
<b>Submission to Cabinet</b>	The Ministry of Finance submits to the cabinet the draft Medium Term Budget Policy Statement and adjustment estimates for approval
<b>Finalisation</b>	In November after the cabinet has approved the MTEF allocations, an allocation is given to ministries”

**Source: Author’s construction from (Shah, 2007:238-239)**

The Ministry of Finance submits to the cabinet the draft Medium Term Budget Policy Statement and adjustment estimates for approval, adjustments and new policy options should be clearly articulated by National Treasury when there is a need for any significant funding needed. Additional information on Capital and current projects should be furnished by the departments to National Treasury and the cabinet, these institutions should be informed about when the projects are likely to start. After approval by cabinet, the MTEF allocations are sent to the ministries concerned where these are to be implemented. The financial risks and possible liabilities that are not identified on the MTEF budget cycle have to be disclosed by the implementing department (National Treasury, 2005:1).

However the framework below explains the links between planning, budgeting and reporting for provincial government departments, and the documentation the department needs to compile in relation to each of these processes. The budgeting framework is illustrated in figure 4.1 below.

**Figure 3.4: Planning, budgeting and reporting framework**



**Source: National Treasury (2004)**

Five year development plans for national economies are a normal phenomenon in budgeting for government departments. Some governments use centralised state planning committees, in other instances governments have come up with extended plans going beyond 30 years. Generally each plan [five year] deals with aspects of development including capital goods, consumer goods, communications, transportation, agriculture, health, etc. These five-year programs outline what is to be done and achieved for the duration of the plan.

### **3.13.1. Five year Strategic**

Five year strategic plan is a document that is compiled by the governing party that is linked to the voting cycle. Thus a newly elected provincial governments and MEC's drafts a five year strategic plan that will outline strategic policy priorities and plans for the next five years (National Treasury, 2004.np). The five year plan will guide the new government on budgeting process and policy prioritisation. Therefore the various stakeholders will interact with National Treasury so as to put together the MTEF. The MTEF budget information shows the linkage between planning and budgeting.

### **3.13.2 Annual Performance Plan (APP)**

The annual performance plan (APP) is a document that ensures that the strategic plan implemented effectively and efficiently in annual basis through setting out performance indicators and measurable objective. Thus a National department or a provincial department will draft an APP that will set out what the department intends to do in the upcoming financial year towards achieving the full implementation of the five-year strategic plan (National Treasury, 2004.np). Before the budget is assigned the Medium Term Expenditure Committee (MTEC) will meet to discuss key priorities and policies. MTEC is a group of Senior Managers within a department.

### **3.13.3 Annual Budget**

According to Public Finance Management Act 1 of 1999 (South Africa, 1999 “the Member of the Executive Committee or the Minister for finance in the province or national department must table the provincial or national annual budget for a financial in the provincial legislature not later than two weeks after the tabling of the national annual budget”. In compiling the annual budget Financial Management with in a department must distribute the prescribed schedules to all programme managers with a request to prepare the budget breakdowns in conjunction with the programme strategic plans. Thus the accounting officer of a department must each year before the beginning of the financial year submit a monthly breakdown of anticipated income and expenditure (Cash Flow) of a department to the relevant treasury (South Africa, 1999:50).

Budgets are a reflection of and are compiled in line with the organisational strategic objectives and priorities. All business units prepare their operational plans in line with the APP. These plans are matched with the approved budget allocation letters issued to each business unit to execute the operational plans. All operational plans are monitored for both achievements of targets as well as budget performance against the targets

### **3.13.4 Monthly financial reports**

The accounting officer of a department must compile cash flow statements and in-year monitoring assessment reports of actual expenditure and projected expenditure on monthly basis. These reports must be submitted in format prescribed by the relevant treasury (South Africa, 1999:50)... Thus these documents should be

submitted to the relevant treasury and the Minister or MEC responsible for the department within 15 days of the end of each month (South Africa, 1999:50). If there are any deviations from what was projected and what was actually spent, the accounting officer must give an explanation to the relevant treasury and remedial action that will be taken to avoid any deviations from reoccurring.

### **3.13.5 Quarterly Performance Reports**

Quarterly performance reports (QPR) are compiled and submitted to the relevant treasury. These QPRs reports on departmental key goals and objectives as indicated in the APP. The purpose of the reports is to assess the performance of a department on financial or non-financial issues. Progress of departmental performance against the budget and strategic plan of both financial and non-financial is reported on quarterly basis.

### **3.13.6 Annual Report and annual financial statements**

According to Public Finance Management Act 1 of 1999 (South Africa, 1996:48) accounting officer of a department to prepare financial statements for each financial year in accordance with generally recognized accounting practices and standards. The act further states that those financial statements should be submitted within two months after end of the financial to the Auditor- General and the relevant treasury to be audited.

At this stage performance against the budget and strategic plan will be reported on, which will include performance report of the audit committee, annual financial statements and the oversight report on human resource management and service delivery. The Accounting Officer must within five months after the end of the financial year submit to the relevant treasury an annual report on or about the activities and the financial statements after they were audited by the Auditor General (South Africa, 1999:49).

### **3.13.7 Annual Review Process**

The executive authority of the National or provincial government must consider the annual report. Because the budget is an estimation of future expenditure, it is necessary that there be continuous review to evaluate the budgeted against the actual to measure the extent of expenditure.

If the allocation of these resources in the estimations (budget) is to be of any practical use, then there is a need to review the budget requests. The review assists with the coordination and the evaluation that will enable the allocation to maximise the benefits derived from these scarce resources. By definition therefore the budget review process is the evaluation systematically of the estimates submitted in the budget proposals from different units. It can be concluded therefore that;

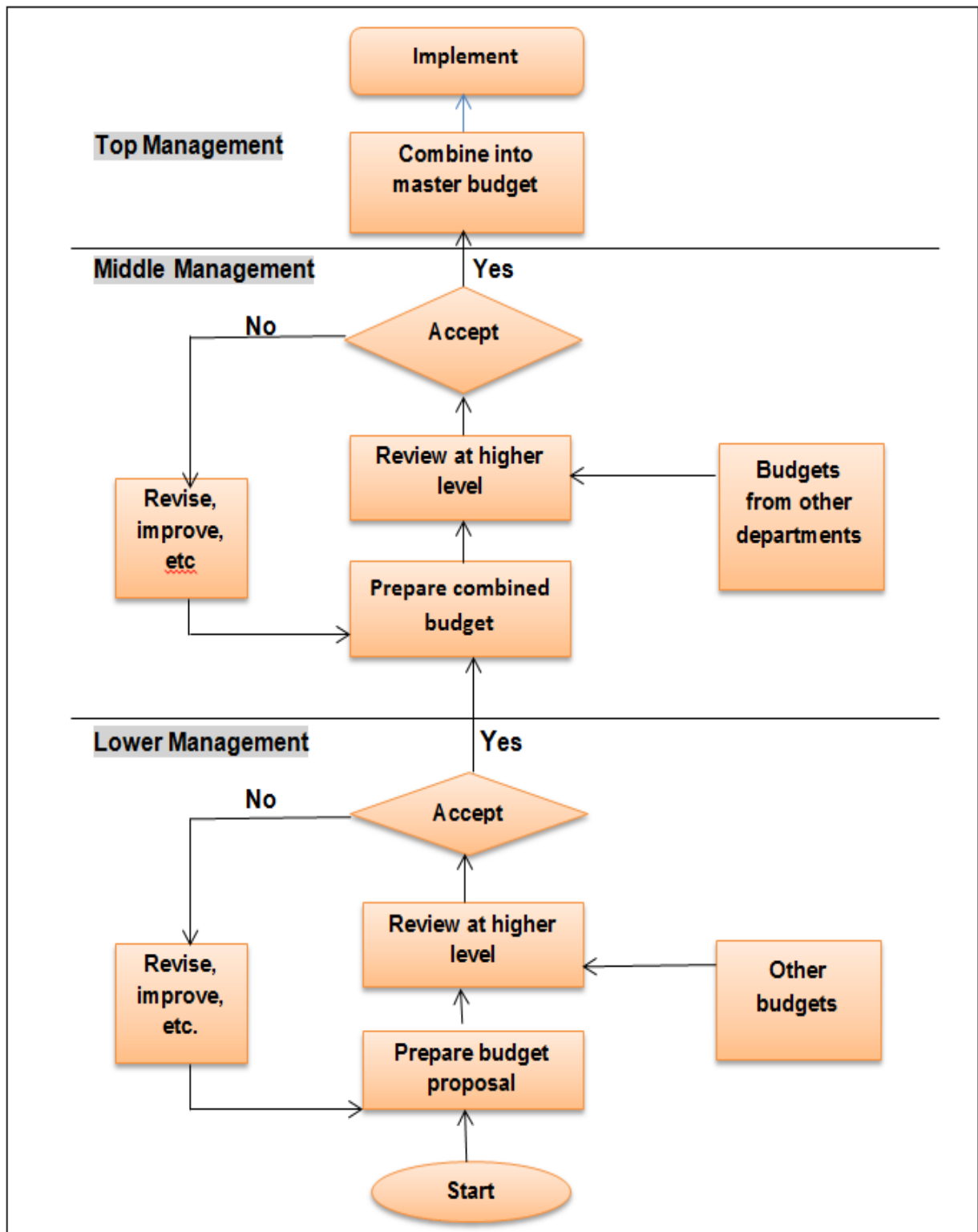
1. Proper planning assists with the proper allocation of resources,
2. Reviewing of the plans assists with the ultimate budget review, and
3. The proposals may not be formal until they have been reviewed.

In the government structure, there are many units that do budgeting at cost centres, and these will be down at lower management levels. At every higher level the proposals and or reviews done at that level are evaluated at subsequent higher levels. So, at every higher level these are discussed, revised, and synchronised (coordinated) with proposals from other units. This result in the master budget, which, if properly executed should be able to satisfy everyone contributing to the budgetary process.

The two basic functions of budgeting are planning and controlling by constant comparison of the budgeted (estimates) and the actuals (real expenditure). Thus there should be a budget review process that will outline the process in detail. It is import that the process should be done correctly. In most cases it is difficult to accomplish business and operational plans, thus is necessary to review the budget both quarterly and annually.

Budgets should be reviewed by organisations using the most recent and relevant information at its disposal so as to reflect what was budgeted for, how much it was budgeted for, how much it was spent on the particular item or project and how much is available or left to be spent. This process is done in order to review the performance of an organisation. Figure 3.4 below gives an overview of the budget review process.

Figure 3.5: Budget review process



Source: Author's construction from literature review



In figure 4.2 above shows that the budget review process begins at the lowest level of management and it works its way up to top management where budgets are integrated into a master budget. Therefore reviewing the budget helps an organisation to make effective decisions and set future direction. If and when budgets are reviewed continuously by management any underperformance can be detected in time and the necessary actions can be taken. There has to be a link between the plans, decisions and budgeting.

### **3.14 Conclusion**

Every government department needs a budgeting process that will enable it to plan, manage and execute its activities in the most efficient and effective manner in order to deliver services to the people it serve. The analysis of the budgeting process further enables the government department to implement, evaluate and restructure strategic and operational plans. The budgeting process should be documented clearly so as to guide the government and tell the taxpayers where their money is going.

From the literature above is it noted that the budgeting process should be regulated to ensure compliance with the Constitution of the republic and other legislative requirements. Some authors have criticized the budgeting process as time consuming and costly exercise to put together. However the process maximises budget control and financial control in the government. The types of budgets the government use should be documented clearly so as to be used as communication tools to both the organisation and the relevant stake holders.

## **CHAPTER FOUR: CONCEPTUAL FRAMEWORK**

### **4.1 Introduction**

In order to have a better understanding of the problem statement linked to this research it is useful to explore conceptual models which can support this study. This chapter unpacks the theoretical perspective that this study has derived on. The study attempts to explore the importance of budgeting theories and frameworks in order to reach the objectives of this research. Thus this chapter gives the conceptual framework underpinning this research. The intention of the conceptual framework is to explain the budget process in the public service in general, and the selected department in particular in view of the problem statement.

A conceptual framework is a structure of concepts, assumptions, expectations, views, and theories that support and inform the research (Maxwell, 1996:25). The conceptual framework and the literature review were developed in parallel, literature that was chosen for this research was chosen with the intension that it would contribute to the conceptual framework particularly because of the area, definitions it covered.

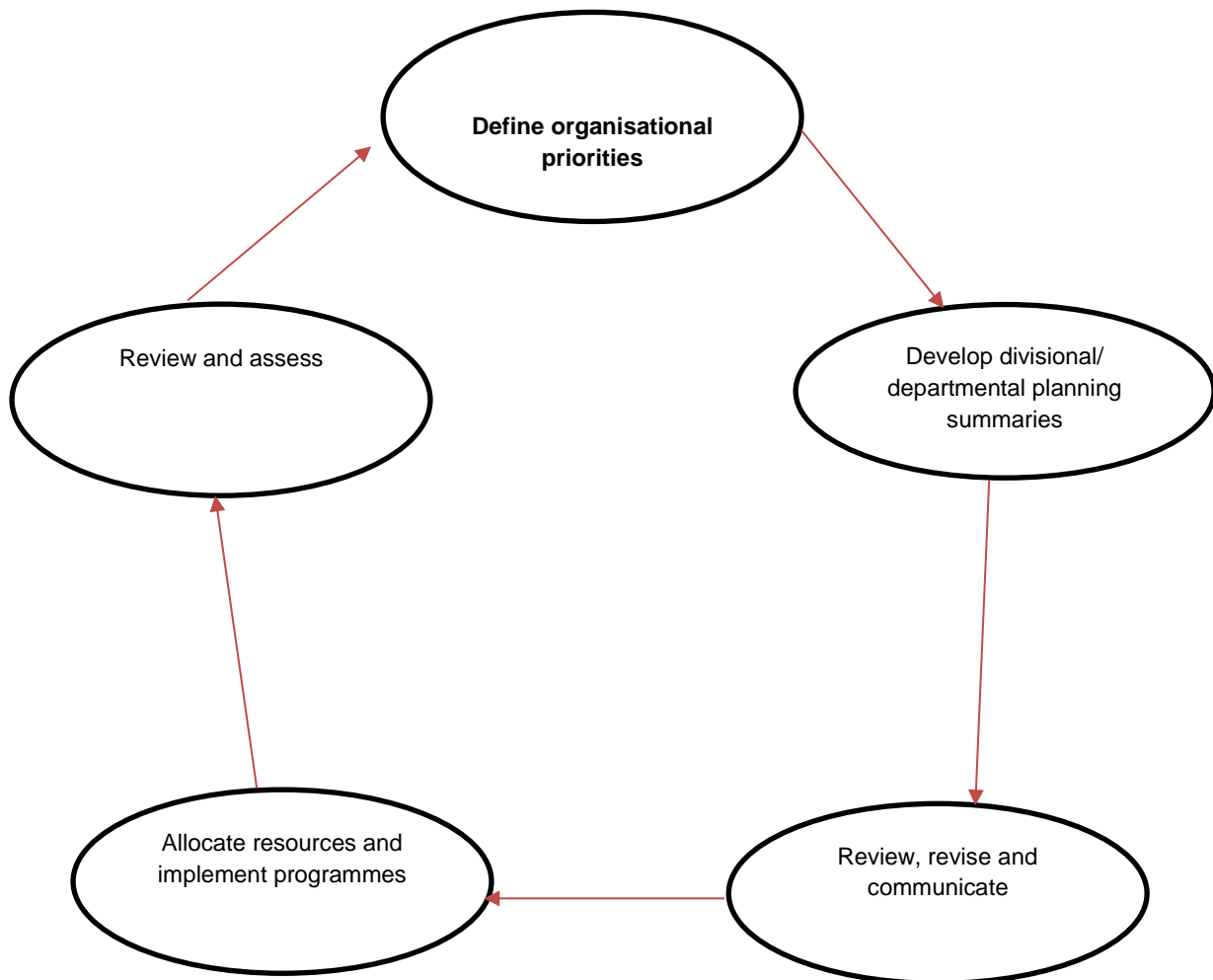
Theoretical framework or conceptual framework is a uncertain theory, and theories explain phenomena like relationships and behaviour (Mihindoum, 2014:125). Mihindoum (2014:126) further adds that in her own words “An ideal conceptual model comprises of what is found in literature and the unrecorded knowledge and information that resides with the experts and other sources associated with the subject under investigation.

### **4.2 Budget impact**

For an organisation to operate effectively a clear direction of where the organisation is leading must set leading to what the organisation is aiming to achieve. Thus clear norms and standards would have to be in place so that goals and objectives can be achieved. Generally organisations need good budgeting in order to be fully effective and productive. For a budget to improve and increase productivity it has to be used as a planning and controlling tool. Qualified and skilled employees need to be afforded the opportunity to prepare, implement and monitor the budget.

A budget is founded on a set of expectations that may change with time or as soon as it is published (CIMA, 2004:2). There are a number of budgeting models that are used by different organisations, figure 4.1 below illustrates a budget model that an organisation can use in order to formulate, implement and monitor budgeting.

**Figure 4.1: Budget Model**



**Source: Author's construction from literature review**

According to figure 4.1 above an organisation should first focus on defining and setting organisational goals, and set out a clear vision and mission statements. When priorities and goals have been defined, the budget should be aligned to organisational goals. Resources should also be aligned so as to meet the goals and objective of the organisation.

When the planning phase has been concluded it has to be reviewed continuously by a review committee within the organisation. The review committee should look at key priorities of the organisation, this committee may be made out of senior managers

and employees of the organisation. During the implementation phase financial and other resources should be align to match the priorities of the organisation so that the action plan can be executed. The funding should be incorporated into annual operating budgets.

After the budget has been implemented it has to be reviewed so as to answer the following questions:

- To what extent have goals and objectives been achieved?
- What is the response of the customers or the citizens?
- How should the next year's plans, goals and objectives be implemented and reviewed?

### **4.3 Values of budgeting**

Budgeting has been defined in previous chapter as a tool that acts as a roadmap. Budgeting is a tool that assists an organisation to establish the scope of business activities. Ambe *et al* (2008:231) suggests the following reasons for preparing budgets:

- To assist in the planning of annual operations.
- To coordinate the activities of the various departments of the organisation and to ensure that these departments are working towards the set goals of the organisation.
- To communicate plans to the various departmental managers.
- To motivate managers and workers to achieve the goals of the organisation.
- To control activities.
- To evaluate the performance of managers and workers.

Malgwi *et al* (2012:2) further states that, the essence of government relying on budgets is because it serves as a map of activities at all the tiers of governments. According to Silva *et al* (2012:354) there are four potential reasons for budgeting in an organisation:

- ✓ Operational planning.
- ✓ Performance evaluation.
- ✓ Communication of goals.
- ✓ Strategy formation.

#### 4.4 Advantages of budgeting

The process of budgeting helps Top management to move away from its short term goals, day to day running of the organisation to think long –term. One of the primary advantages of budgeting is planning orientation, resource allocation and profitability evaluation to ensure that meeting organisational goals becomes the main primary objectives of budgeting. The advantages of budgeting are outlined in table 4.1 below:

**Table 4.1: Advantages of budgeting**

	<b>Advantages</b>
<b>“Budgets</b>	Assist to create good communication between management and employee
<b>Budgets</b>	Assist to maintain suitable exchange of information
<b>Budgets</b>	Sustains resource allocation
<b>Budgets</b>	Assist in obtaining reliable, accurate and realistic budgets.
<b>Budgets</b>	Influences employees to develop a positive attitude the organisation and budgeting
<b>Budgets</b>	Motivates employees or subordinates
<b>Budgets</b>	Budgets are a guide for action
<b>Budgets</b>	Increases satisfaction felt by subordinates at work
<b>Budgets</b>	Clarifies responsibilities at work
<b>Budgets</b>	Decreases role of uncertainty
<b>Budgets</b>	Intensifies organisational commitment
<b>Budgets</b>	Intensifies employee accountability
<b>Budgets</b>	Budgeting controls employees to become devoted in attaining their objectives
<b>Budgets</b>	Assist to establish more realistic and attainable objectives
<b>Budgets</b>	Improves individual performance
<b>Budgets</b>	Improves organisational performance”

**Sources: Own construction from Tanase (2013:5)**

It can be concluded that from the table above the budgeting process encourages and forces management to think about why the organisation exists, where the organisation is going and how the goals of the organisation can and will be achieved. It can be further concluded that budgeting is one of the tools that motivates and guides subordinates to achieve their goals and it also holds them accountable towards their responsibilities. Tanase (2013:2) assert that budgeting influences employee’s attitude towards budgets and the budgeting process.

#### 4.5 Disadvantages of budgeting

If an organisation does not allow employees to participate in the budget process, employees will be less motivated, feel less satisfaction at work (Tanase, 2013:5). The budgeting process can be time consuming more especially in a poorly organised organisation. Table 4.2 below outlines the disadvantages of budgeting in an organisation that does not allow its subordinates or employees to participate in the budget process.

**Table 4.2: Disadvantages of budgeting**

	<b>Disadvantages</b>
<b>“Communication</b>	“During the budget process effective communication between management and employees can be difficult to achieve
<b>Time</b>	Budgeting can be time consuming and thus it requires determination
<b>People</b>	During the budgeting process It can be difficult to control employees to communicate, participate and to disclose information
<b>Bureaucracy</b>	Is bureaucratic
<b>Coercive</b>	Can be coercive
<b>Attitude</b>	Management and employees might not have an open attitude
<b>Top management</b>	Involvement must happen at top level of the organisation, which is difficult to achieve
<b>Resources</b>	In the budget process employees may manipulate budgets and resources allocation for their own benefit
<b>Motivation</b>	To avoid employee demoralisation, management should provide reasons for their lack of influence on the final budget
<b>Information</b>	In some cases employees may not have the relevant and the necessary information and knowledge that can validate their involvement
<b>Involvement</b>	Involvement can be seen by employees as a chore
<b>Responsibility</b>	Increased responsibility may stress subordinates
<b>Implementation</b>	Implementation of budgeting system involve costs
<b>Trust</b>	Common trust is important for effective budgeting”

**Source: Own construction from Tanase (2013:5)**

All organisation prepare budgets in order to be implemented by the people or employees. Thus it is crucial that employee participation is in the process in not ignore. For an organisation to operate efficiently management must attract people.

Budgeting influences subordinates' attitude towards the budget process (Tanase, 2013:2)

#### **4.6 The Budget Process**

The budgeting process consists of three distinct rounds, which require the submission of the following to the Provincial Treasury and National Treasury respectively. Budgeting process is top bottom in the department and in the provincial government as a whole. Employees are told what to do and how to do it by top management (Politicians), they do not participate in the budget process. An organisation that allows employees to participate in the budget process usually reap amazing benefits (Tanase, 2013:1). The departmental budget process is detailed below:

##### **4.6.1. Round One (July/August)**

The first round is one where the Department sets the scene and determines what its priorities are for the coming fiscal year as well as details its resource requirements. This set of information is contained in the Medium Term Expenditure Committee Submission (MTEC Submission) to be submitted to Provincial Treasury at the end of August each year.

The MTEC Submission contains an array of documentation which includes among others:

- An Accounting Officer's letter to Provincial Treasury detailing the strategic direction the Department intends pursuing and other required information such as reprioritisation plans, report on past performance;
- 5 Year Strategic Plan (where applicable)
- Annual Performance Plan
- Policy options
- Estimates of Provincial Expenditure (NT MTEC Database)
- Technical Indicator Reports

##### **4.6.2 Round Two (November)**

The second round of the budget process is one where the Department refines its submission and provides more concrete detail as to its policy direction as well as includes, if any, additional resource allocations as may be granted by the Provincial

Treasury. The preliminary submission date for this input to the Provincial Treasury is due at the end of November each year.

Key documents that are submitted to Provincial Treasury are:

- Revised 5 Year Strategic Plan (where applicable)
- Revised Annual Performance Plan.
- Business Cases (inclusive of Gap Analysis)
- Revised Estimates of Provincial Expenditure (NT MTEC Database)
- Technical Indicator Reports

#### **4.6.3 Final Round (January/ February)**

The third and final phase of the budget process is the refinement phase, where the Department refines its inputs as to the Annual Performance Plan and Estimates of Provincial Revenue and Expenditure. The Department will need to submit final printed proofs of:

- the Annual Performance Plan and
- Estimates of Provincial Revenue and Expenditure (NT MTEC Database)
- Appropriation Bill (detailing all transfers and subsidies to organisations).

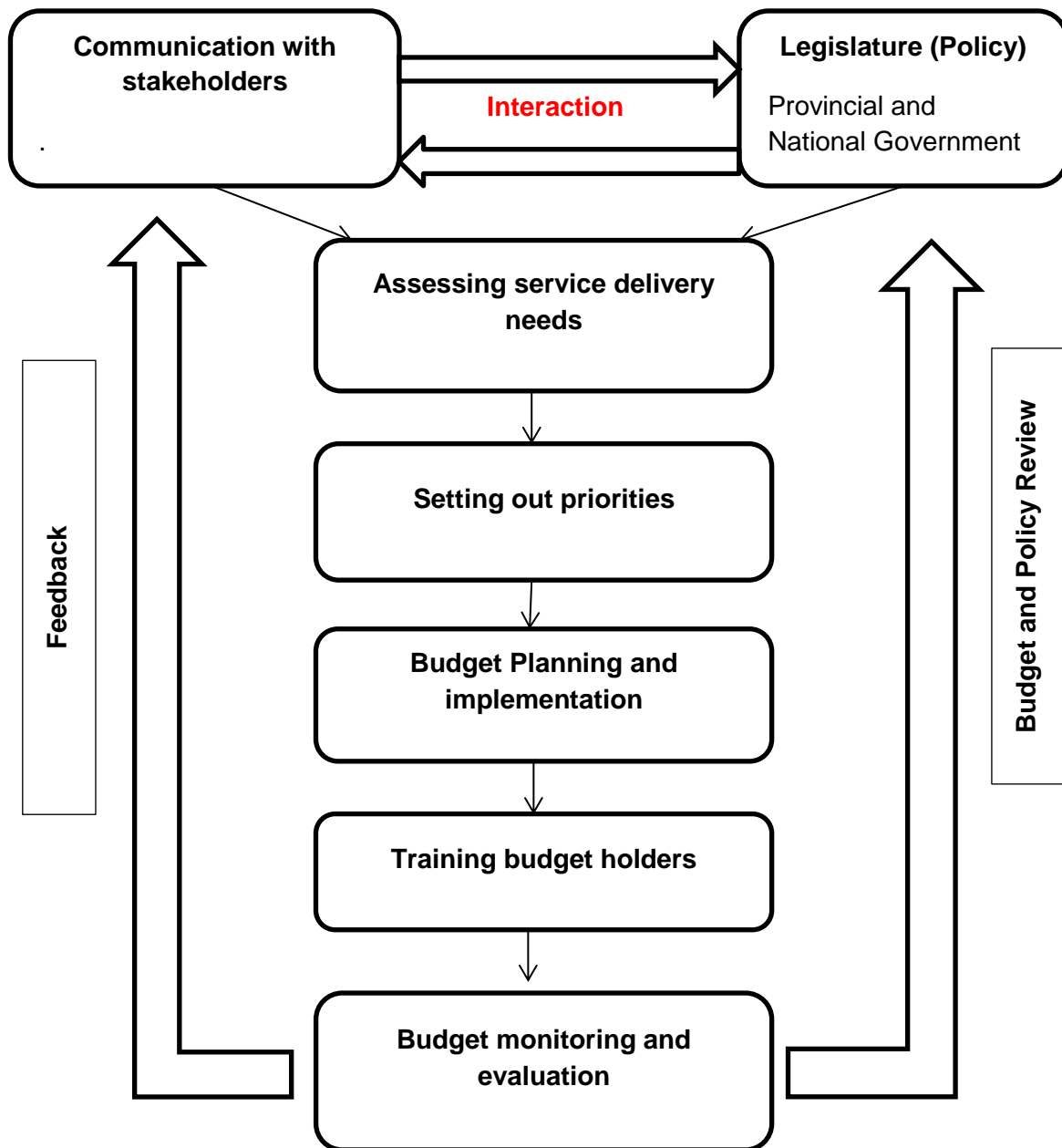
#### **4.7 Proposed conceptual framework**

The intention of the conceptual framework is to explain the budget process in the public service in general, and the selected department in particular in view of the problem statement. Building and improving the way budgeting is done in the government more especially the resource allocation process is crucial in ensuring that there is efficiency in how departments are run. The resource allocation process assists the government in aligning planning and budgeting process.

Thus the figure below gives a clear picture of the conceptual frame work that is proposed by the study to assist the department in formulating, executing and monitoring budgets.



Figure 4.2: New proposed conceptual framework (New Model)



Source: Author's construction from literature review

According to figure 4.1 Government should engage with its citizens before preparing a budget, due to the fact that they (people) need to know how their taxes are distributed. It is important for the government to review its policies and legislation to see if they are in line with the needs and promises made to the people and its spending plans. Thus after the interaction stage between the stakeholders and the

state, service delivery needs to be assessed in order to identify relevant resources that are needed.

After service delivery needs have been assessed it is important that the government should set priorities as to what can be achieved with the limited resources at its disposal, in order to address the needs of the people it service with diligence. During the budgetary planning, strategic objectives both physical and monetary objectives should be translated in such a way that they speak or are aligned to the budget, so that the government can implement the budget effectively and efficiently. However before budgets are implemented it is very important that budget holders or responsibility managers are well trained on how to capture numbers on budget templates, how to analyses budgets after money has been spent, and furthermore how to write a report about income and expenditure threads. Training budget holders will actually improve their financial management skills since most of them are non-financial managers. The conceptual framework further proposes that, measuring, monitoring and recording actual performance of both income and expenditure should be done on monthly basis in order to allow each responsible department enough time to take remedial action if and when the is a need.

The last steps would be for the government to review its performance both financial and non-financial at the end of the year, and to further give feed back to the people it serves. The performance of any establishment is determined by the skills levels of the practitioners in the business. It is therefore expedient that government departments should go beyond “cadre deployment” and train the managers continuously when it comes to financial management and budget management.

Khan, Khan and Khan (2011:63) state that training is the most crucial task that an organisation should do in order to enhance employee performance. According to Ganesh and Indradevi (2015:334) training is the attainment of skills and competencies. Training is the panacea for effective management in any enterprise, and to improve the organisational performance training should be given to all employees within an organisation (Khan *et al*, 2011:63). The research findings suggest that there is a marked difference in performance when employees are provided with appropriate training.

**Table 4.3: Guidelines for staff Evaluation and Development**

<b>Ability</b>	“Evaluate employee’s health and physical issues and decide if they can perform a task or not.
<b>Standards</b>	Evaluate how employees see their jobs in terms of understanding their key performance areas.
<b>Knowledge and Skills</b>	Evaluate employee’s knowledge and skills in performing their duties.
<b>Measurement</b>	Measure employee’s performance in terms key performance areas.
<b>Feedback</b>	Employees should get regular feedback on their performance
<b>Environment</b>	Ensure that employees are surrounded by all the tools they need to carry out their duties effectively.
<b>Motivation</b>	Incentives should be given to employees who perform satisfactory and bad performers should be punished

**Source: Authors construction from Alnaga and Imran (2013:143)**

Table 4.3 above shows that, no organisation should implement training and development programs without identifying abilities, knowledge and skills of its employees. Training and developing skills of employees is an important process that an organisation should do if it values the performance of its employees.

#### **4.8 Conclusion**

Although the budget process differs between the private and the public sector, one of the most important role players in the government budgeting process is the legislature which sets policies that drive the process. All the stake holders particularly the people the government serves should be consulted continuously. Parliament need to play a credible role in the budget process and to further ensure that public funds and others resources are utilised optimally.

Budgeting is one of management tools that assist management in planning and utilisation of resources of an organisation. As much as budgeting has its disadvantages, no organisation can survive without one. The new model that is proposed in this research is to ensure that budgets are prepared, implemented and monitored without any difficulties in order to enhance service delivery in terms of social services.

People involved in budgeting and financial management should be trained continuously in order to manage them effectively. Every organisation both in the private and public sector should have training and development programs in place in order to enhance employees' performance continuously. It is necessary to train and improve skills of managers particularly in managing financial resources of an organisation.

## **CHAPTER FIVE: RESEARCH METHODOLOGY**

### **5.1 Introduction**

Research is defined as a deliberate process used to establish facts (new or old) from which new concepts, theories or hypothesis can be developed (Suri 2013:83). Too often research can be a result of synthesis, analysis, or a combination of both based on previous research findings. This scientific inquiry leads to the establishment of new facts (Upadhyay and Singh 2008:178), testing new ideas, contradicting known facts or purely confirming existing knowledge. The research process entails the systematic and objective collection of data, which is subsequently analysed and interpreted to possibly answer a question or problem a solution to a problem.

The implication is that research starts with problem (Singh, 2006:3) which will involve thinking, employing specialized tools, instruments & procedures as part of the process to get the necessary information. Creswell (2008:3) posits that most researches done start with a problem, this leads to the collect of data which is then analysed and interpreted. The resulting findings will therefore be used for decision making, depending on the type and the reason for the research. .

The contemporary practice has become the use of the two major forms or types of research (qualitative and quantitative) methods to try to maximise the benefit of both in getting to the desired results. The two complement each other in that the quantitative research focuses on the quantifiable aspects of the research, whilst qualitative assists with identifying problem-focused causal factors, the relationships, or solutions to existing phenomenon.

### **5.2 Purpose of the study (problem statement)**

The government departments generally run out of budgets and thereby leaving many of the planned projects uncompleted. Too often this results in service delivery strikes, allegations of misuse of money, and too often with no one responsible or accountable. The purpose of this study is to try to understand the budgeting system and how the identification of any correctible anomalies that may assist in the delivery of government services to the citizens. Tools and techniques have been developed for decades now trying to improve the budget control and service delivery, and it

would appear little has changed. The primary purpose of this study therefore is to identify critical generic core problems or inhibitions to effective budgeting, budgetary control and implementation of the budgets thereof. The researcher is of the view that an understanding of the dynamics within that environment may create an ideal environment for effectively solving the problems of the department in question.

### **5.3 Objectives of the study**

An objective is a specific result that is to be achieved by an individual or system, in this case the research objective for this study is what has to be achieved through this research on budgetary systems in the department. The objectives for this study are classifiable into two, namely; primary and secondary objectives.

#### **5.3.1 Primary objectives**

Identify the extent of involvement of budget managers in the development of the budget processes with intentions to develop intervention programs.

#### **5.3.2 Secondary objectives**

To design models that can be used to enable the participants in the implementation processes to be empowered and more effective.

### **5.4 Research design and research methodology**

Jowah (2016:97) differentiates between research design and research methodology citing that the research design is the series of logical decisions taken in charting a map to be followed in the research process. This entails among other things, checking and minimising potential errors, developing or creating the foundations of measurement, identifying the tools and factors necessary and thereby deciding or designing a path to be followed in the research. The details of what constitutes a research design are tabulated below (table 5.1).

**Table 5.1: Choices to be made in construction a research design**

“States the numbers or groups, and	Allocate the scarce resources,
What the sample will be used for, or	How samples will be drawn, and
What is to be extracted from the sample.	The size of the sample to be drawn”

**Source: adopted from Jowah (2016:97)**

These actions above (table 5.1) are of tremendous significance in that they determine the direction the research process will take. It may be important also to state that, Blumberg (2008:195) suggests that the essentials for the research design are;

- the design is a time based activity
- based on the research question
- guides the selection of choices
- specifies variable relationships
- outline procedures for each activity

This is differentiated from the research methodology which is, by definition is the outlining of how the research will be conducted (research design is about what) within the prescripts of the research design. Table 5.2 below differentiates between the two closely related and too often interchangeably used concepts. This makes reference to how the data will be collected, for instance.

**Table 5.2: Differences between research design and research methodology**

<b>“Research design</b>	<b>Research methodology</b>
Strategic master plan	Operational or execution plan
Emphasises the road to be walked	Emphasises how the walking is done
Emphasis on what results are expected	Emphasis on tools/techniques for results
Guided by research problem / question	Guided by the tasks and work packages
Focuses on rationality of research	Focuses on procedures and processes
Focuses on the “what should be done?”	Focuses on “how should it be done?”

**Source: Jowah (2014:74)**

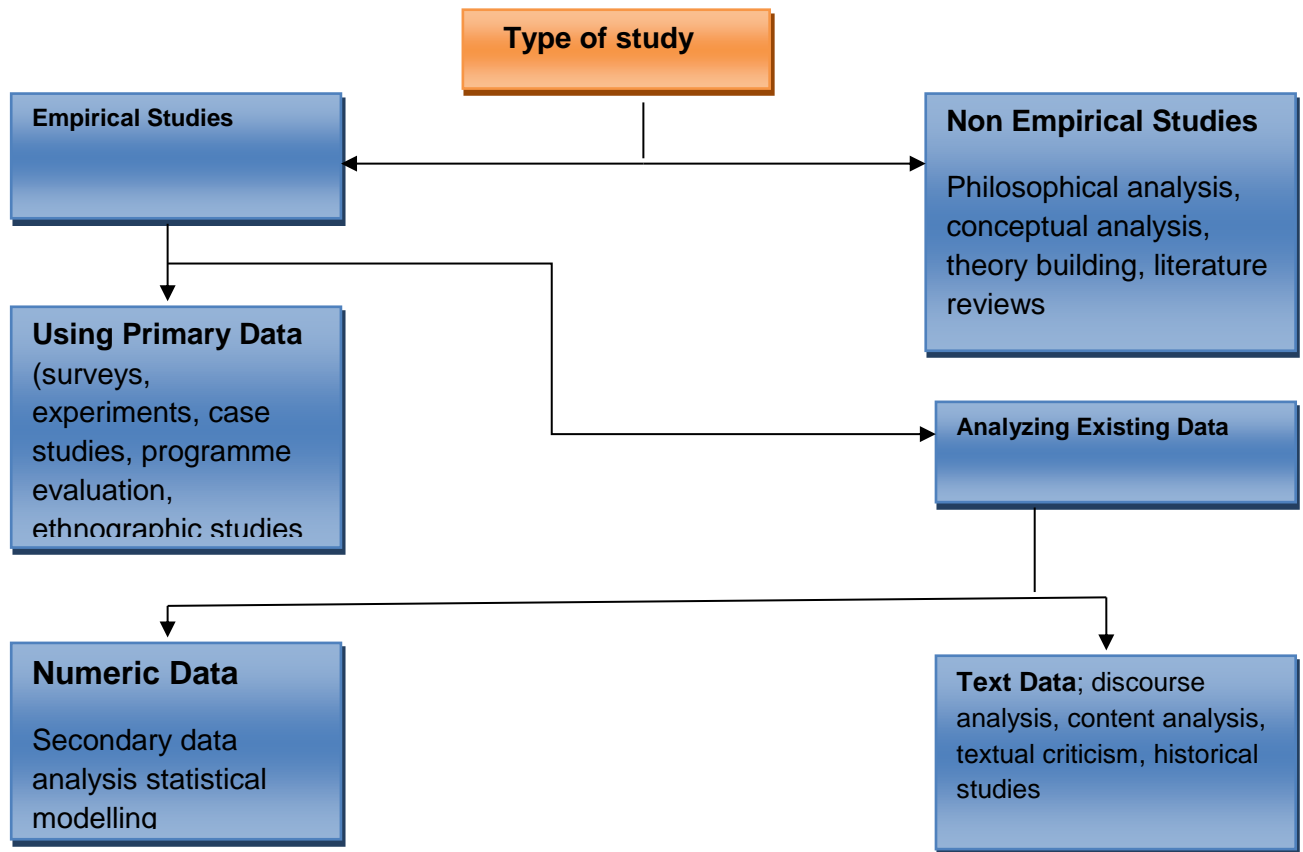
The research methodology and research design are constantly confused with each other to the extent that too often they are used interchangeably. Whilst the two are interconnected, they simply complement each other but are not the same.

### **5.4.1 Research Design**

Research design, the blueprint and structure designed for the collection of data, measurement and analysis of that data, followed by interpretation (Blumberg, 2008:195) assist in the process of meeting research objectives. This logical framework (David and Sutton 2004:134) ensures that the evidence enables the

researchers (and those utilising the findings) to be able to answer to the problems under investigation. The plan in this study includes among other things, the interviews, recording of the interviews, and analysis of the captured data. There are two types of research designs, and these are illustrated in figure 5.1 below.

**Figure 5.1: A Typology of research design types**



**Source: Mouton, 2008:57**

There is a need for congruence between the design and the methodology chosen as the first feeds into the later. The diagram above shows the paths that will be followed by the design depending on whether the research was empirical or non-empirical. The current research that was undertaken was empirical and therefore involved the use of collecting primary data using an instrument – the questionnaire.

#### **5.4.2 Research method**

The three main methods that can be used are, exploratory research (identification or definition of a problem or question), constructive research (testing of theories and suggestion of solutions), and empirical research (testing feasibility by use of



empirical tests). This research is both academic and action research trying to find a solution to an existing and practical problems encountered by government departments. The research is primarily focused on describing the prevailing situation in the government department under study.

The survey involved the use of combined qualitative and quantitative research methodologies were used. Qualitative research focused on the behaviour of human beings, their attitudes and reasons why they do certain things. Quantitative research focused on trying to explain and describe phenomenon and relationships. Statistical methods were used and was correlational, empirical (descriptive) her help establish causal relationships. The section below provides details on the population, sample, sampling methods, sample size, the instrument, data collection, data editing and cleaning.

**Target population;** Bikitsha (2010:38) posits that population is a collection of items to be measured (objects, people, etc) who have the same characteristics. Jowah (2015:123) concurs and posits that a population depends on what is to be measured and the same must have identical measurable characteristics. This population must possess the characteristics and or variables that are to be measured. The research was conducted at the Western Cape Department of Social Development in the Western Cape Provincial Government (WCDSO). The core business of WCDSO is to provide social services to the poor, most vulnerable and people with special needs (Western Cape Government website, 2016). The services that are rendered by the department are listed in table 5.3 below.

**Table 5.3: Services of the WCDSO in the Western Cape**

<ul style="list-style-type: none"> <li>• “Child Care and protection.</li> </ul>	<ul style="list-style-type: none"> <li>• Care and service to families.</li> </ul>
<ul style="list-style-type: none"> <li>• Early childhood development.</li> </ul>	<ul style="list-style-type: none"> <li>• Substance abuse.</li> </ul>
<ul style="list-style-type: none"> <li>• Care to older persons.</li> </ul>	<ul style="list-style-type: none"> <li>• Care for the disabled”</li> </ul>

**Source: Author’s construction**

The population for this study comprised of people directly involved in budgets, in this case managers working for the Western Cape Department of Social Development (WCDS). These individuals in management positions are (were) involved in the construction and implementation of the budgets. Their positions are, namely; Head of Departments (HODs), Chief Directors, Directors, Deputy Directors and unit managers.

**Sampling frame > sampling unit and sampling fraction;** Individual members of the study population were identified in terms of their relationship with the budgeting process, and these were listed (sampling units) which comprised the sampling frame. It was considered necessary to list the number of sampling units to help establish the appropriate sampling fraction. For generalisation purposes. The total number of employees in the department is 649, of these 80 of them perform a managerial function as supervisor, manager and above. The sampling units for the study are 80.

**Sample size;** The size of the sample was largely determined by the access to the sampling units since all these people work in one large building. It was convenient to reach out to as many as possible, and if needed be all managers could have been approached for the research. A total of 80 sample units were approached giving a sampling fraction of 100%, all these were approached in person to avoid a low response rate. This was considered large enough for any generalisation of the findings to be valid.

**Sampling (non-probability sampling);** Jowah (2015:126) defines sampling as the process of identifying, selecting and separating a representative part of the population of the objects or individuals from which a survey will be conducted. Sampling is crucial for research purposes, and it needs to be done correctly as its implications are far reaching (Jowah, 2015:130). Kothari as quoted in Bikitsha (2010:38) state that “there are two types of sampling techniques which are probability and non- probability sampling. The two commonly known types of sampling from which the numerous varieties are derived can be viewed in table 5.4 below.

**Table 5.4: Types of sampling methods**

<b>“Probability Sampling</b>	<b>Non-probability Sampling</b>
Simple random sampling	Incidental sampling
Systematic sampling	Quota samples
Sampling with probability proportional to population size	Purposive samples
Stratified random sampling	Self- selection samples
Sub-sampling, multi- stage sampling	Convenience samples
Cluster sampling	Snowball samples”

**Source: Author’s construction from Jowah (2015:130)**

According to Jowah (2015:130) the table above classifies few sampling methods that can be used in research. As alluded to above, literature records two types (fundamental) of sampling, namely; non-probability sampling and probability sampling. Probability sampling allows equal chances to the prospects (sampling units) by deliberately using an unbiased process. This forms the unbiased random sampling method, preferred generally for all the research undertakings. This is used mostly in experimental research where it produces phenomenal unbiased results.

Whilst the non-probability sampling is always associated with bias, but it was chosen and used in this case because more than half the sampling units were accessible. This was random convenience non-probability sampling where each eligible prospect who was accessible at that moment was approached with the questionnaire. In the process more than 50% of the sampling units were approached, this figure is much higher than the traditional 10-20% samples used in most research projects.

**Data collection** as a process involves gathering of data for the intended research where there are targeted variables to be measured. The collection system is systematic to avoid subjectivity in the gathering process, and is generally done using a standard tool – questionnaire or an organised set of questions (social sciences). In natural sciences the method involves, observations, etc. with the use of concordant readings, etc. whichever way, the expectations in all research work is to provide quality and unbiased findings. In social sciences there are three common types of data collection methods listed in table 5.5 below.

**Table 5.5: Types of data collection methods**

“Type of method	Explanation of method
<b>Surveys</b>	Using pre-determined and structured questions the researcher asks questions in person, gives questionnaires to the respondents or may talk to respondents on the phone as she fills in the responses on to the questionnaire.
<b>Interviews</b>	Structured or unstructured but generally one on one and getting involved in a conversation with the interviewer writing notes, recording on a dictaphone, or filming the conversation with the respondents.
<b>Focus groups</b>	Structured interviews with groups of people with the same characteristics / with variables to be measured. The questions are standardised and generally have follow-up questions including discussion on related information that may not have been included in the structured instrument”

**Source; author’s construction from literature review**

Collection of data is a critical exercise on its own, and too many errors may arise from the process. In this research, a decision was made to use the surveys method, and the researcher personally administered the questionnaires. This was deliberately meant to reduce the number of “spoilt questionnaires” and improve the questionnaire return rate. Much care was taken to avoid wasted questionnaires which would mean wasted resources. This also assisted in avoiding faulty data and improving both the reliability and validity of the findings.

**The instrument (questionnaire);** Jowah (2016:123) defines a questionnaire as a research instrument comprised of a series of questions logically put together to extract the desired information from a respondent. This instrument is intended for statistical analysis, and the degree of the accuracy of the information depends on the reliability of the instrument. This method was chosen over other methods that may be used for surveys as stated in table 5.3 above. The questionnaire is cheaper to construct and administer and has well-structured and standardised questions making it easy to compare the relationships. After construction the instrument was tested on 6 managers, reconstructed and given to a statistician to put a professional touch. The instrument was divided into three (3) sections, namely; Section A – Biography which was meant to “qualify” the respondent. Section B- largely Likert scale requiring ranking, but had open-ended questions at the end. Then Section C was purely open-ended providing ample opportunity for the respondents to say whatever else that may have been excluded in the instrument.

**Data capturing;** The capturing of data involves transferring of the data from the questionnaire hardcopies into an electronic medium in a computer. The Excel Spread Sheet was used for the recording (entering) and storage of the data, from here (using excel) that data was analysed by constructing graphs, tables, charts, histograms etc to represent the data collected. Off-line data capturing was used because it has specific advantages discussed briefly in table 5.4 below.

**Table 5.6: Advantages of offline data capturing**

<b>“Advantage</b>	<b>Explanation</b>
<b>Accuracy</b>	All entered data can be verified before it is submitted for analysis and only permissible verified data will be processed further for analysis.
<b>Speed</b>	Depending on the number of questionnaires, it is possible to quickly enter the data. In this research 80 questionnaires were processed with two data capturers – this reduced the time it took.
<b>Cost</b>	Because of the speed in the editing and capturing of the data, the human element cost was drastically reduced and yet maximised to facilitate progress at a low cost to the researcher”

**Source: author’s construction from literature review**

The offline method was favoured specifically because of the advantages listed above and this assisted in yielding accurate, reliable and valid data to be further processed.

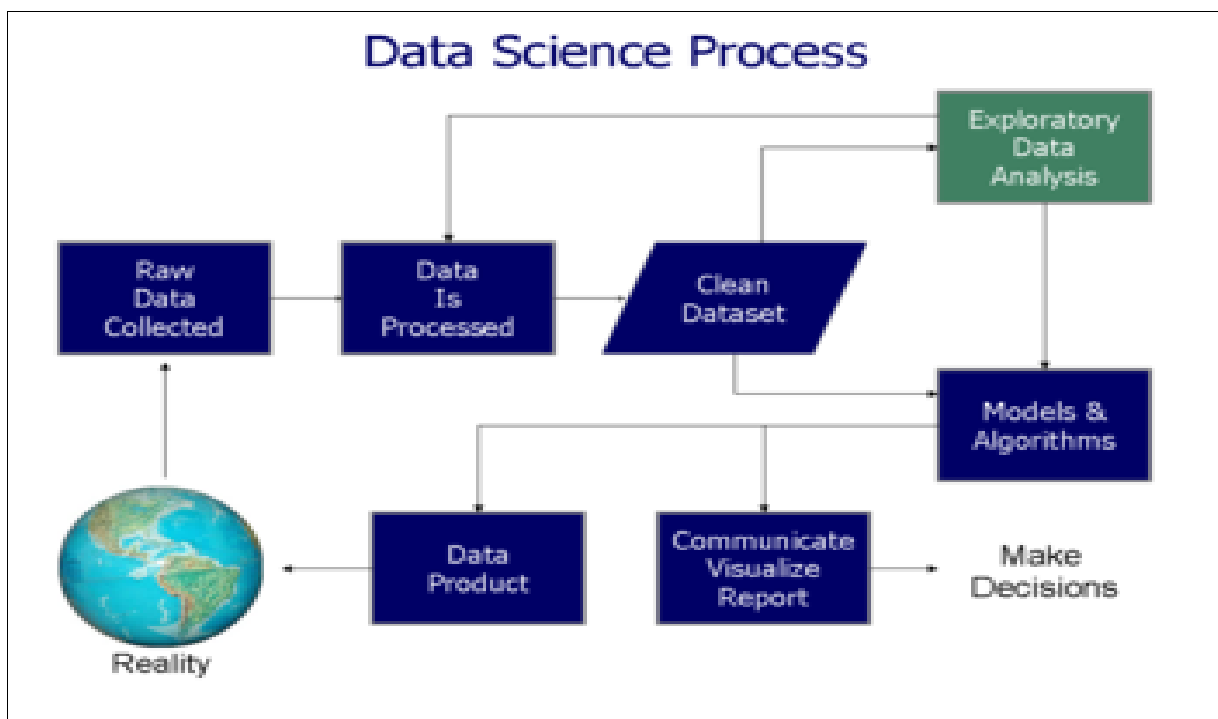
**Data editing** involved reviewing and adjusting of the data that had been collected and was on the survey forms (the questionnaires). The process was done manually with the assistance of a computer with the sole intentions of removing any visible errors and improving on the quality of the data. This interactive editing system used allowed checking on data quality during the editing process thereby facilitating the process. That helped reduce the working time necessary to reduce the cyclical process that was needed for reviewing and adjusting any anomalies.

**Data cleaning** was also instituted by detecting and removing (correcting) corrupted, incomplete and inaccurate or irrelevant aspects of the collected data including typographical errors. Because the survey was done directly by the researcher, most misunderstandings were cleared at the source. Consequently less errors were recorded because managers asked questions where they thought questions were not clear.

## 5.5 Data analysis

Data analysis involves the inspection, cleaning of the data, and ultimate conversion of the data into usable graphical representations that may assist in showing the relationships of the variables under study. There are different types of data analysis techniques (sometimes called data modelling), and the current research used simple excel software. This process is illustrated in the figure 5.2 below.

**Figure 5.2: The process of data analysis**



**Source: Data science process flowchart**

As a process, data analysis takes raw material which is captured into a program or a sequence which is then used to assist data into information. This information is then used to help in decision making. The analysed data is graphically represented to make it easy to make comparisons and understand the relationship between the variables under study. Leedy and Ormrod as cited in William (2007:67) define research methodology as an approach the researcher takes in order to conduct and carry out a research. Anderson *et al* as quoted in Laphi (2013:570) stresses that data needs to be analysed in a way that will ensure that hypotheses and the research question are addressed to ensure that the research objectives are reached

or achieved. Therefore the study used a combination quantitative and qualitative research approach.

SPSS (Software Program for Social Science) was used to capture and analyse data, SPSS is a user friendly systems that is effective in terms of data analyses. After the data has been analysed, the data has to be interpreted into usable information in the laymen’s language (Jawah, 2015:113). SPSS assist the researcher to analyse data, compile tables for easy reading of the data and to scrutinise the relationships between variable (Babbie *et al* as cited in Laphi, 2013:56).

### 5.7 Ethical consideration

According to Oxford English Dictionary (1989) ethical means ‘in accordance with principles of conduct that are considered correct, especially those of a given profession or group’. The increase of researchers involved in many spheres of research, too often alien to the researcher has brought concern over “ethical conduct” when researchers carry out their surveys. To curb on this, many organisations and institutions of higher learning now subscribe to the code of ethics before any research can be conducted.

Kumar (2005:212) state that there are ethical issues concerning research participants that needs to be taken into consideration when conducting a research: Huberman and Miles as mentioned by Achieng (2013:49) confirm the issues outlined in table 5.2 below, and further warn researchers to take these issues into consideration before, during and after the research.

**Table 5.7: Issues concerning research participants**

<b>“Collecting Information</b>	Before collecting information one needs to consider the relevance of the information and its usefulness.
<b>Seeking consent</b>	Respondents or participants must be capable to give consent, and sufficient information must be given to the respondents so that they can make reasonable decisions.
<b>Providing incentives</b>	It is ethical for a researcher to give incentives to respondents, as some people do not participate in research without incentives.
<b>Seeking sensitive information</b>	Some people regard certain information as sensitive and thus may be reluctant to respond.

<b>Causing harm</b>	When a researcher is collecting data from participants, he or she needs to assess if there might be any harm caused to the respondents in anyway.
<b>Maintaining confidentiality</b>	Sharing information about the participants for other purposes other than the research is considered unethical”

**Source: own construction from (Kumar, 2005:212-213)**

Permission to conduct the research at WCDOSD was obtained from the department before the questionnaire was issued. The researcher had to give the department the proposal and the questionnaire; these documents explained what the research was about. The department issued a letter giving the researcher permission to conduct the research and to interact with the respondents. The respondents were assure that names and identity will not be disclosed to anyone expect the people who are working in the research.

**5.8 Scope and limitations**

The research was conducted in the WCDOSD only and restricted to take place within the public service. Limitations that affected the research were as follows:

**5.8.1 Willingness:** Some managers were not willing to participate.

**5.8.2 Withdrawal:** Some managers were not entirely cooperative and decide to withdraw from the study.

**5.9 Conclusion**

This chapter termed the methodology that was followed in this study to investigate factors affecting management of budgets at Department of Social development in the Western Cape. The population for this study was limited to only employees of Department of Social Development who are supervisors, middle managers and top management who manage and implement budgets. The sample size of this study comprised of 80 subjects. The research instrument (Questionnaire) was personal administered and issued by the researcher to the respondents, all 80 questionnaires which were issued to the respondents were returned. The data was analysed using



SPSS computer software as soon as the questionnaires were received back from the respondents. The results are presented in pie charts and graphs in chapter six.

## **CHAPTER SIX: DATA ANALYSIS, FINDINGS AND INTERPRETATION**

### **6.1 Introduction**

The primary purpose for this study was because the government departments constantly run out of funds before the end of the year. This created the question as to what the possible explanation for this perennial problem would be and why it would not be corrected. The first assumptions were that there would be likelihood that the people involved in these important functions of the operations did not perhaps understand the budgetary processes. Too often certain sections of the departments will return unused money to the fiscus when other essential services run out of funds. The primary objective of this research was therefore to identify the extent to which “budget managers” were involved in the construction of the budgets. Together with this, the process would assist in identifying intervention measures for this perennial problem.

In this chapter the results are presented in a question answer format following the questions in the questionnaire and the responses are given to every question in that order. The questionnaire was divided into 3 sections, Section A – Biography, Section B- Likert scale and Section C – open ended questions. . Each question as it appears in the research instrument is repeated here followed by the responses from the respondents.

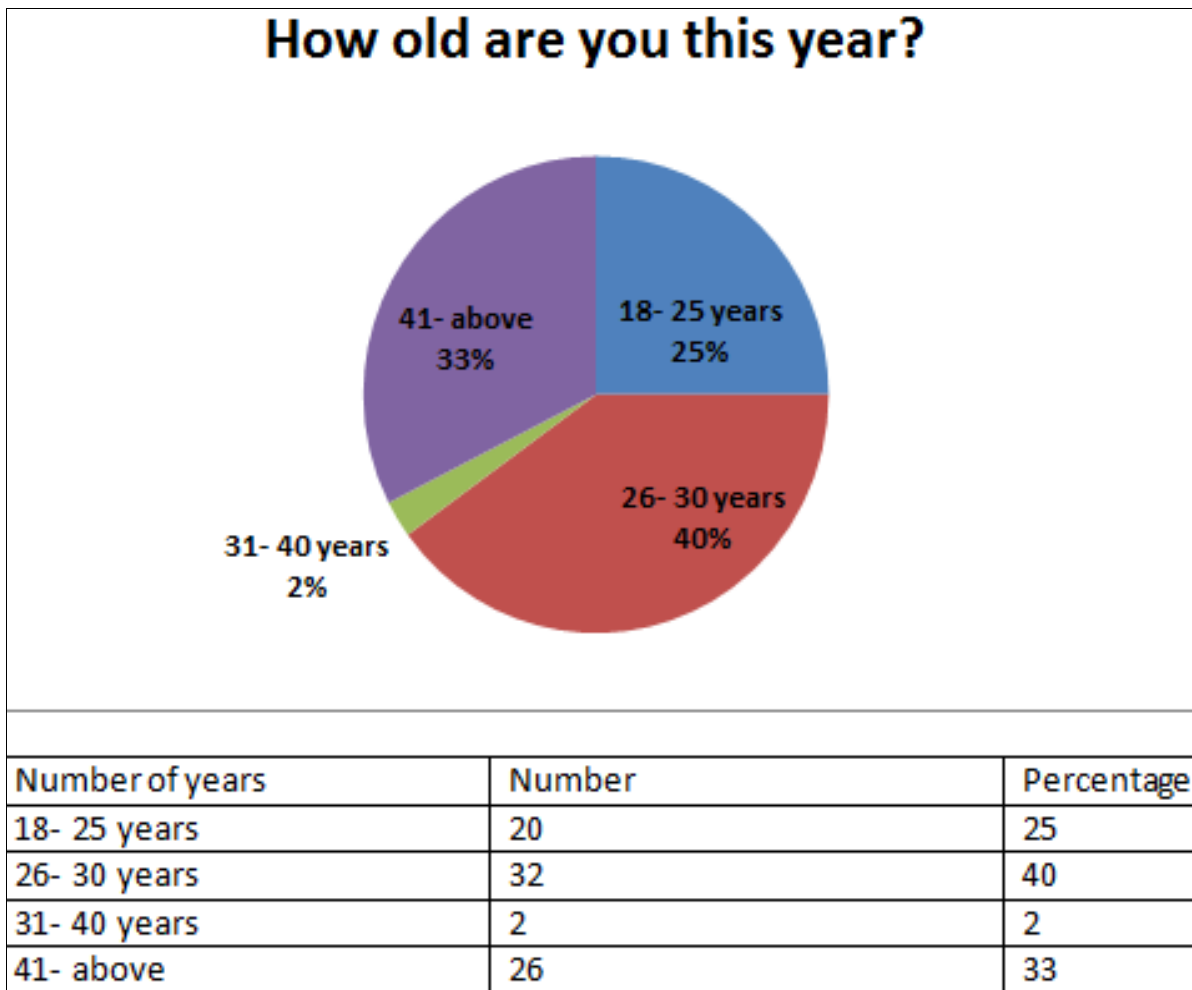
### **6.2 Section A. Biography**

This section dealt specifically with the biography of the respondents, primarily to evaluate suitability of the candidates for the survey. The target was those people within the department who were directly involved with the cost centre budgets and implementation of budget allocations. The section therefore seeks to establish the suitability of such candidates for the purposes of this survey.

**Question 1; How old are you?** This question was essentially to try to understand the average age of the employees involved in budgeting. Whilst this may not have much importance in the ability to budget or manage budgeting processes, it was accepted that there may be a relationship between the age and the presumed level of understanding of budgets.

**Response;** The department has been involved in transformation technically since the advent of democracy in 1994. It was assumed therefore that many of the respondents, being managers will be fairly well advanced in their age. The respondents' age is illustrated in figure 6.1 below.

**Figure 6.1: The age of the people involved in the budget processes of this department**



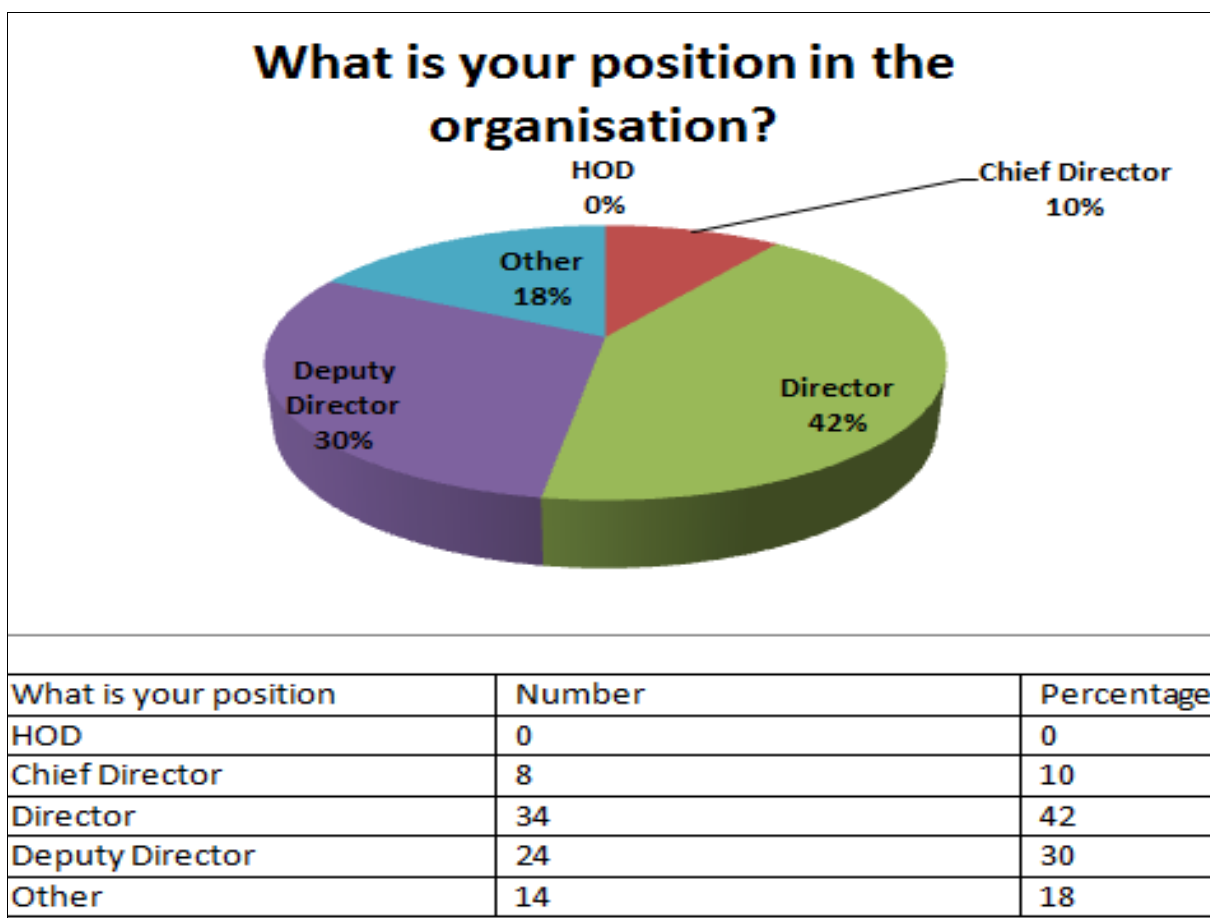
**Source: Author's own construction**

According to figure 6.1 a predominant group are employees between the ages of 26 – 30 years, who constitutes a majority at 40%, while 33% of the respondents are 41 years and above; 25 % of the respondents are between the ages of 18- 25 years; and 2% of the respondents are between the ages of 31- 40 years. Contrary to expectation, there are fewer senior managers involved in budgets that are above 40 years.

**Question 2; What is your position in the organisation?** Another question seeking to identify and classify the respondents along the lines of suitability for the survey. Some positions may not have much to do with either the construction or the implementation (control) of budgets.

**Response;** Whilst everyone is affected by the budget positively and or negatively, not everyone controls the budget processes in the departments. To this question the respondents responded as illustrated in figure 6.2 below.

**Figure 6.2: The positions of respondents to this survey**



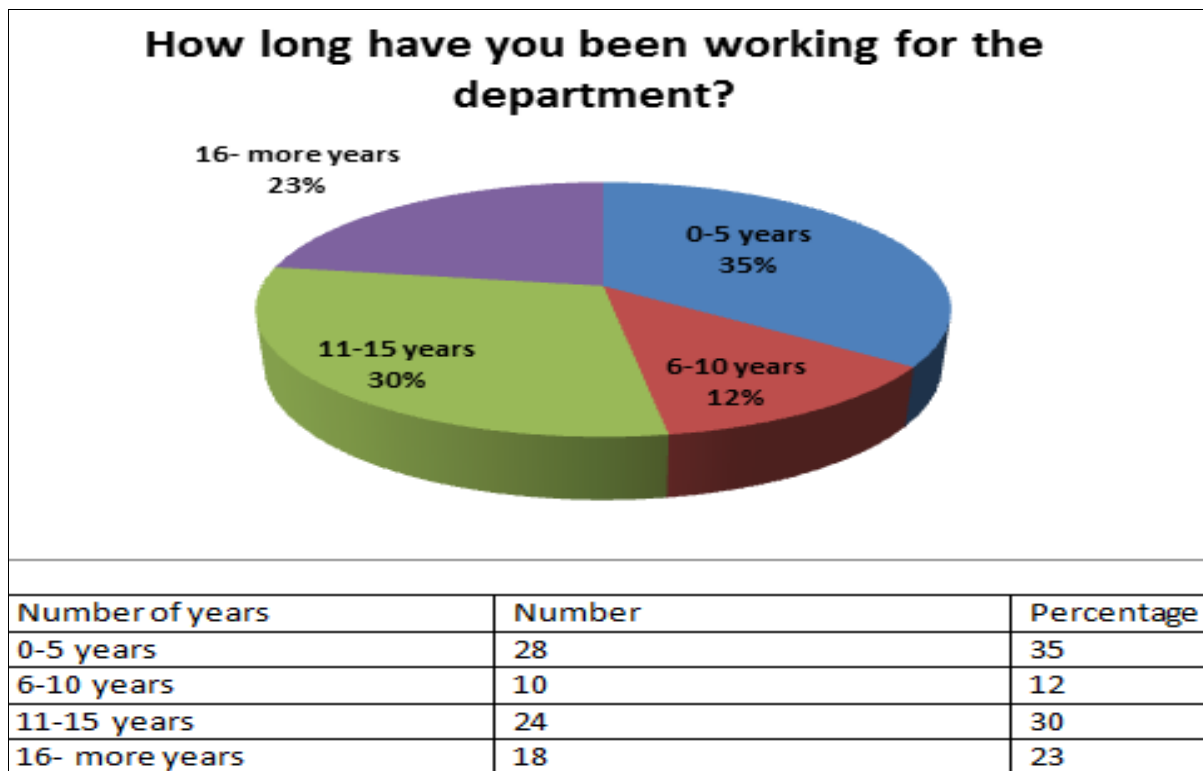
**Source: Author's own construction**

In figure 6.2 above majority of the respondents (42%) are directors; while 30% of the respondents are deputy directors; 18% are other, which consist of other employees involved in management of budgets; and only 10% of the respondents are chief directors. The reason for such a small percentage of chief directors is due to small structure of the department.

**Question 3; How long have you been working in the Department?** This question was to further explore the possibility of the individuals having more experience possibly in the budgeting process. Such would assist with information based on years of experience which the survey wanted to capitalise on. It is however expected that the presence of senior members in the department implied that some coaching and mentoring might have taken place.

**Response;** There is no pre-existing knowledge about the labour turnover or expansion resulting in new recruitments. But what is clear is the fact that 40% of the respondents were 25-30 years old, this may give them an average working life of 5 years. The response is recorded in figure 6.3 below.

**Figure 6.3: Number of years respondents have been in the department**



**Source: Author's own construction**

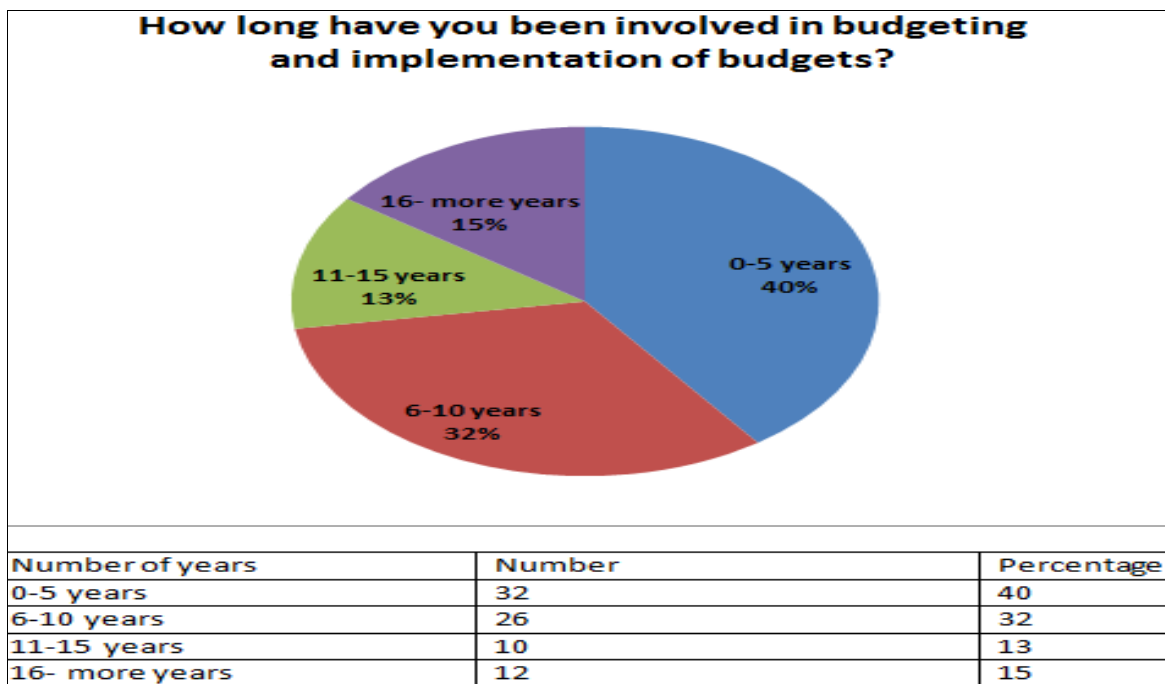
According to figure 6.3 majority of the respondents (35%) have been working for the department for less than 5 years; while 30% of the respondents have been working for the department between 11- 15 years; 23% of the respondents have been working for the department for 16- more years; and 12% have been working for 6- 10 years. It is worrying that the majority of the respondents (35%) have been working

for less than 5 years for the department, therefore they have less experience as compared to 23% of employees who have 16 and more years of experience, reason being working with financial resources of the state quires people with at least 5 or more years in order to manage tax payers money or rather limited resource.

**Question 4; How long have you been involved in budgeting and budget implementation?** The length of time spent in budgeting has much to do with the experience the respondent has in the processes. This too will most likely provide information on lessons learnt from previous budgeting processes or training programs.

**Response;** The number of years the respondents have in terms of managing and implementing plays a significant role in ensuring that budgets are managed effectively and efficiently. Figure 6.4 below illustrates the number of years the respondents have been involved in budgeting.

**Figure 6.4: How long have you been involved in budgeting and implementation of budgets?**



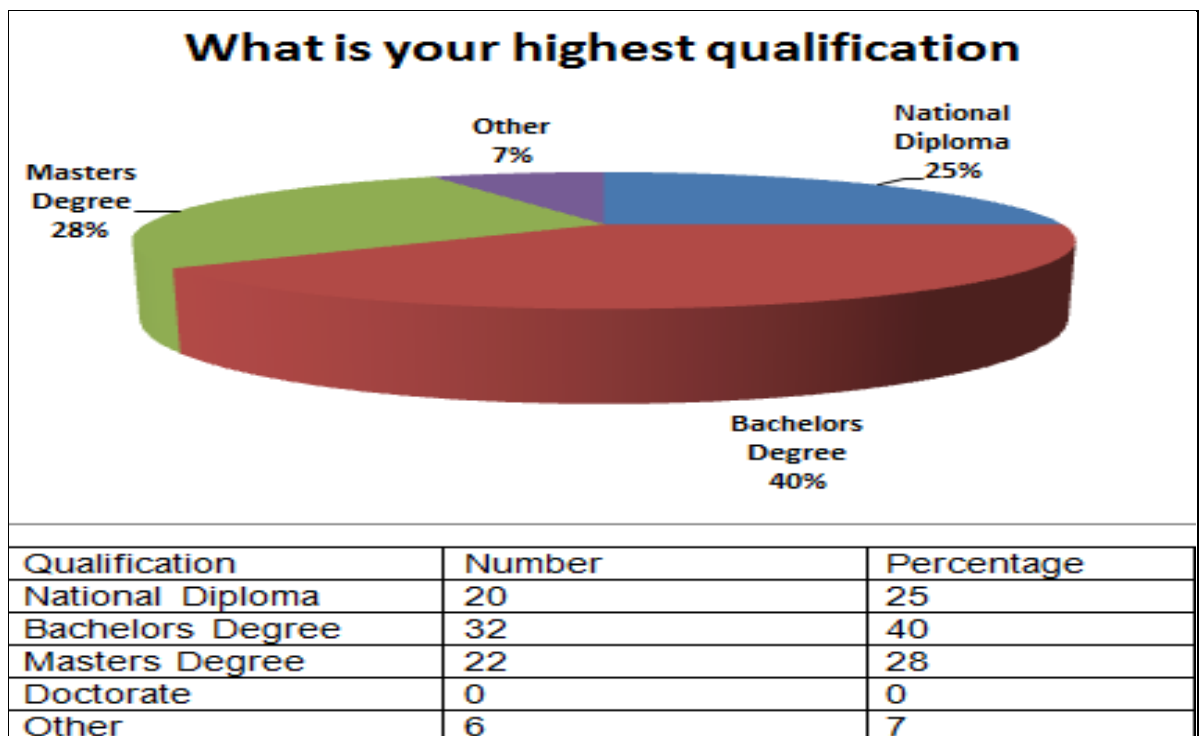
**Source: Author's own construction**

In figure 6.4 majority of the respondents (40%) have been dealing with budgets for less than 5 years, while 32% of the respondents have been involved with budgets for 6- 10 years; Only 15% respondents have been involved with budgeting and its implementation for more than 16 years; and 13% of the respondents have been dealing with budgeting. It is concerning that majority of the respondents at 40% are involved with budgets for less than 5 years, thus that means most employees are less experienced regarding implementation and management of budgets.

**Question 5; What is your highest qualification?** In this question the research sought to identify the level of education of the respondents. Challenges faced by managers both internal and external require a manager that has relevant qualifications and is continuously studying in order to gain new knowledge.

**Response;** A qualification plays an important role in management of budgets, particularly Commerce or a finance qualification. However non- financial managers can be as effective if and when they do finance related short course in order to equip themselves with the necessary skills and knowledge to manage budgets. The results of the investigation are shown in figure 6.5 bellow.

**Figure 6.5: What is your highest qualification?**



**Source: Author's own construction**

Majority of the respondents at 40% have got a Bachelors Degree; while 25% of the respondents have a Masters Degree; 28% of the respondents have a National Diploma; and while 7% of the respondents have other qualifications such matric certificate, Honours Degree and any other short courses. The department can be commended that most of its employees who are involved with management of budgets have got tertiary education

### **6.3 Section B**

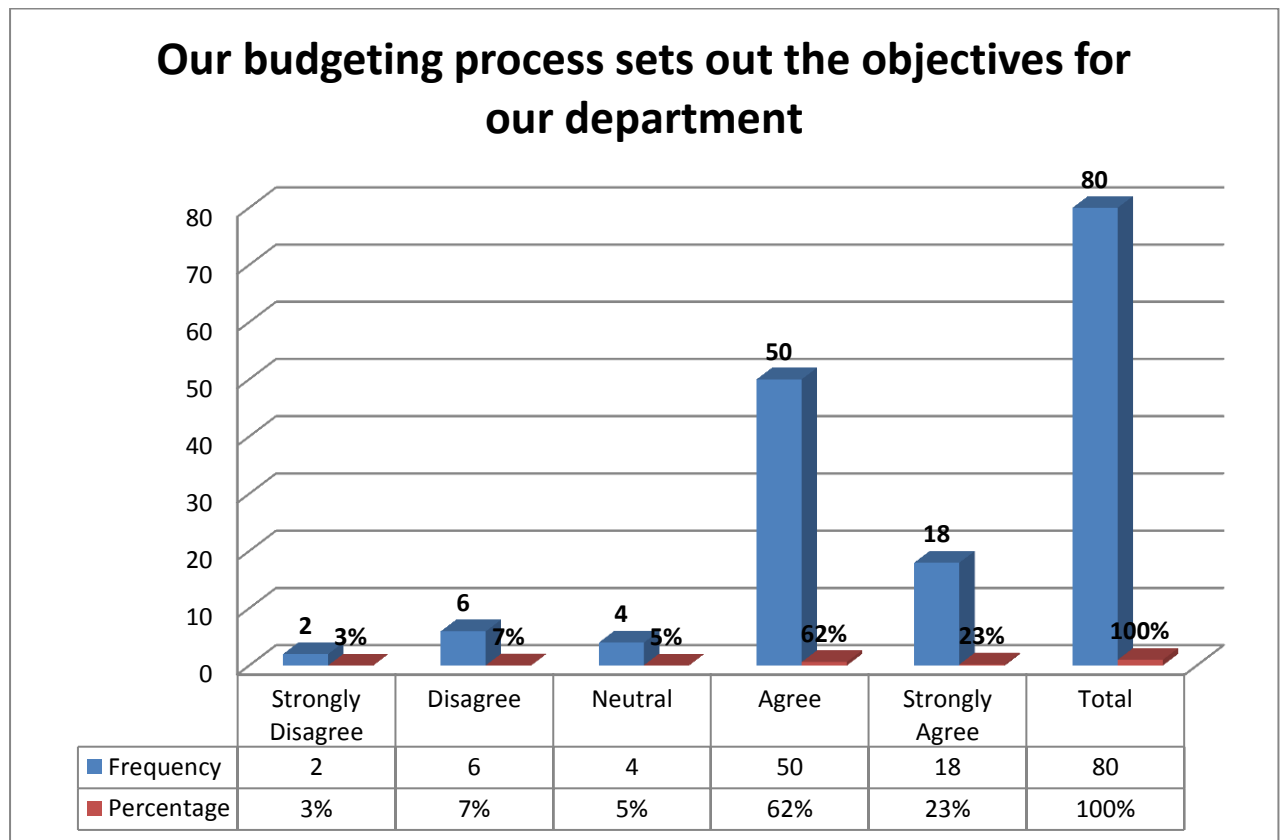
**Likert scale: Factors that impact on effective budget management in the department.** This section makes reference to aspects of the budgeting as perceived by the respondents. The scale is strongly disagree – 1, disagree – 2, neutral – 3, agree – 4 and strongly agree – 5.

**Statement 1; Our budgeting process sets out the objectives for our department.** The budgeting process should be informed by the strategy and the resource requirements for the department. It is important that the people involved in the budgeting understand department goals, objectives and policies that govern the operations.

**Response;** It is expected that because the respondents participate in the budgetary process, they would inevitably need adequate information before doing the budgets. The most important issue that managers should understand is the strategic objectives of the department which sets the direction the department wants to take. The respondents' perceptions are illustrated in figure 6.6 below.



**Figure 6.6: Respondents perception about budgeting objectives**



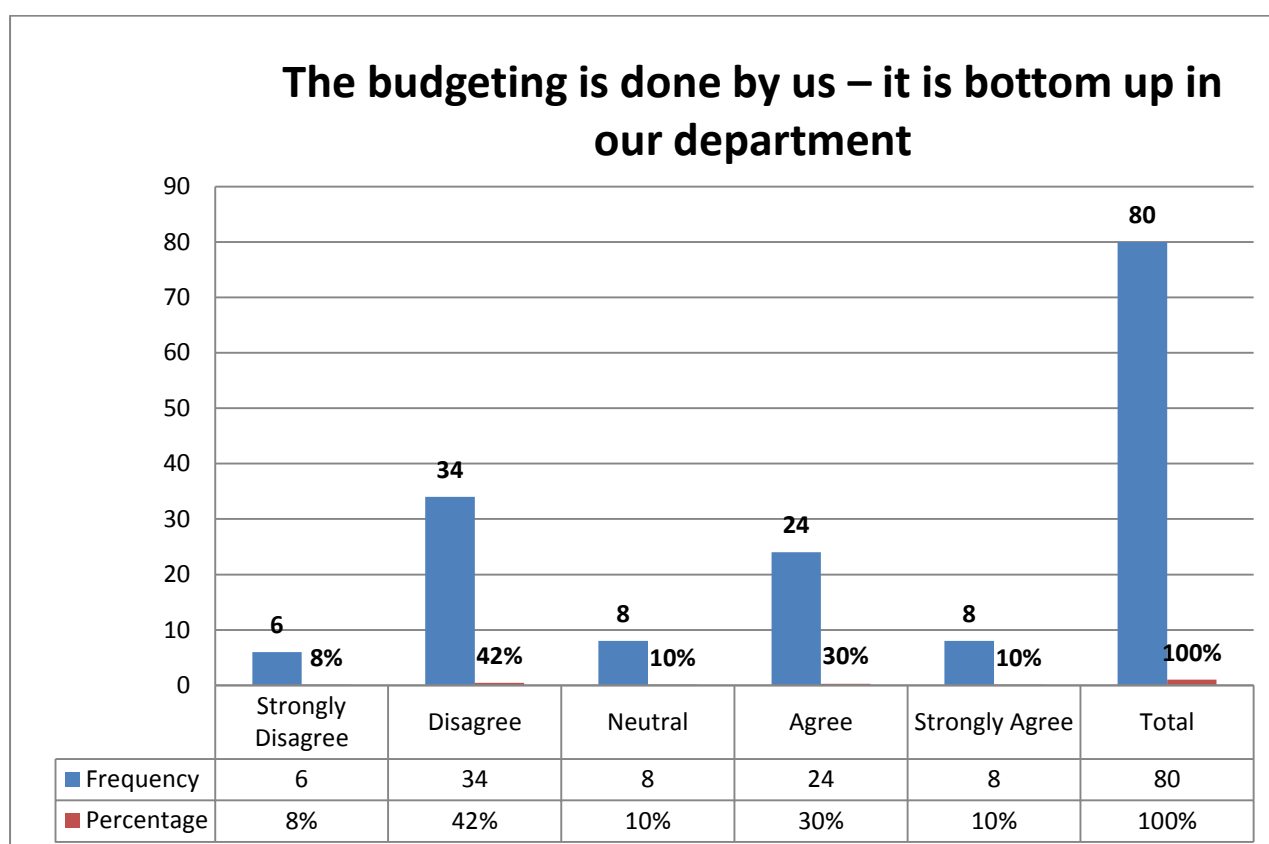
**Source: Author’s own construction**

A total of 85% (62% and 23% agree and strongly agree respectively) of the respondents are of the view that generally the people involved in the budgeting process know or should know that the budgetary processes set out the departmental objectives. Neutral stands at 5% with those disagreeing totalling 10%. It can therefore be generalised that most people involved in budgeting understand departmental objectives.

**Statement 2; The budgeting is done by us- it is bottom up in our department.** In an organisation a budget has to be formulated and costed by employees who are directly involved in budgeting.

**Response;** it is expected that employees who are involved direct or indirectly with budgeting have to at least give input when budgets are formulated. Figure 6.7 bellow indicates the views of the respondents in terms of this statement.

**Figure 6.7: The budgeting is done by us- it is bottom up in our department**



**Source: Author’s own construction**

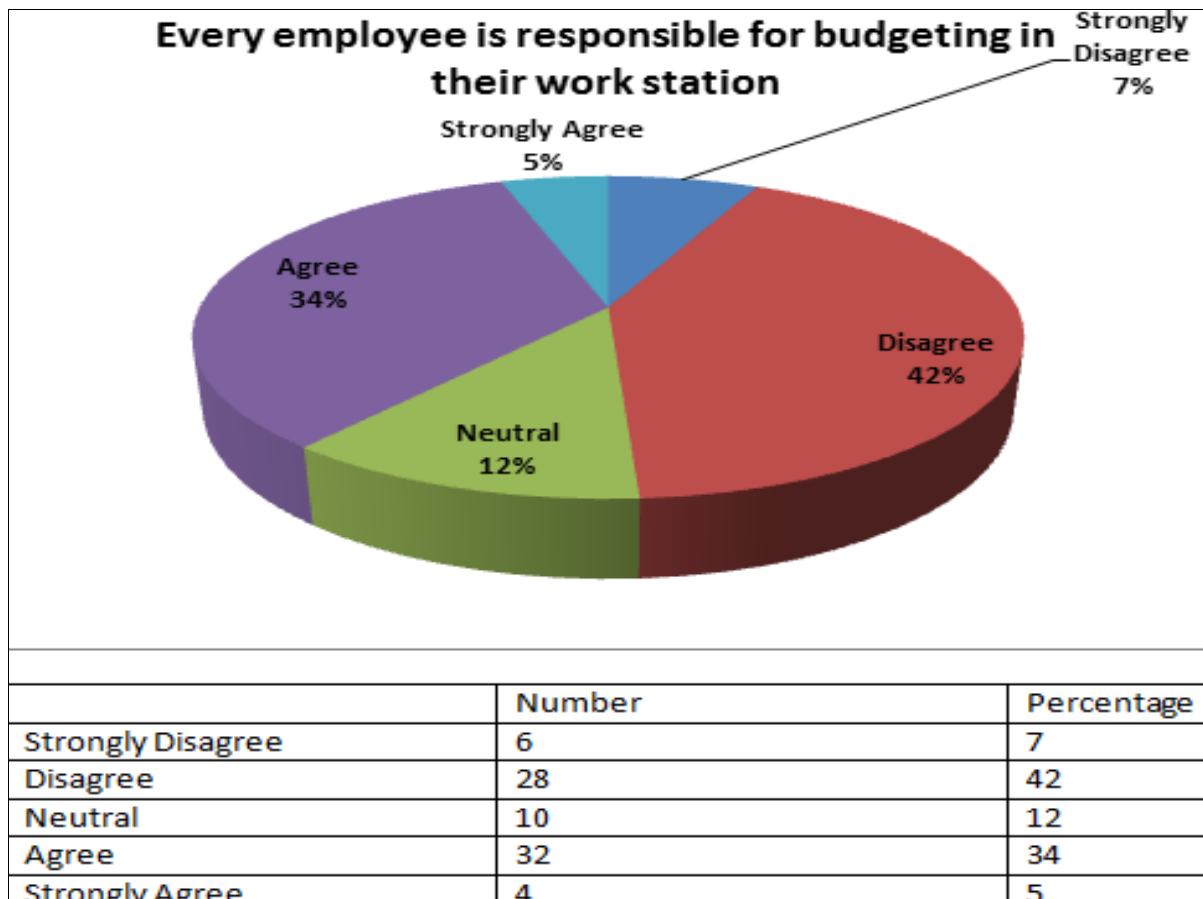
Figure 6.7 above shows that the majority of the respondents at 50% (42% and 8% disagreed and strongly disagreed) with the statement that the budget is done by them; however 30% of the respondents agreed that a budget is done by them, while 10% of the respondents strongly agreed with the statement. 10% of the respondents decided to remain neutral.

**Statement 3; Every employee is responsible for budgeting in their work station.** Every employee has a responsibility to ensure that budgets are managed and controlled effectively within an organisation.

**Response;** In an organisation both public, private and non-profit, it is expected that all employees have to be responsible for their actions when it comes to financial

management matters. Thus figure 6.8 below illustrates to response of the respondents.

**Figure 6.8: Every employee is responsible for budgeting in their work station**



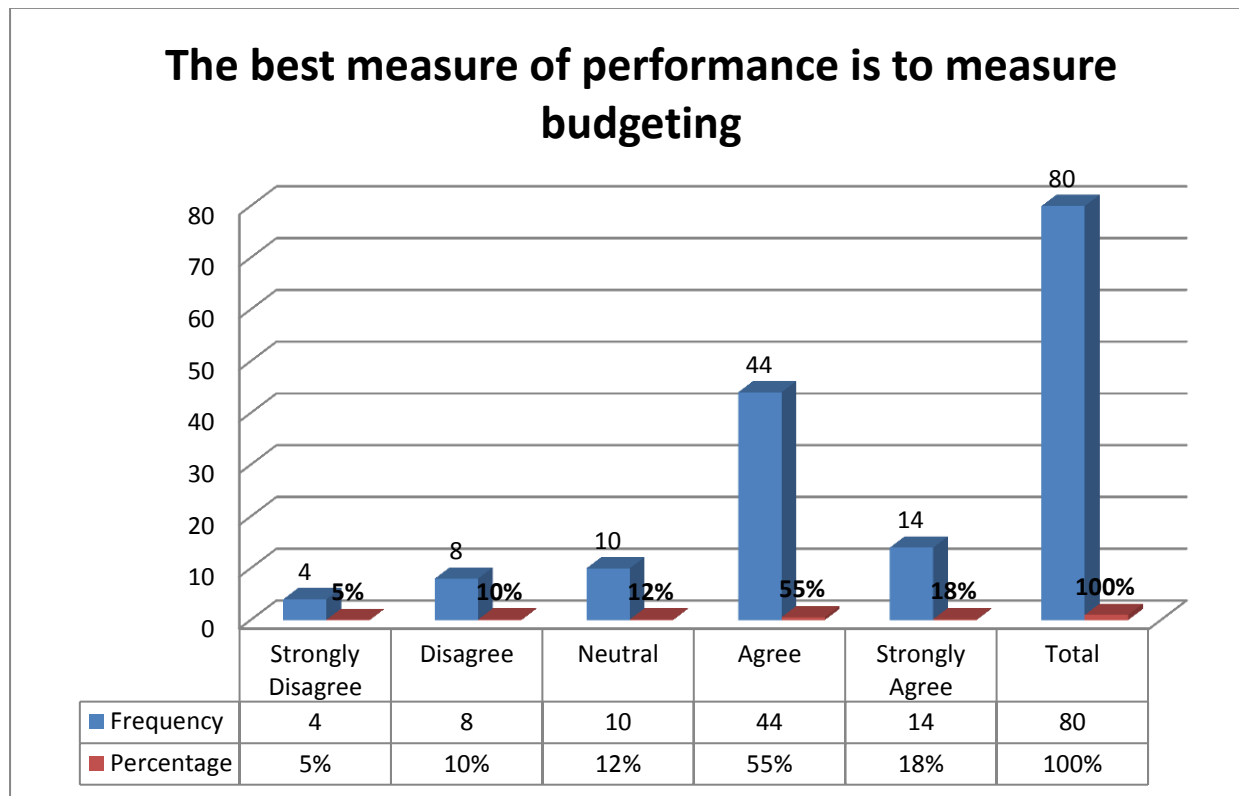
**Source: Author’s own construction**

According to figure 6.8 above shows that majority of respondents (42%) disagreed with the statement that every employee is responsible for budgeting in their work stations; while 7% strongly disagreed with the statement. 34% and 5% agreed and strongly agreed respectively. And 12% of the respondents remained neutral.

**Statement 4; The best measure of performance is to measure budgeting.** Budgeting enables employees to perform and to be accountable in an organisation. It further helps officials to judge their contribution to the organisation.

**Response;** the purpose of performance measurement of budgets is to provide reliable data about performance, and further more measures that managers need to take in ensuring that an organisation performs satisfactory should be clearly defined. Responses are presented in figure 6.9 below.

**Figure 6.9: The best measure of performance is to measure budgeting**



**Source: Author’s own construction**

In figure 6.9 it can be seen that majority of the respondents at 55% agreed with the statement, while 18% of the respondents strongly agree; however 10% and 5% of the respondents disagreed and strongly disagreed with the statement. 12% of the respondents remained neutral. The fact that some employees (15%) do not consider budgeting as a performance measurement tool raises concerns. Many scholars believe that budgeting is one of the best measurement tools for performance in any organisation.

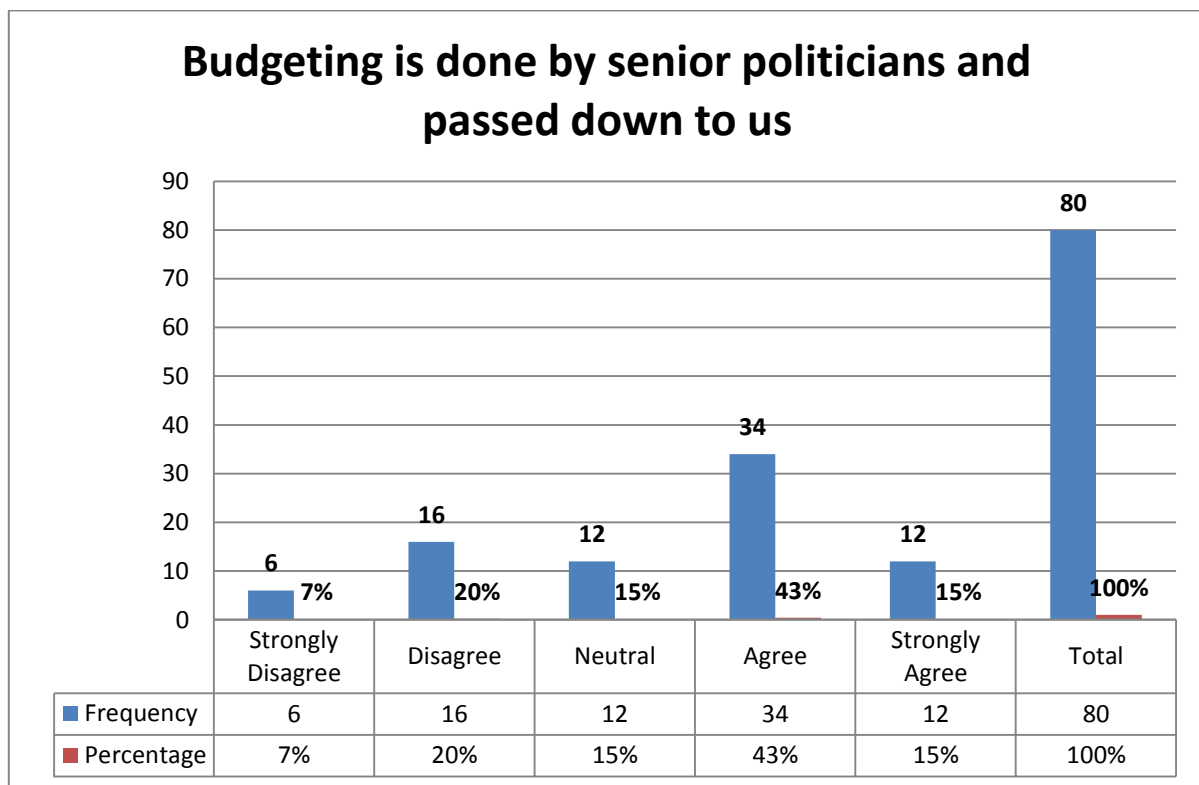
**Statement 5; Budgeting is done by senior politicians and passed down to us.**

In some organisations budgets are done by senior management and passed down to

employees to implement, this creates problems as employees who implement budgets are the ones who manages projects, thus it will be wise for those employees cost for their projects.

**Response;** it is expected that in an organisation the budget process should begin from the bottom (employees) of the organisation to the top (senior management or senior politicians). As it can be seen in figure 6.7 employees in the department are not involved in budget formulation. Figure 6.10 bellow illustrates to responses of the respondents.

**Figure 6.10: Budgeting is done by senior politicians and passed down to us**



**Source: Author's own construction**

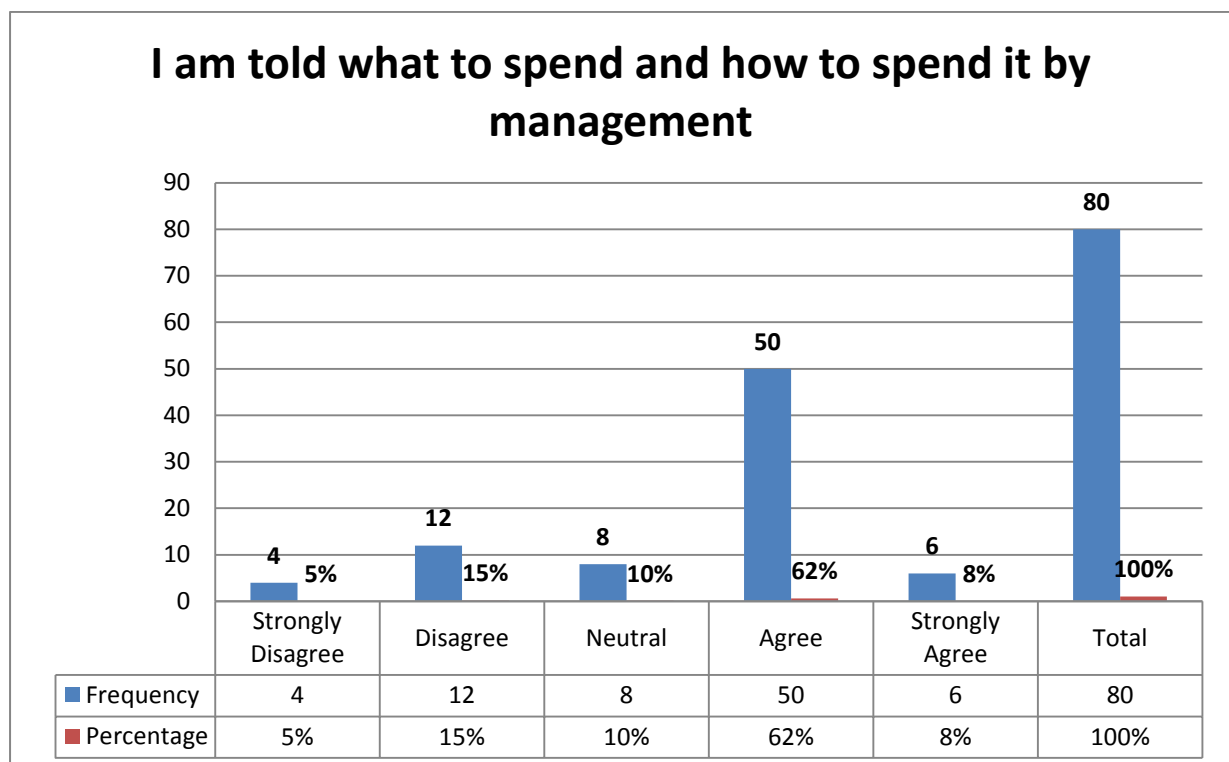
According to figure 6.10 majority of the respondents, namely 43% agreed that budgeting is done by senior politicians and passed down to them, while 15% of the respondents strongly agreed with the statement. 20% did not agree that budgeting is done by senior politicians, while 7% strongly disagreed. 15% decided to remain neutral.

**Statement 6; I am told what to spend and how to spend it by management.**

When employees are told what and how to spend financial resources that tend to hinder the progress of projects. Thus this challenge can lead to non-achievement of goals and objectives of the organisation.

**Response;** Employees are expected to spend money according to the way they have costed them. Political interference usually affects or delays completion of projects. Therefore figure 6.11 below illustrates the responses of the respondents.

**Figure 6.11: I am told what to spend and how to spend it by management**



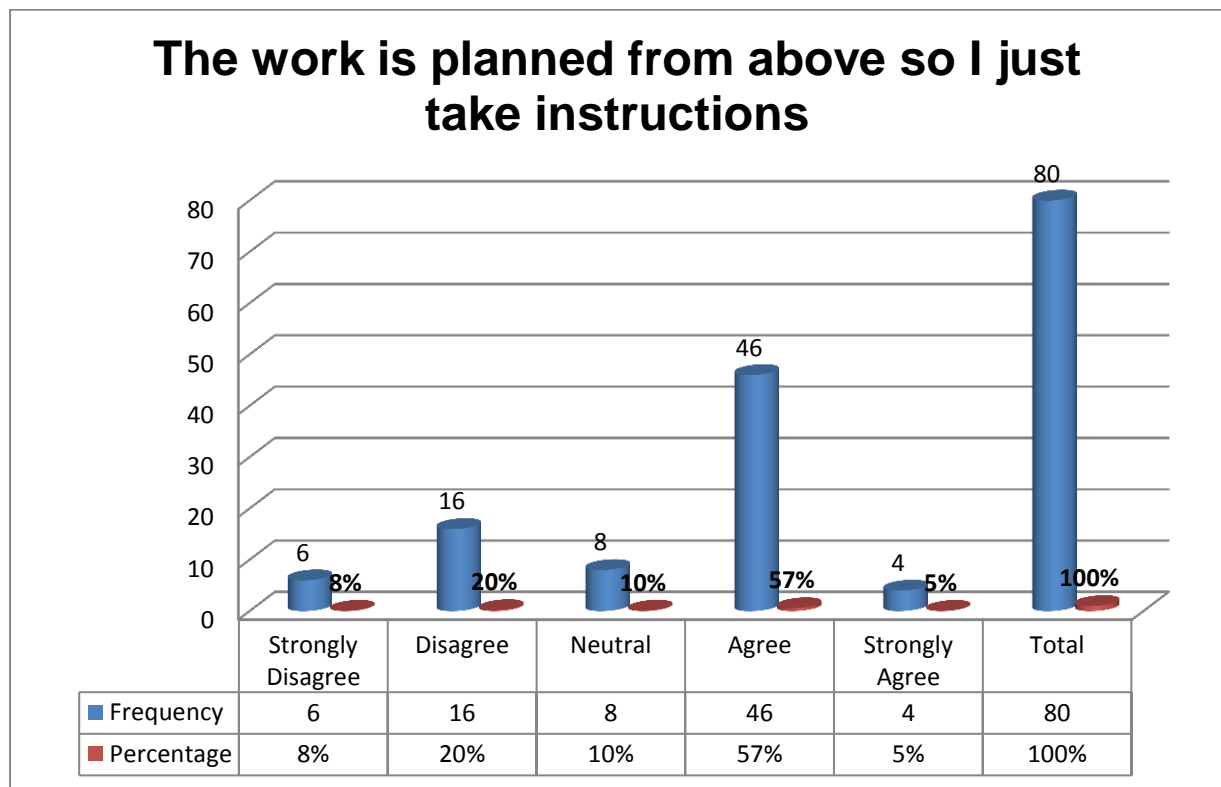
**Source: Author's own construction**

Figure 6.11 above shows that majority of the respondents (70%) agreed that they are told what to spend and how to spend it by management, while 20% disagreed with the statement. And 10% remained neutral. It becomes impossible for employees to carry out their duties and manage budgets if they are continuously told how to do their jobs by management, thus hindering service delivery.

**Statement 7; The work is planned from above so I just take instructions.** Politicians always ensures that the political will prevails more than the legal will, as a result employees are always told what to do. They are not part of the planning phase of what needs to be done in order to achieve goals and objectives effectively and efficiently.

**Response;** Employees need to be clear about what work will be done and which resources will be needed. Planning is an important tool that will guide and ensure that an organisation achieve its goals and objectives. The respondents responded as follows in figure 6.12.

**Figure 6.12: The work is planned from above so I just take instructions**



**Source: Author's own construction**

Majority of the respondents (62%) agreed that work is planned by management and they just take instructions, while 28% of the respondents disagreed with the statement; while 10% remained neutral. In reference to figure 6.11 above it is evident

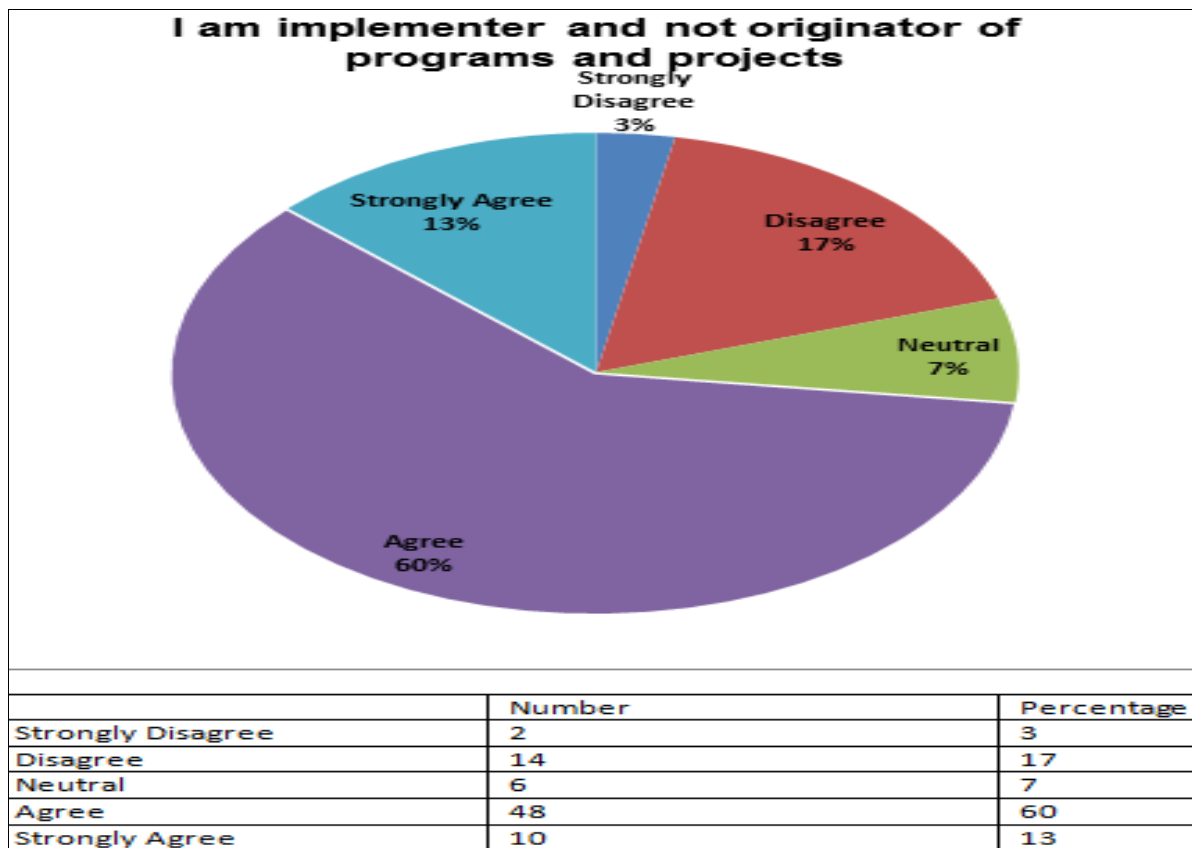
that management of the department makes decisions as to what needs to be done without consulting people who are directly involved with the programmes.

**Statement 8; I am implementer and not originator of programs and projects.**

Employees or administrators should be the originators of projects as they are directly involved with rendering the services to the citizens the government serves.

**Response;** it is expected that in an organisation employees should be the originators not just the implementers of projects. Figure 6.13 below indicates the degree to which the respondents agreed or disagreed that they only implement programs and projects.

**Figure 6. 13: I am implementer and not originator of programs and projects**



**Source: Author's own construction**

From figure 6.13 above overwhelming majority of the respondents (73%) agreed that they only implement programs and projects they are not the originators of them, while 20% of the respondents disagreed with the statement. And 7% of the

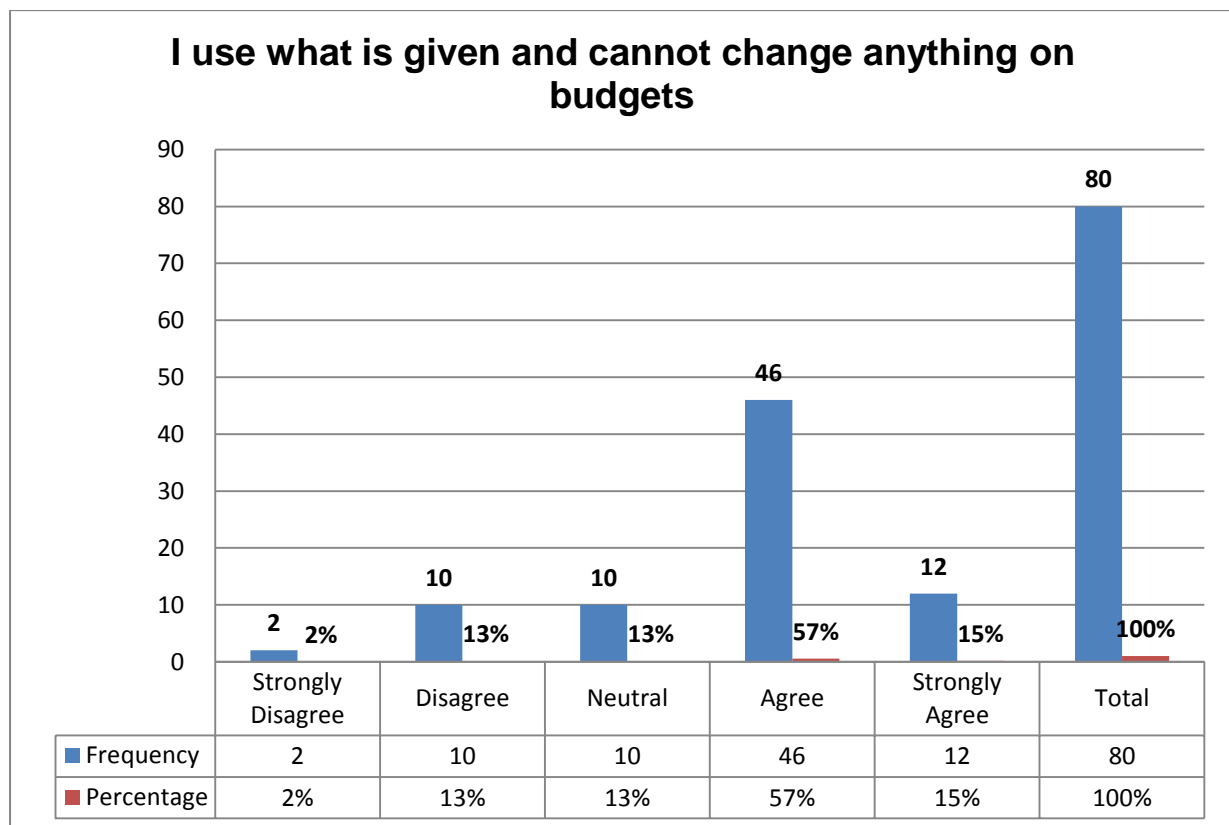


respondents remained neutral. It is clear from figure 6.11 and 6.12 that decisions are made by politicians or senior management.

**Statement 9; I use what is given and cannot change anything on budgets.** Once the budget has been tabled in National or Provincial Parliament it becomes an appropriation, thus it cannot be changed.

**Responses;** it is expected that employees in an organisation should be able adjusted the budget to reprioritise and to complete projects in time. Figure 6.10 below indicates the degree to which the respondents agreed or disagreed

**Figure 6.14: I use what is given and cannot change anything on budgets**



**Source: Author's own construction**

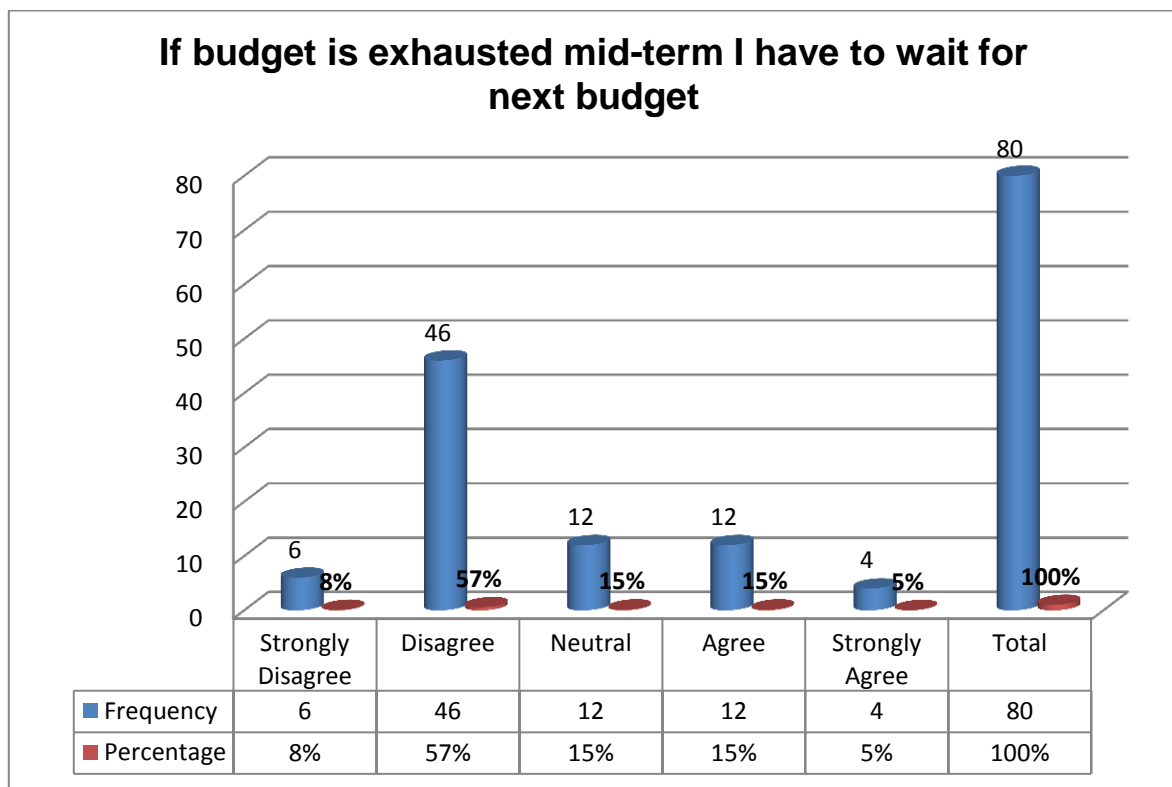
According to figure 6.14 above majority of the respondents (57%) agreed, while 15% strongly agreed that they just use the budget that is given to them and they cannot change anything on the budget. 16% of the respondents disagreed with the statement. 13% remained neutral.

**Statement 10; If budget is exhausted mid-term I have to wait for next budget.**

There should be process that is followed to ensure that the effect of the adjustments budget on the annual performance plan is considered.

**Response;** The reallocation of funds during the adjustments budget process seeks to achieve one or all of the following objectives; aligning departmental budgets to achieve government’s prescribed outcomes; expenditure allocations which are more effective in realising government’s policy objectives. To this statement the response is recorded in figure 6.15.

**Figure 6.15: If budget is exhausted mid-term I have to wait for next budget**



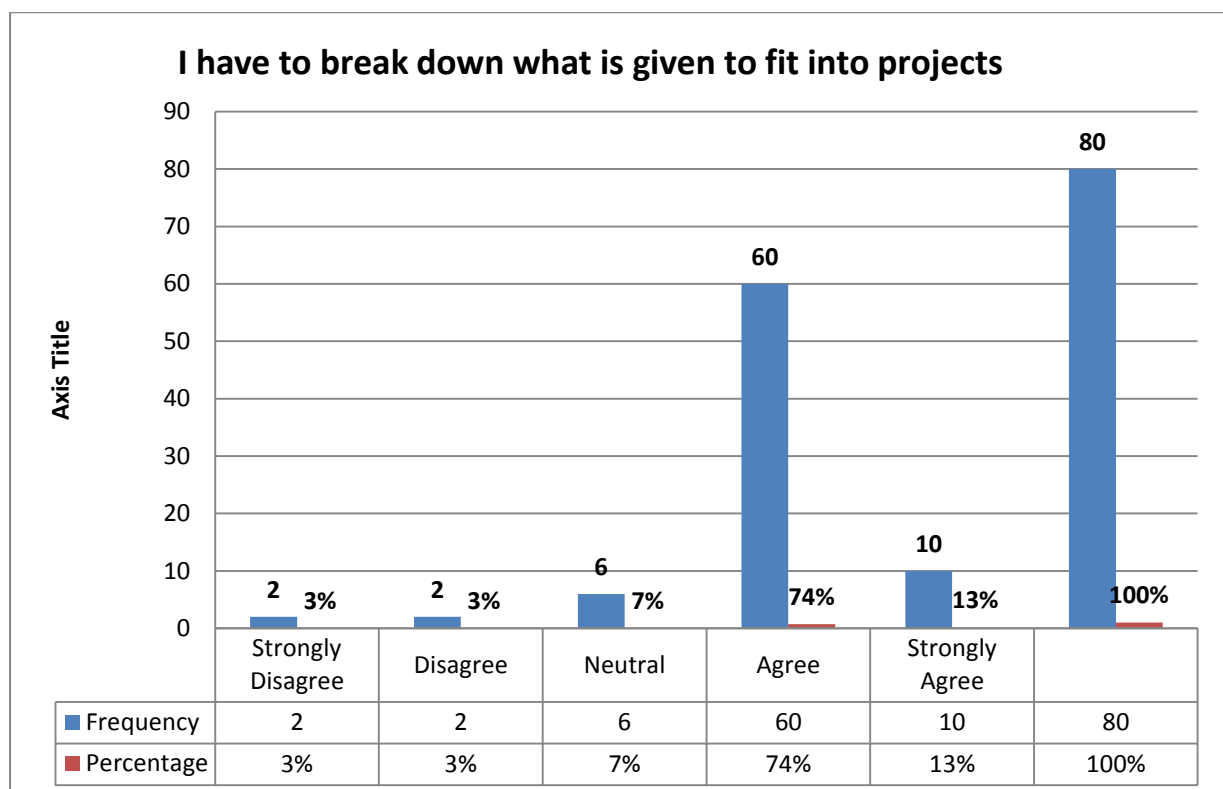
**Source: Author’s own construction**

Majority of the respondents (65%) in figure 6.15 disagreed that when the budget is exhausted they have to wait for the new financial year. This means that most respondents believe that the budget can be adjusted half way in the financial year. 20% of the respondents agreed that when the budget is exhausted they have to wait for the next financial year in order to complete their programs.

**Statement 11; I have to break down what is given to fit into projects.** Management does not involve employees in budget formulation as it can be seen in previous figures. Thus employees have to ensure that services are delivered with whatever budget that is given to them.

**Response;** It is expected that within an organisation employees should cost their own projects so as to ensure that goals and objectives of the department are met. In this regard the responses of the respondents is shown in figure 6.16 below

**Figure 6.16: I have to break down what is given to fit into projects**



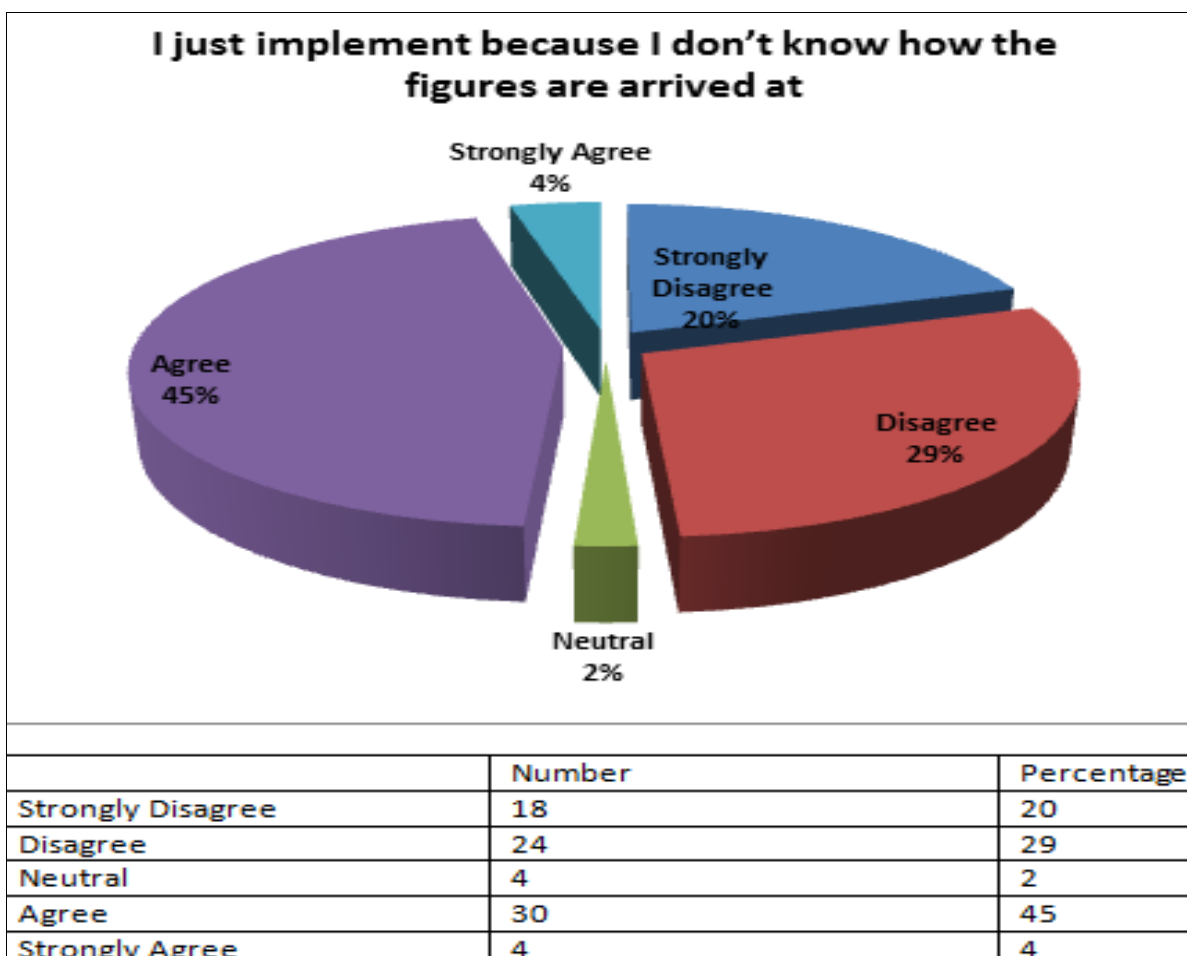
**Source: Author's own construction**

Figure 6.16 above reveals that the vast majority of the respondents (87%) agreed that they have to break down what is given to them in order fit into projects; while 6% disagreed with the statement and 7% remained neutral. When costing is done for projects, people who are directly involved needs to be consulted so that costing can be done properly so as to complete the project in time.

**Statement 12; I just implement because I don't know how the figures are arrived at.** A budget should be implemented in accordance with the annual performance plan and expenditure should be incurred in accordance with the budget.

**Responses;** It is expected that budgets should be implemented by employees in organisation, however it is important that employees understand how the budget was formulated. Figure 6.17 below illustrates the responses of the above mentioned statement.

**Figure 6.17: I just implement because I don't know how the figures are arrived at**



**Source: Author's own construction**

According to figure 6.17 above 49% of the respondents agreed that they do not know how the figures are arrived at; while another 29% of the respondents disagreed with the statement and 2% remained neutral. It can be concluded that some employees

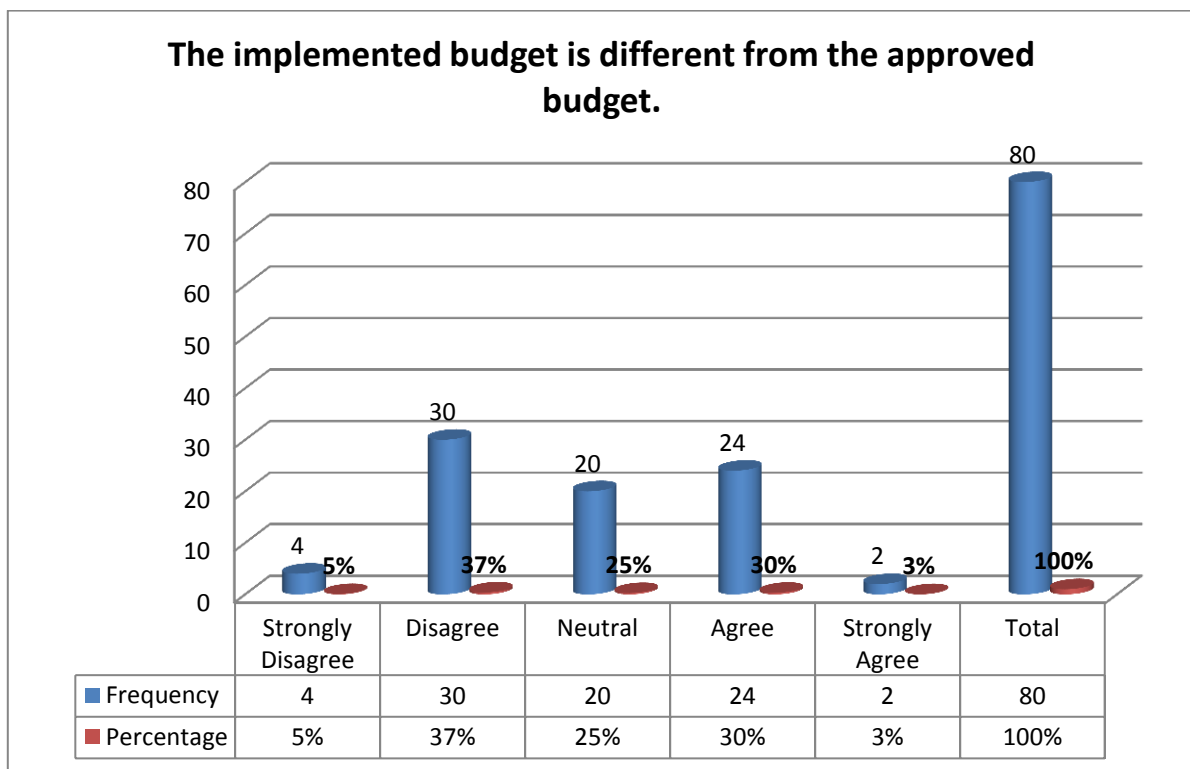
are not involved in budget formulation and costing of projects while others are involved.

**Statement 13; The implemented budget is different from the approved budget.**

The plans of the department should be matched with the approved budget. Budget allocation letters should be issued to each business unit so as to execute its operational plans.

**Response;** All operational plans should be closely monitored to ensure that the approved budget is in line with the plans and what the department wants to achieve, in so doing targets will be achieved as well as budget performance against the targets. The response is recorded in figure 6.18 below.

**Figure 6.18: The implemented budget is different from the approved budget**



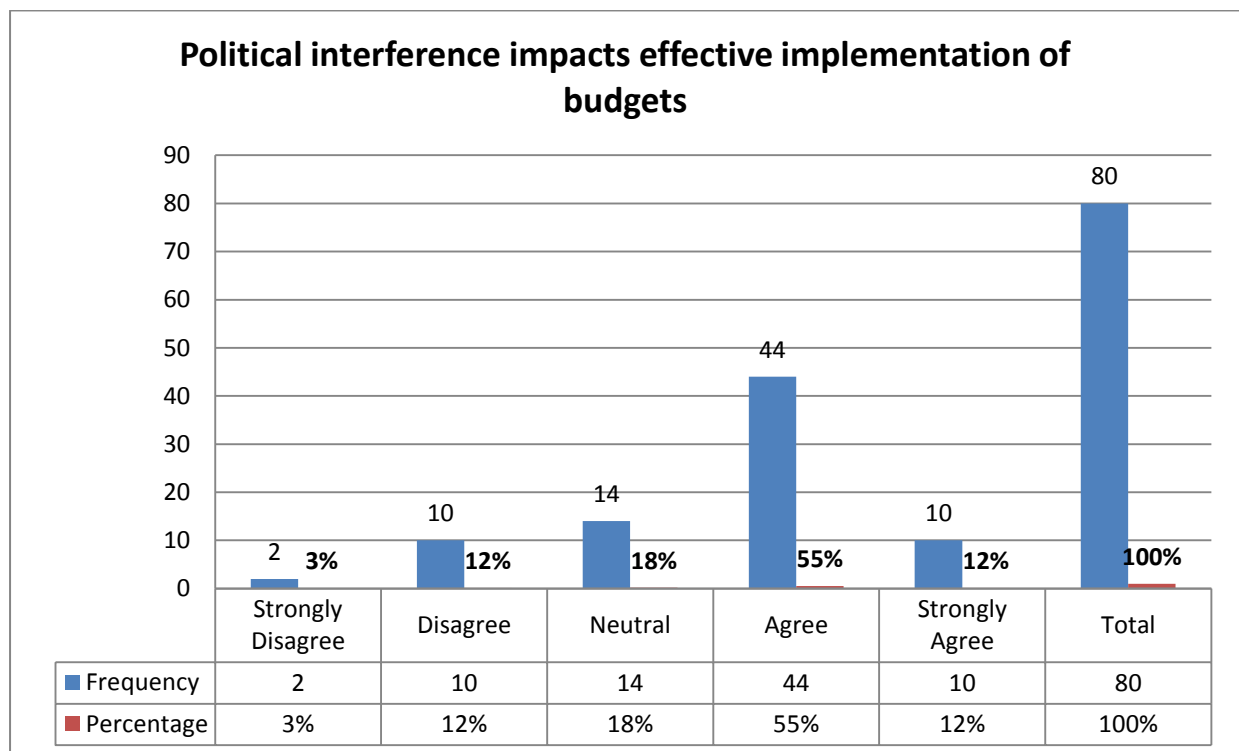
**Source: Author's own construction**

Figure 6.18 above illustrates that majority of the respondents (42%) disagreed that the implemented budget is different from the approved budget, while 25% remained neutral, and 33% agreed with the statement. The 25% who remained neutral did not see the significance of the statement, hence they did not want to comment.

**Statement 14; Political interference impacts effective implementation of budgets.** Politicians have authority to make political decisions that impact negatively on financial and budget management in the public sector. It is hard enough to convince politicians to let the legal will prevail over a political will.

**Response;** Politicians should let government employees or accounting officer do their work without any interference so that services can be delivered effectively and efficiently to the people the government serves. The results of the investigation are shown in figure 6.19 bellow.

**Figure 6.19: Political interference impacts effective implementation of budgets**



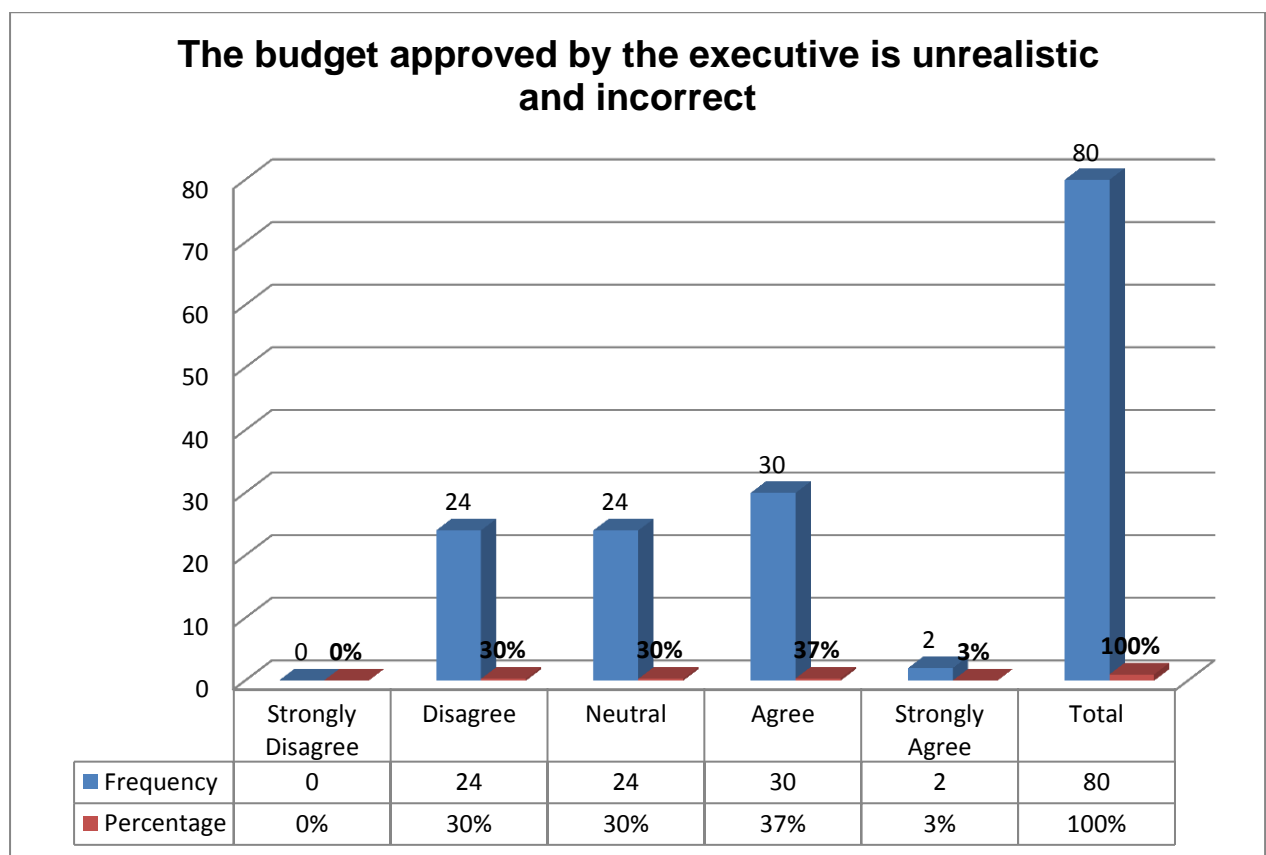
**Source: Author’s own construction**

According to figure 6.19 above, the overwhelming majority of the respondents (67%) agreed that political interference impacts on the implementation of budgets. 15% of the respondents disagreed and 18% stayed neutral. Political interference always has a negative impact on budget implementation due to the fact that politicians want their political will to prevail more than the legal will, thus hindering the implementation and expenditure of the appropriated funds.

**Statement 15; The budget approved by the executive is unrealistic and incorrect.** Implementing an unrealistic budget affects the completion of projects in time, and this can have serious implications in terms of achieving goals and objectives of the department.

**Response;** Budget has to be realistic and in line with the plans of the organisation in order to avoid failures. To this statement the respondents responded as illustrated in figure 6.20 below.

**Figure 6.20: The budget approved by the executive is unrealistic and incorrect**



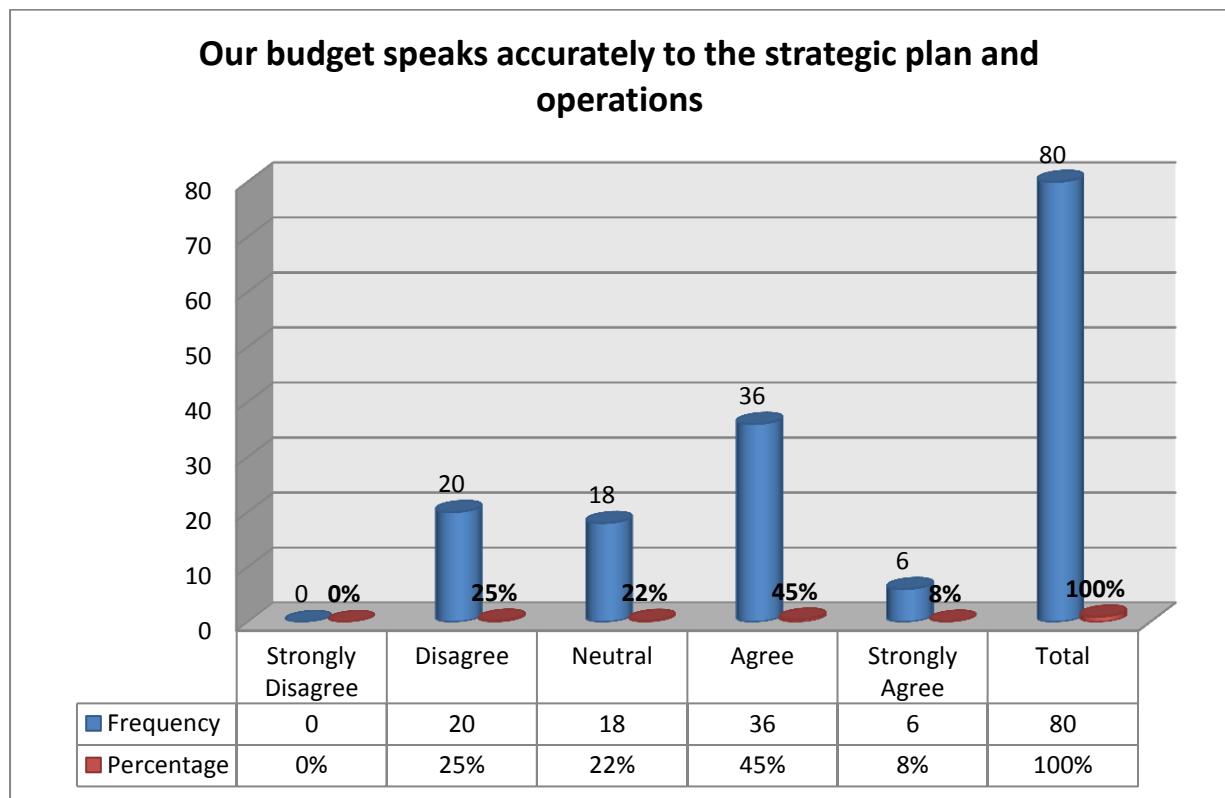
**Source: Author’s own construction**

Majority of the respondents (40%) in figure 6.20 agreed that the approved by executive is unrealistic and incorrect; while 30% of the respondents disagreed with the statement, it is worrying that 30% of the respondents decided to remain neutral to such an important statement. However it is clear based on the majority that the unrealistic budget approved by the executive is always unrealistic thus leading to non-achievement of goals and objectives of the department.

**Statement 16; Our budget speaks accurately to the strategic plan and operations.** The strategic plan should include Constitutional and other legislative, functional and policy mandates that indicates the output deliverables for which the department is responsible for. And thus the plan should fit with the operations of the department so as to achieve its goals and objectives.

**Response;** Strategic plan should set out measurable objectives, expected outcomes, programme outputs, indicators (measures) and targets of the institution’s programmes. The respondents give their views regarding the above mentioned statement (16) in figure 6.21 below.

**Figure 6.21: Our budget speaks accurately to the strategic plan and operations**



**Source: Author’s own construction**

Enormous majority of the respondents (53%) surveyed in figure 6.21 agreed that the budget of the department speaks accurately to the strategic plan and operational plan. 25% of the respondents disagreed, while 22% remained neutral.

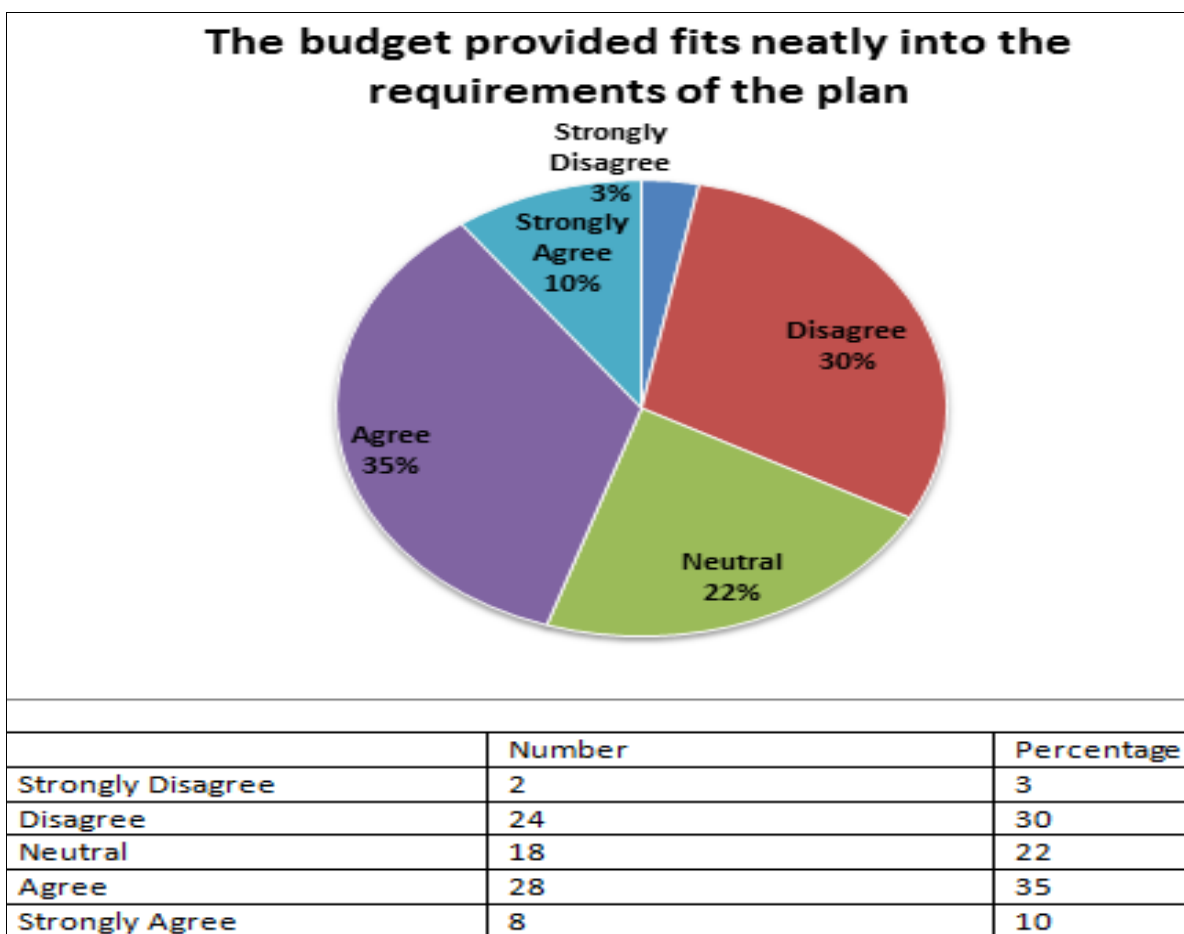
**Statement 17; The budget provided fits neatly into the requirements of the plan.** Budgets are compiled in line with the organisational strategic objectives and



priorities. All business units prepare their operational plans in line with the APP. These plans are matched with the approved budget allocation letters issued to each business unit to execute the operational plans.

**Responses;** All operational plans should be monitored for both achievements of targets as well as budget performance against the targets. Figure 6.22 below indicates the degree to which the respondents agreed or disagreed with the statement.

**Figure 6.22: The budget provided fits neatly into the requirements of the plan**



**Source: Author's own construction**

Figure 6.22 above indicates that majority of the respondents at 45% agreed that the approved budget fits neatly into the requirements of the plan. 33% of the respondents disagree with the statement and 22% of the respondents remained

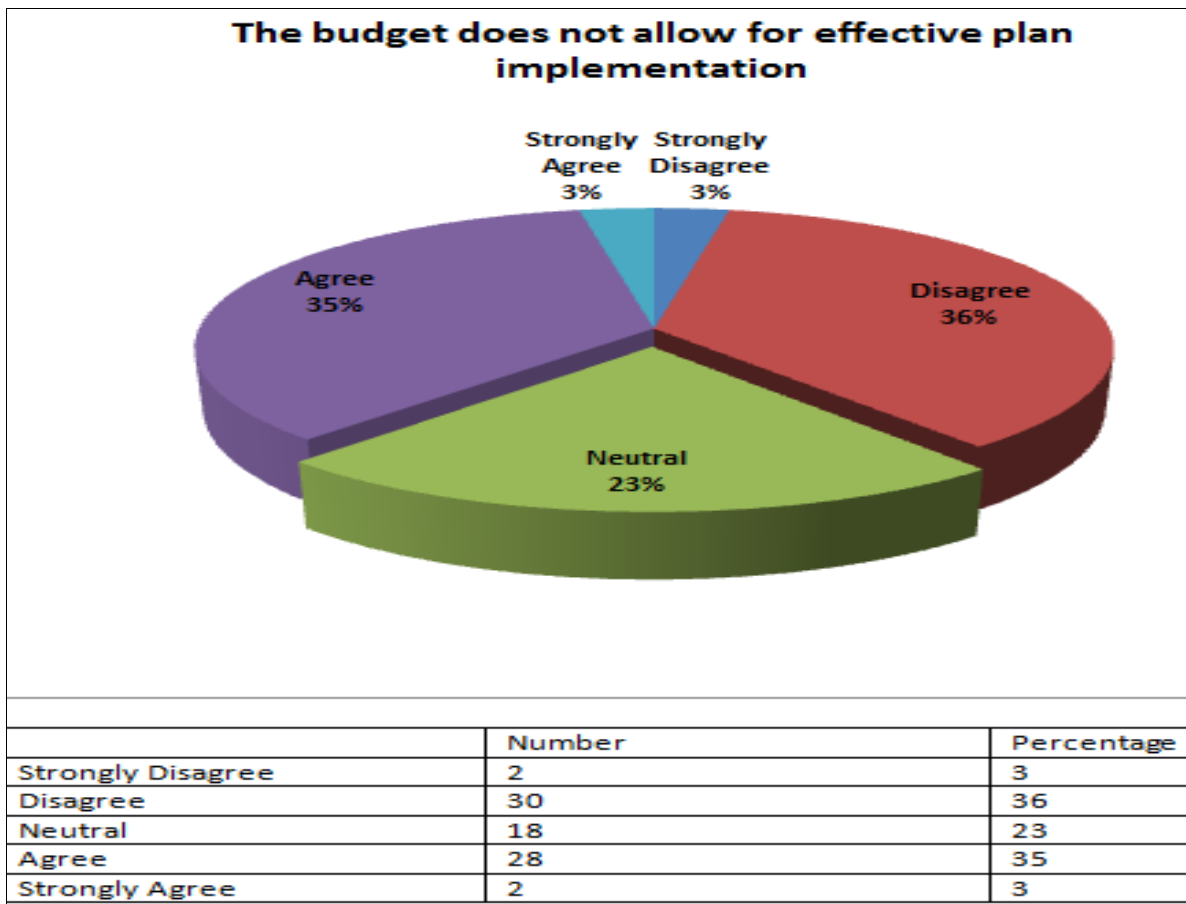
neutral. As in figure 6.21, it is important that a budget should speak to the plans of the department.

**Statement 18; The budget does not allow for effective plan implementation.**

Provincial treasury monitors the departmental expenditure vs plans on a monthly basis to ensure that the departments do not over or underspend.

**Response;** Provincial Treasury should provide guidance through circulars and regulations to ensure that plans are executed and implemented effectively. The response is recorded in figure 6.23 below.

**Figure 6.23: The budget does not allow for effective plan implementation**



**Source: Author’s own construction**

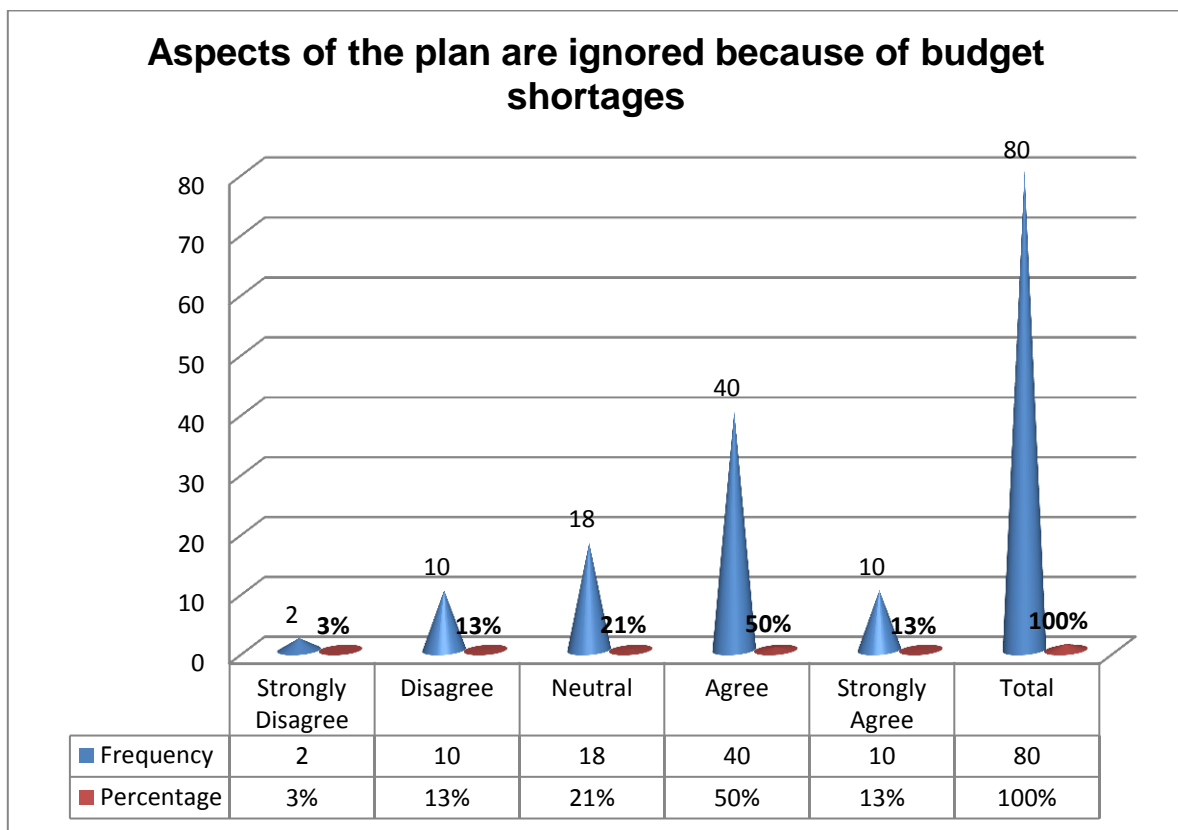
According to figure 6.23 38% of the respondents agreed with that the budget does not allow for effective budget implementation, while 39% of the respondents disagreed with the statement. 23% of the respondents remained neutral.

**Statement 19; Aspects of the plan are ignored because of budget shortages.**

There is always a conflict between plans and objectives of top management and available resources. Thus managers must ensure that resources are obtained and utilised optimally so that plans of the organisation can be fully implemented.

**Response;** Management should provide clear details of what needs to be achieved, and identify sufficient resources should be and employed before the start of a project. To this statement the respondents responded as illustrated in figure 6.24 below.

**Figure 6.24: Aspects of the plan are ignored because of budget shortages**



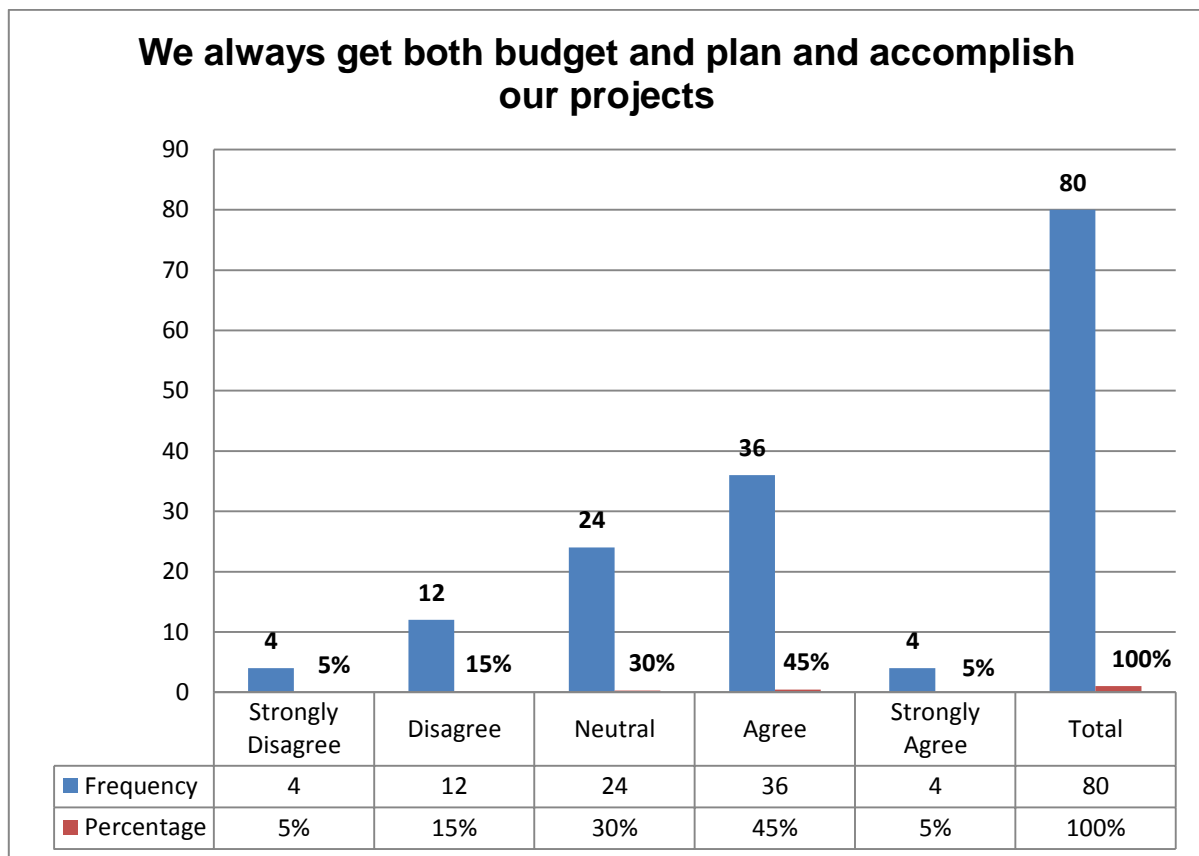
**Source: Author’s own construction**

When the respondents asked if aspects of the plan are ignored because of budget shortages, overwhelming majority at 63% agreed, while 16% of the respondents did not concur with the statement, and 21% remained neutral as illustrated in figure 6.24 above. When plans are changed due to shortage of funds, goals and objective cannot be accomplishment, thus delaying service delivery to the people that the government serves.

**Statement 20; We always get both budget and plan and accomplish our projects.** In order to achieve goals and objectives within an organisation, there should be a series of steps on how projects will be achieved, and the budget should be sufficient and realistic.

**Response;** It is expected that there should be a link between budgets and plans to ensure that programs and projects of the department are accomplished effectively and efficiently. The response is recorded in figure 6.25 below.

**Figure 6.25: We always get both budget and plan and accomplish our projects**



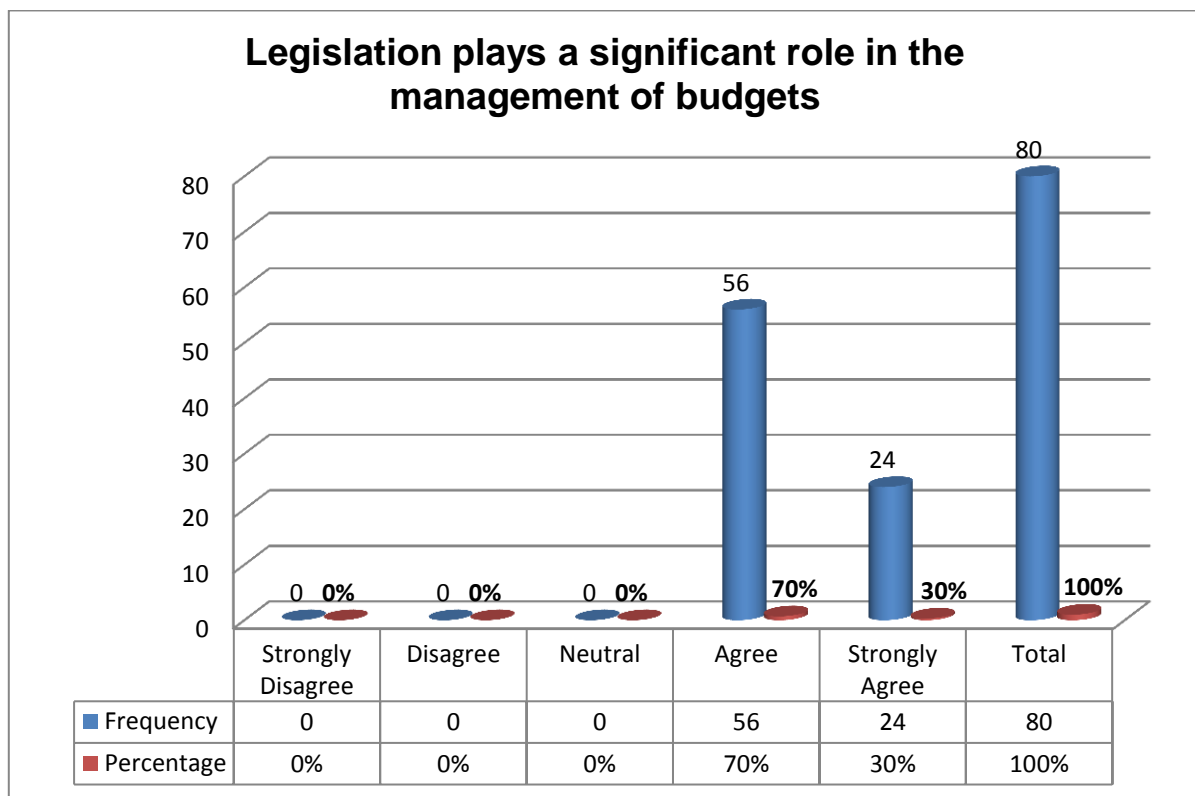
**Source: Author’s own construction**

In response to a statement that they always get both budget and plan and accomplish their projects, the results shows that majority (50%) of the respondents concurred with the statement, while 20% did not concur, and 30% remained neutral.

**Statement 21; Legislation plays a significant role in the management of budgets.** The Public Finance Management Act of 1999 ensures that there is better management of finances in the government; there the legislation plays an important role in ensuring that budgets are managed commendably.

**Response;** Legislation expected to ensure that there is proper control of financial management in government and other public institutions, and employees should be well aware of that. Figure 6.26 below illustrates the replies of the respondents on this statement.

**Figure 6.26: Legislation plays a significant role in the management of budgets**



**Source: Author’s own construction**

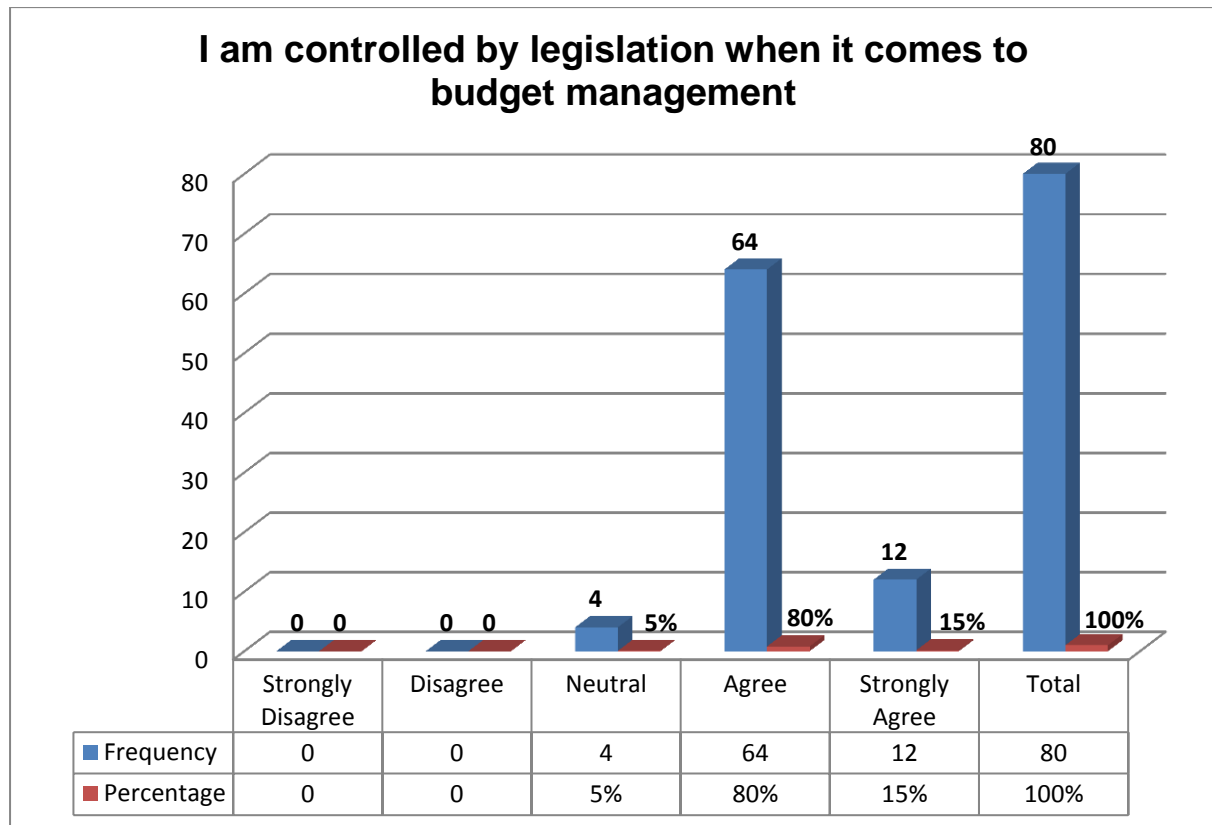
When the respondents were asked if legislation plays a significant role in the management of budgets, all the respondent (100%) agreed with the statement. This means all the respondents understand the role of legislation in the public service.

**Statement 22; I am controlled by legislation when it comes to budget management;** Government decisions and allocation of budgets is generally done

from the top downwards. In as much as individuals at stations have the knowhow on the details of the operational requirements, the decisions are generally top bottom.

**Response;** The intention here was to establish the extent to which legislation and not operational issues determine the practices around the budget. The response on this statement is illustrated in figure 6.27 below:

**Figure 6.27: I am controlled by legislation when it comes to budget management**



**Source: Author's own construction**

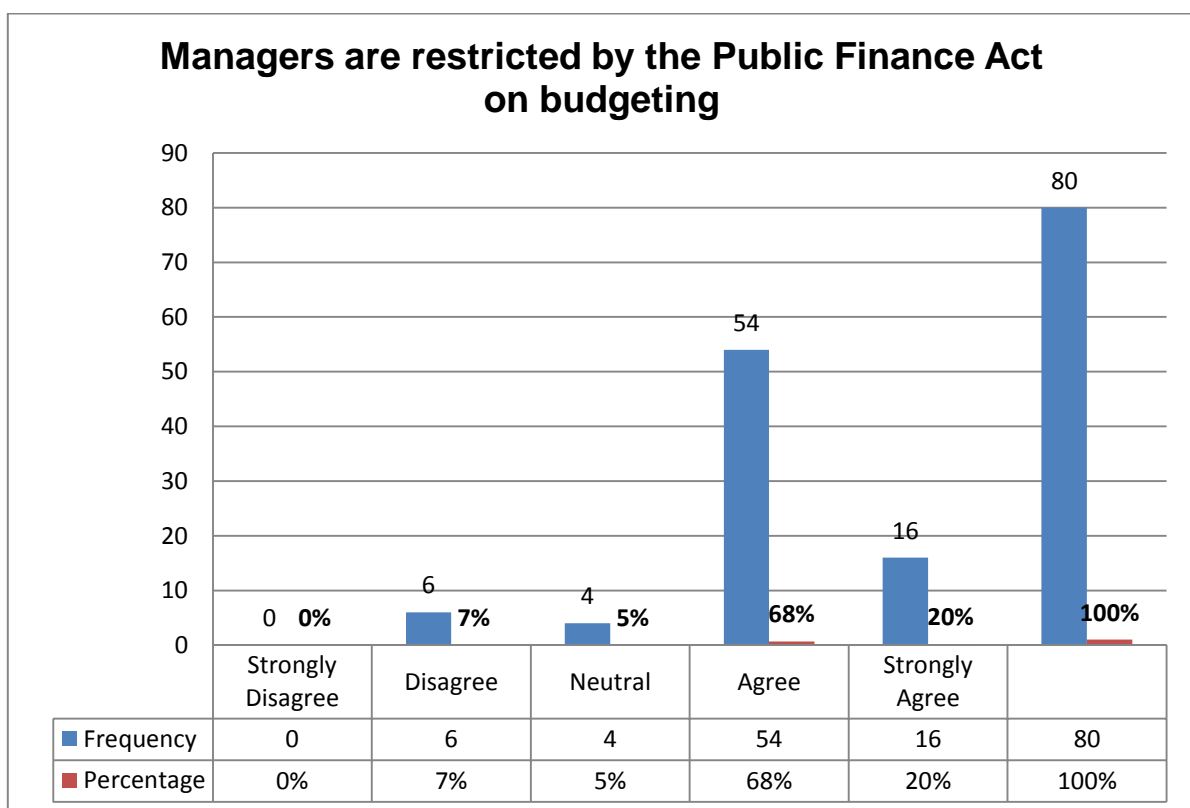
In figure 6.27 above shows that when the respondents were asked if they believed that they are controlled by legislation when it comes to budget management majority (95%) of the respondents agreed that they are controlled by legislation when it comes to managing government funds. 5% of the respondents decided to remain neutral, it is worrying that 5% did not want to engage in this statement, because legislation is important in managing and controlling public funds as seen in figure 6.26.

**Statement 23; Managers are restricted by the Public Finance Act on budgeting;**

Since a budget is an important policy document that the Government has to monitor, the manner in which employees are implementing it should be highly monitored.

**Response;** In any organisation it is expected of top management to keep an eye on how certain policies are being implement, likewise in the public sector managers should be monitored and not be too restricted in terms of policy implementation such as budgeting. The response on this statement is illustrated in figure 6.28 below:

**Figure 6.28: Managers are restricted by the Public Finance Act on budgeting**



**Source: Own construction**

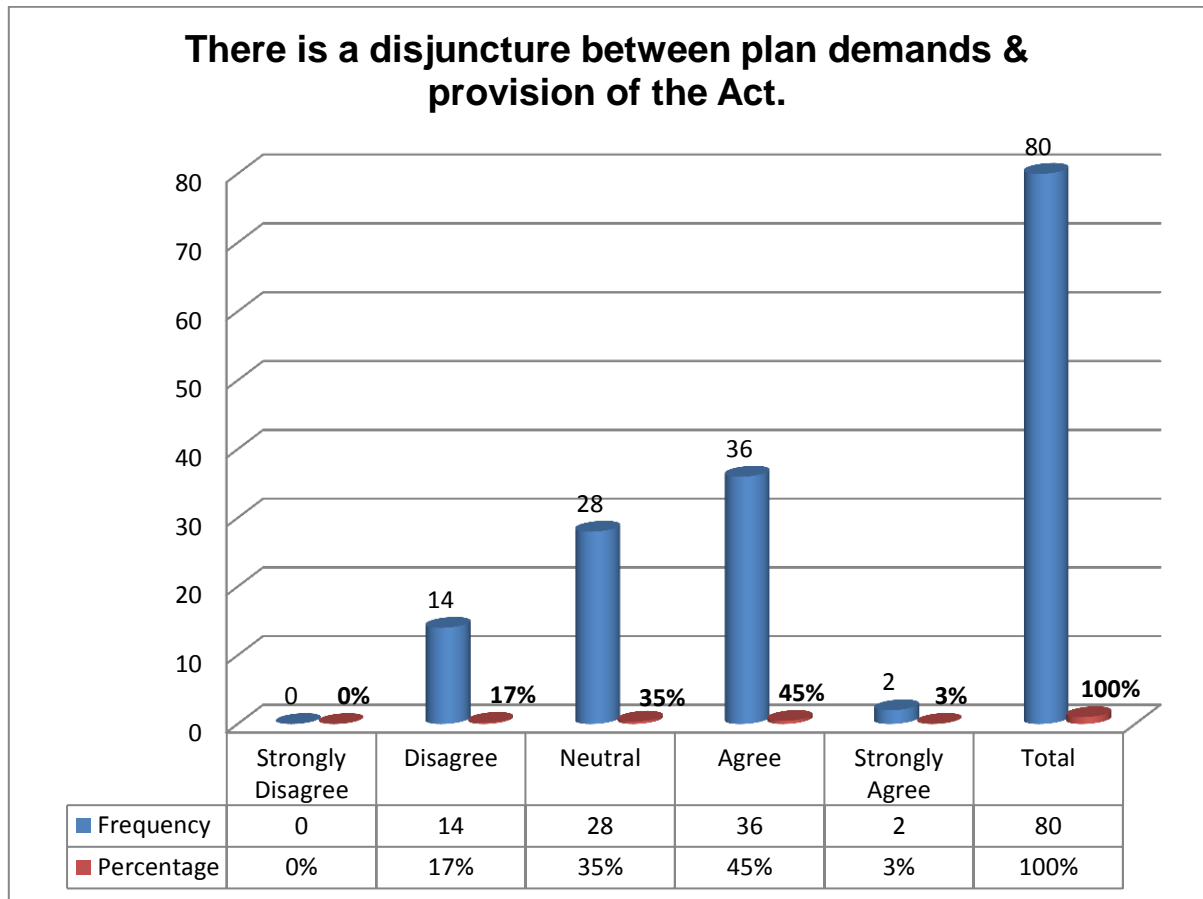
In figure 6.28 above the study results show that the majority (68%) of the respondents agreed that managers are restricted by the legislation; followed by 20% who strongly agreed; 8% who disagreed; while 5% of the respondents remained neutral.

**Statement 24; There is a disjuncture between plan demands & provision of the Act.** If and when there is a disjuncture between the legislation and plans of the

government, it becomes difficult for demand to be met and resources to be allocated optimally.

**Response;** For the government to implement its strategies and plans, plans and policies and laws should talk to each other. The response on this statement is illustrated in figure 6.29 below:

**Figure 6.29: There is a disjuncture between plan demands & provision of the Act**



**Source: Own construction**

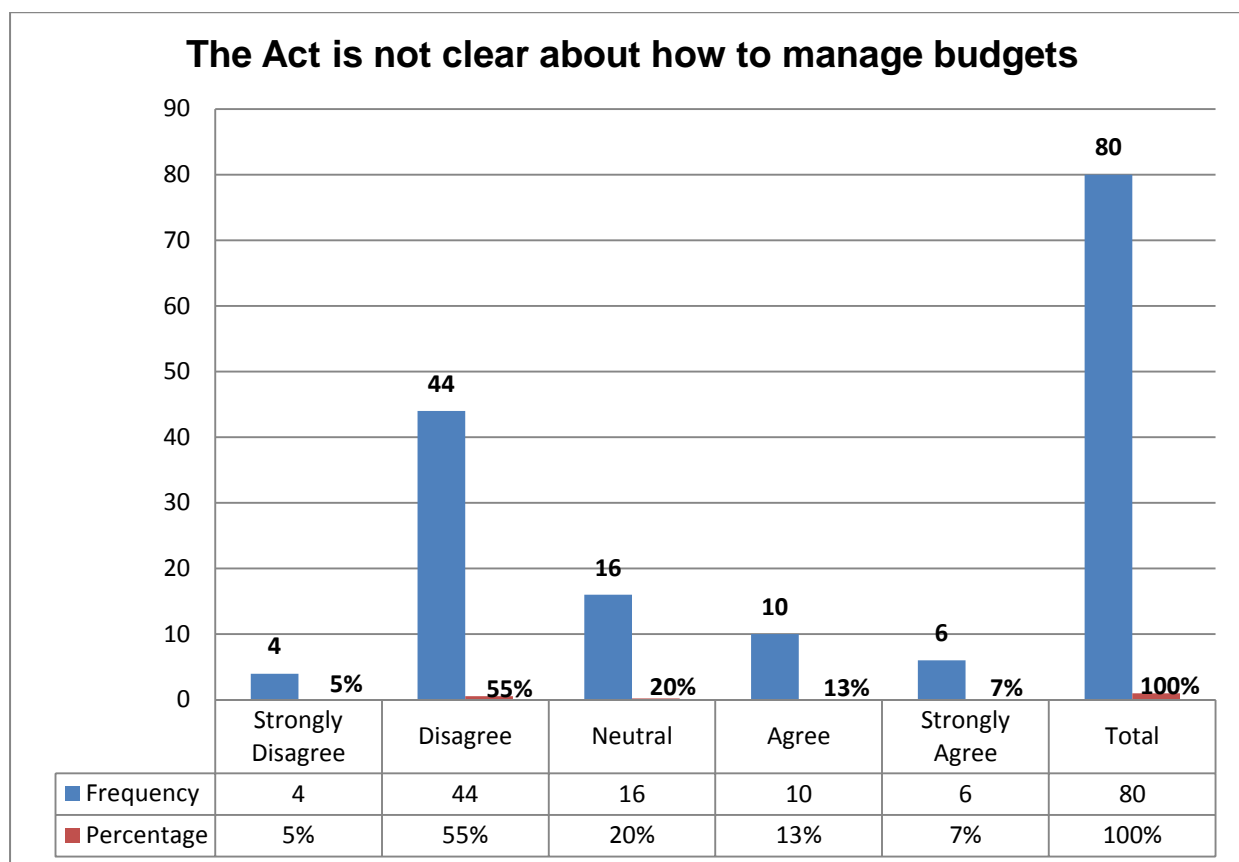
In figure 6.29 the survey shows that most respondents (45%) agreed that there is a disjuncture between plans of the department and provision of the act; 17 % disagreed with the statement, 35% of the respondents remained neutral; while 3% of the respondents strongly agree. There should be a link between provisions of the policies (legislation) and plans of the department.



**Statement 25; The Act is not clear about how to manage budgets.** Legislation plays an important role in regulating and managing finances of the government or any public entity.

**Response;** it is expected that legislation should be clear in terms of how departments should manage its resources. In the figure below respondents aired their views in relation to the legislation that governs budgeting. The response on this statement is illustrated in figure 6.30 below:

**Figure 6.30: The Act is not clear about how to manage budgets**



**Source: Own construction**

Figure 6.30 above demonstrates that a majority of respondents (55%) disagreed with the statement that the act is not clear about how to manage budgets; 13% of the respondents agreed with the statement; 8% strongly agree; while 20% remained neutral. Most employees note that legislation gives clear authority when it comes to budget management.

## **6.4 Section C**

The following questions were asked from the respondents;

### **6.4.1 Have you attended any financial or budget management course?**

Out of the 80 respondents who were participated in the study, 80% of the respondents have never attended any financial or budget management course; while only 20% have attended a course in financial management.

### **6.4.2 What impact has the course had in your financial and budget management duties?**

The respondents who attended a financial management course believe that the course improved their financial management skills, analytical skills and budget management skills.

### **6.4.3 A person who manages budgets has to be financial and accounting literate?**

90% of the respondents believed that a person who manages budgets should be financial and accounting literate; while 10% of the respondents believed that one does not need to be financial and accounting literate to manage budgets and finances.

### **6.4.4 Does a manager need to have a financial management qualification in order to manage budgets effectively?**

80% believe that a manager does not need to have a financial management qualification to manage budgets, they believe financial management skills can be obtained by doing short course; while 20% believe that a manager should have at least financial management qualification as a second qualification if they are non-financial managers

### **6.4.5 What has motivated you to consider working in the public service?**

Most respondents noted the following reasons which were common:

- For job security
- To improve the lives of the people in and around communities they live in.

### **6.4.6 State any reasons why you would leave the public service today**

Most respondents noted the following reasons which were common:

- To go on retirement
- Due to political interference
- To get better salaries in the private sector

#### **6.4.7 List any suggestions to improve and to enable effective management of budgets**

Most respondents noted the following reasons which were common:

- Continuous training in financial management and budgeting
- Involvement of managers when formulating budgets
- Weekly expenditure meetings between managers and the financial management Directorate.

#### **6.4.8 Anything else you want to mention, please state below in point form.**

None of the respondents responded to this questions

### **6.5 Conclusion**

The outcomes of this research were presented in this chapter in the form of charts and graphs. The results were organised and presented according to the questionnaire (the instrument). The questionnaire was designed to achieve the research objectives and to answer the research questions. The results were discussed under each pie chart and graph. The results shown that were a number of factors that were affecting managers, supervisors to management budgets. The conclusion and recommendations of this dealt with in the next chapter.

## **CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS**

### **7.1 introduction**

A budget is considered as a vital management tool that contributes towards smooth running of an organisation, leading to sustainability of an organisation. Thus this study intended to identify the extent of involvement of budget managers in the development of the budget processes, to evaluate the impact of training on the budgeting processes and the extent to which corrections could be made, to identify the enablers and constraints encountered by the responsibility managers for the use of budgets in the department. Furthermore this study aimed to explore mechanisms to improve budgeting in the department. A questionnaire survey was conducted in order to achieve these objectives.

### **7.2 Chapter summary**

**In chapter one [1]** – introduction of the study, background literature to the study, problem statement where the need for the study was clearly articulated, research objectives, research methodology, data collection, data analysis and ethical issues regarding the study were briefly discussed.

**In chapter two [2]** – Organisational planning – its origins, setting objectives, making projections, converting strategic plans to monetary value, time value for money, cvp, and the budget were highlighted and discussed in detail from literature .

**In chapter three [3]** – the focus was put on the budgeting process, types of budgeting, budgeting for 1. NGO, 2. Gov, and 3 For Profit organisations – Budget consolidation – translating budgeting to operations.

**In chapter four [4]** – A Conceptual framework, theoretical framework, work experience, existing models of budgeting, and new / envisaged model for effective management of budgets by government managers to utilize budgets was introduced.

**In chapter five [5]** - Research methodology and Research Design – population, sampling, sampling techniques, the instrument, the data collection process, data

analysis were clearly outlined. The reasons why the research design was adopted were discussed in this chapter.

**In chapter six [6]** - Data analysis and interpretation- the data was presented in pie charts, graphs and histograms. Each illustration was interpreted and the results of the study were discussed. SPSS software was use to capture the data.

**In chapter seven [7]** - conclusions and recommendations, findings were summarised.

### **7.3 Research Objectives**

Based on the main objective of the study which was to determine factors affecting management of budgets at Western Cape Department of Social Development, the following sub-objectives were articulated to accomplish the main objective;

- Identify the extent of involvement of budget managers in the development of the budget processes.
- To evaluate the impact of training on the budgeting processes and the extent to which corrections could be made.
- To identify the enablers and constraints encountered by the responsibility managers for the use of budgets in the department.
- To explore mechanisms to improve budgeting in the WCDOSD.

### **7.4 Finding specific to the objectives**

#### **7.4.1 Sub-objective one;**

**Identify the extent of involvement of budget managers in the development of the budget processes.** It was found that;

- Budgeting is done by Executive management and passed down to managers to implement.
- Employees are not responsible for budgeting in their work stations.
- Managers are told how to spend the budget by senior management.
- Managers are only limited to implementing projects, they are not the originator of them.
- Managers cannot change the budget that is given to them.

#### **7.4.2 Sub-objective two;**

**To evaluate the impact of training on the budgeting processes and the extent to which corrections could be made.** It was found that;

- Managers are not trained when it comes to budgeting.
- Some managers are not financial and budgeting literate

#### **7.4.3 Sub-objective three**

**To identify the enablers and constraints encountered by the responsibility managers for the use of budgets in the department.** It was found that;

- Political interference impacts negatively on implementation of budgets
- The budget approved by the executive is unrealistic.
- Some aspects of the strategic plan are ignored because of budget shortages.
- Legislation restricts managers from implementing projects, because legislation plays a significant role in managing budgets.
- There is a disjuncture between plan demands and provision of the legislation.

#### **7.5 Recommendation**

One of the objectives of the study was so explore mechanisms to improve budgeting in the WCDOSD. Based on the findings above the following recommendations are made to improve budgeting;

- Government should minimise the power of the executive members in budget process. This will allow managers who are expert in their relevant fields to implement their own projects.
- The budget formulations should not be a top down process, top management should consult all employees from different ranks and get feedback from them when formulating a budget. Top management should understand the importance of involving and letting employees participate in the budget process.
- Communication should improve between stake holders, executive authority should communicate effectively with managers who prepare budgets.
- Executive Authorities decision making should be linked to the budgets so as to give clear direction on where the department is going.
- Majority of the respondents agree that budgeting is one of planning that assist and organisation to plan effectively. Thus budgeting should continue to be used

as a planning tool for the department so as to achieve strategic goals and objectives.

- Red tape should be reduced to give managers an opportunity to be the originators of their own projects.
- Programmes, sub-programmes and responsibilities should be responsible for meeting their budgets..
- Budgets should be linked to the strategic plan of the department so that the budget process would be value-added activity.
- Budget holders or anyone who is tasked to execute budgets should be sent to financial or budget management course annually in order to understand the ever changing accounting and reporting standards.

## **7.6 Conclusion**

The study was instigated to determine the factors affecting management of budgets at a selected department in Western Cape Provincial Government, South Africa. The research has brought to light factors that cause managers to be ineffective in managing budgets in the department. The factors affecting manager's ability to management pertaining to research objectives were met, and thus relevant recommendations were given.

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## Appendix A: Questionnaire

**TITLE; Factors affecting effective management of budgets at a selected department in the Western Cape Government, South Africa**

*This is an academic exercise and no information will be passed to any official, please do not write your name, nor that of your organisation or any mark that may indicate who the respondent is. The target group is people generally involved in budgeting / budget implementation. REMEMBER; Your identity is protected, this remains the property of the university.*

### SECTION A. BIOGRAPHY [statistical purposes only]

Please cross the applicable boxes

**1. How old are you this year, please use table to indicate your age range**

18 – 25 years	26-30 years	31 – 40 years	41- above
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**2. What is your position in the organisation?**

HOD	Chief Director	Director	Deputy Director	Other
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If other please specify.....

**3. How long have you been working in the Department**

0 - 5 years	6 – 10 years	11 – 15 years	16 – more years
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**4. How long have you been involved in budgeting and implementation of budgets?**

0 - 5 years	6 – 10 years	11 – 15 years	16 – more years
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**5. What was your highest qualification?**

National Diploma	Bachelors' Degree	Masters Degree	Doctorate	Other
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If other please specify.....

**6. Any other things you may want to say**

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## SECTION B

### FACTORS THAT IMPACT ON EFFECTIVE BUDGET MANAGEMENT IN THE DEPARTMENT

Please rank the following by crossing the most applicable. By using the scales 1 to 5.  
**NOTE: 1 = disagree strongly, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree**

		Strongly disagree	Disagree	Neutral,	Agree	Strongly agree
	<b>BUDGETING PROCESS IN MY DEPARTMENT</b>					
1	Our budgeting process sets out the objectives for our department	1	2	3	4	5
2	The budgeting is done by us – it is bottom up in our department	1	2	3	4	5
3	Every employee is responsible for budgeting in their work station	1	2	3	4	5
4	The best measure of performance is to measure budgeting	1	2	3	4	5
5	Budgeting is done by senior politicians and passed down to us	1	2	3	4	5
	<b>BUDGET PROBLEMS</b>					
6	I am told what to spend and how to spend it by management	1	2	3	4	5
7	The work is planned from above so I just take instructions	1	2	3	4	5
8	I am implementer and not originator of programs and projects	1	2	3	4	5
9	I use what is given and cannot change anything on budgets	1	2	3	4	5
10	If budget is exhausted mid-term I have to wait for next budget	1	2	3	4	5
	<b>BUDGET IMPLEMENTATION</b>					
11	I have to break down what is given to fit into projects	1	2	3	4	5
12	I just implement because I don't know how the figures are arrived at	1	2	3	4	5
13	The implemented budget is different from the approved budget.	1	2	3	4	5
14	Political interference impacts effective implementation of budgets.	1	2	3	4	5
15	The budget approved by the executive is unrealistic and incorrect	1	2	3	4	5
	<b>STRATEGIC PLAN</b>					
16	Our budget speaks accurately to the strategic plan and operations	1	2	3	4	5
17	The budget provided fits neatly into the requirements of the plan	1	2	3	4	5
18	The budget does not allow for effective plan implementation	1	2	3	4	5

19	Aspects of the plan are ignored because of budget shortages	1	2	3	4	5
20	We always get both budget and plan and accomplish our projects	1	2	3	4	5
	<b>LEGISLATION</b>					
21	Legislation plays a significant role in the management of budgets	1	2	3	4	5
22	I am controlled by legislation when it comes to budget management	1	2	3	4	5
23	Managers are restricted by the Public Finance Act on budgeting	1	2	3	4	5
24	There is a disjuncture between plan demands & provision of the Act.	1	2	3	4	5
25	The Act is not clear about how to manage budgets	1	2	3	4	5

**Have you attended any financial or budget management course?**

Yes      No

**If yes please elaborate**

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.....  
.....

**What impact has the course had in your financial and budget management duties?**

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.....

**A person who manages budgets has to be financial and accounting literate?**

Yes      No

**If no please elaborate**

.....  
.....  
.....

**Does a manager need to have a financial management qualification in order to manage budgets effectively?**

Yes      No

**If no please elaborate**

.....

.....  
.....

**What has motivated you to consider working in the public service?**

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**State any reasons why you would leave the public service today**

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**List any suggestions to improve and to enable effective management of budgets**

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**7. Anything else you want to mention, please state below in point form**

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.....  
.....  
.....

**THANK YOU FOR TAKING PART IN THIS EXERCISE.**

## Appendix B: Ethics Approval Certificate



P.O. Box 1906 • Bellville 7535 South Africa • Tel: +27 21 4603534 • Email: majamanin@cput.ac.za  
Symphony Road Bellville 7535

Office of the Chairperson Research Ethics Committee	Faculty: <b>BUSINESS</b>
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At a meeting of the Research Ethics Committee on 17 August 2016, Ethics Approval  
was granted Abongile Zweni for research activities

Related to the MTech/DTech: MTech Business Administration at the Cape Peninsula University of  
Technology

Title of dissertation/thesis:	Factors affecting effective management of budgets at a selected department in the Western Cape Government, South Africa  Supervisor: Dr Larry Jowah
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Comments:

Decision: **APPROVED**

	17 AUGUST 2016
Signed: Chairperson: Research Ethics Committee	Date

Clearance Certificate No | 2016FBREC385

## Appendix C: Letter of Approval from the department



Research, Population and Knowledge Management

tel: +27 21 483 4512 fax: +27 21 483 5602

14 Queen Victoria Street, Cape Town, 8001

Reference: 12/1/2/4

Enquires: Clinton Daniels/Petro Brink

Tel: 021 483 8658/483 4512

Mr A. Zweni

24 Central Lane

Kleinbegin

Kraaifontein

7570

Dear Mr Zweni

**RE: APPROVAL TO UNDERTAKE RESEARCH IN THE WESTERN CAPE DEPARTMENT OF SOCIAL DEVELOPMENT**

1. Your request for ethical approval to undertake research in respect of *'An evaluation of factors impacting on effective budget management at a selected government department in the Western Cape Provincial Government'* refers.
2. It is a pleasure to inform you that your request has been approved by the Research Ethics Committee (REC) of the Department, subject to the following conditions:
  - That the Secretariat of the Research Ethics Committee be informed in writing of any changes made to your proposal after approval has been granted and be given the opportunity to respond to these changes.
  - That ethical standards and practices as contained in the Department's Research Ethics Policy be maintained throughout the research study, in particular that written informed consent be obtained from participants.
  - The confidentiality and anonymity of participants, who agree to participate in the research, should be maintained throughout the research process and should not be named in your research report or any other publications that may emanate from your research.

- The Department should have the opportunity to respond to the findings of the research. In view of this, the final draft of your dissertation should be sent to the Secretariat of the REC for comment before further dissemination.
- That the Department be informed of any publications and presentations (at conferences and otherwise) of the research findings. This should be done in writing to the Secretariat of the REC.
- Please note that the Department supports the undertaking of research in order to contribute to the development of the body of knowledge as well as the publication and dissemination of the results of research. However, the manner in which research is undertaken and the findings of research reported should not result in the stigmatisation, labelling and/or victimisation of beneficiaries of its services.
- The Department should receive a copy of the final research dissertation and any subsequent publications resulting from the research.
- The Department should be acknowledged in all research reports and products that result from the data collected in the Department.
- Please note that the Department cannot guarantee that the intended sample size as described in your proposal will be realised.
- Logistical arrangements for the research must be made with relevant Directors and Managers subject to the operational requirements and service delivery priorities of the Department.
- Failure to comply with these conditions can result in this approval being revoked.

Yours sincerely



Ms M. Johnson

Chairperson: Research Ethics Committee

Date: 13/9/16