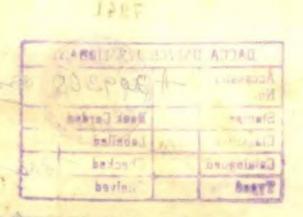
ACCEPTANCE AND USE OF BUDGET BY MANAGERS OF NATIONALISED INDUSTRIAL ENTERPRISES IN BANGLADESH



A THESIS PRESENTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY



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TO THE MEMORY OF MY PARENTS

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ABSTRACT

This research is about the acceptance and use of budget by the managers of the composite jute mills in Bangladesh. There are two aspects to it. The first is an investigation into managers' acceptance and use of budget as a tool of management. Acceptance and use are regarded as two dimensions of a manager's behaviour. Acceptance refers to the commitment as as reported by managers regarding the achievement of budget targets. Commitment, in turn, is reflected in the acceptance of budgets by managers as their own and their use of budgets in discharging the managerial functions. While use means use of budget and budgetary information in discharging the managerial functions of planning, control, co-ordination, motivation and communication. In other words, the use of budget as a managerial tool is emphasised. The other is to study the influence of factors like budget characteristics of flexibility, attainability, timeliness and follow-up, managers' participation in the process of budgeting, their budget motivation, their knowledge regarding the purposes of preparing the budgets, and their personal characteristics, like age, experience, educational background and training in budget on their acceptance and use of budgets.

Investigations were conducted in all the nineteen composite jute mills under the Bangladesh Jute Mills Corporation and heads of these mills, their production heads, sales heads and accounts heads were interviewed through two questionnaires which were designed mostly on Likert's five-point scale. In framing the questionnaires, due considerations were given to reliability and validity of the measurement instruments. These included a pilot study, consultation of past research, expert opinion and pre-testing.

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In the first chapter, we have presented the research problems. The second chapter deals with the definition of the variables and their measurement.

Chapter three takes up the situational context of the research where we have discussed the enterprises and their environments.

Chapter four discusses the budget characteristics of flexibility, attainability, timeliness and follow-up and the attitude of managers towards them.

Chapter five discusses the extent of acceptance and use of budget by managers based on the data collected. This chapter also explores the relationship between budget acceptance and use and the relationship between these and budget characteristics of flexibility, attainability, timeliness and follow-up.

Chapter six takes up the issue of participation and seeks to find out the extent of participation of the managers in the process of budgeting on the basis of the data collected and its relationship to budget acceptance and use.

Chapter seven discusses the purposes of preparing budget and managers' knowledge regarding the purposes. The influence of managers' knowledge regarding the purposes on the acceptance and use of budget by them has also been explored in this chapter.

Chapter eight deals with the budget motivation of managers and its influence on managers' acceptance and use of budget.

Chapter nine contains a discussion of managers' personal characteristics, namely, age, experience, educational background and budget training and their relationship to managers' acceptance and use of budget. (111)

Finally, in chapter ten the major aspects of the investigation and its findings have been summarised and some relevant conclusions and implications have been put forward.

The findings of the study are summarised below:

- (1) Acceptance and use of budgets by the managers of composite jute mills were found to be at a low level. Of the fifty seven managers interviewed, only eighteen managers (32%) reported high acceptance and nineteen managers (33%) reported high use of budgets. The extent of acceptance and use did not vary significantly from one category of managers to another. This is due to the prevalence of an unfavourable organisational climate and low dependence on budget as a management tool. This can also be explained in terms of organisational socialisation process which requires the organisation members to accede to the values, norms and required behaviour prevalent within the organisation.
- (2) Managers' attitudes towards budget characteristics of flexibility, attainability, timeliness and follow-up influenced their acceptance and use of budgets. The finding supports the results of study conducted by Simon et.al. As to the individual characteristics the study revealed the following:
- (a) Managers who perceived budgets as flexible, accepted and used them more than those who viewed them as inflexible. This is in line with the current thought in management control.
- (b) Managers who felt that timeliness is observed in the budget process were high acceptors and high users. On the other hand, managers who felt that timeliness is not observed in the process of budgeting were low acceptors and low users.

- (c) Managers who perceived follow-up to be regular belonged to the group of high acceptors and high users, while the managers who perceived the follow-up to be irregular were low acceptors and low users. This support the findings of the study made by Rahim in the U.K.
- (d) Managers who viewed the budget goals as attainable accepted and used budgets more than those who viewed them as unattainable. This finding corroborates the findings of earlier studies conducted by Hofstede in Holland and by Kenis in the U.S.A.
- (3) Managers' perceived participation influenced their acceptance and use of budgets. Managers who perceived high degree of participation were found to be high acceptors. On the other hand, managers who perceived a low degree of participation, turned out to be low acceptors and low users. This has supported the findings of the studies made by Ken Milani, Searfoss and Monczka, Kenis, and Collins in the U.S.A. and by Rahim in the U.K.
- (4) Managers' knowledge regarding the purposes of preparing budgets affected their acceptance and use of budgets. This is in line with the current thought in the field of budgeting.
- (5) Managers' budget motivation was found to have a significant effect on their acceptance and use of budgets. Managers who had high budget motivation were found to be high acceptors and high users, while managers who had low budget motivation were found to be low acceptors and low users.

 This vindicates the findings of Hofstede.
- (6) Managers' personal characteristics like age, experience and educational background did not have any significant influence on their acceptance and use of budgets. This has supported the findings of Collins.

Managers' training in budget was, however, found to have a significant influence on their acceptance and use of budgets. This supports the findings of Rahim.

It may be concluded that the acceptance and use of budgets by managers are not the result of any one factor or two factors, but the result of the interaction of many factors. All these factors should be considered for increasing the acceptance and use of budgets by managers.

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CHAPTER - I

INTRODUCTION



1.1 Background.

A budget is not only a plan that lays down cost and revenue goals for various departments within an enterprise, but also a device for control, co-ordination, communication, performance evaluation, and motivation. Feedforward regarding the budgeted goals and feedback regarding the extent of achievement of those goals enable managers to measure efficiency, identify problems and control costs. Co-ordination of various functional activities namely production, sales, purchases and cash flows is brought about through the process of budget preparation and application.

Communication of budgeted goals downward in the enterprise informs the members of the lower echelons of management about the expectation of upper echelons. Conversely, through the upward communication of the budget reports the upper management is informed about the performance of the lower management. Moreover, budget information enables the upper management to evaluate the performance of lower managers and to provide rewards and punishments. In this way, the budget acts as an important motivational tool for members of an organisation.

A budget is a potential managerial tool. It has become widely accepted as the key element in the planning and control system of private enterprises as well as public sector enterprises. There has been extensive writings on the general principles of budgetary control in private business

^{3.} Y. Ijiri, J.C. Kinard and F.B. Putney, "An Integrated Evaluation System for Budget Forecasting and Operating Performance with a Classified Budgeting Bibliography", Journal of Accounting Research. Vol.6, No.1, Spring 1968, pp. 11-28, presented extensive bibliography.

but there has been relatively little study of budgeting in public enterprises outside the United States of America and the United Kingdom. The phenomenal growth of public sector enterprises over the last few years underscores the urgency of understanding the actual and potential role of budgeting. This is all the more necessary in the context of Bangladesh, as a substantial proportion of industries is in the public sector here. The effective management of public sector enterprises calls for acceptance and use of budgets by managers of different functional areas.

1.2 Statement of the problem:

Low productivity and high cost of production have historically proved to be two of the major problems of industrial enterprises in Bangladesh. The situation became worse in the post liberation years particularly in the nationalised industries. Poor performance of the nationalised enterprises in terms of reduced productivity, increased wastage and high cost of production worried economists, management practitioners and administrators.²

Budget as an instrument of financial planning, as a tool of management control and as a technique of motivation for raising managerial effectivenews has caught the attention of many management practitioners, academic scholars and researchers. Though budgets have been recognised and introduced as a management tool in the industrial enterprises of Bangladesh, its role in husbanding the scarce resources placed at the disposal of the industrial enterprises seem notite have been fully understood and accepted.

^{2.} The World Bank, World Development Report, August, 1979, p. 64. Government of the People's Republic of Bangladesh, Planning Commission, The Two Year Plan (1978-80), p. 151 and p. 158.

Qazi Kholiquzzaman Ahmad, "The Manufacturing Sector of Bangladesh - An Overview", The Bangladesh Development Studies, Vol. 6, No. 4, Autumn, 1978, p. 401.

M. Habibullah, "Industrial Efficiency and Profitability in Bangladesh", Bureau of Economic Research, University of Dacca, 1974, pp. 1-2, 103.

The Government of Bangladesh nationalised large and medium sized industrial enterprises in selected industrial sectors in March, 1972.

The objectives of nationalisation were as follows:

- "(1) To lay the foundation of socialism in the industrial sector of the economy,
- (2) To achieve efficient and professional management.
- (3) To establish new institutions and to develop a socialist consciousness among the management and workers.
- (4) To bring about necessary growth and expansion in the industrial sector."5

But it is felt that these objectives are not being fulfilled in a satisfactory manner. Several economic, social and political factors have been identified as contributing elements for the unsatisfactory performance of the nationalised industrial enterprises. Inadequate recognition of the value of budget as a management tool is often mentioned as one of the variables. This is the conclusion of professional economists, researchers and management experts of the country.

^{3.} Government of the People's Republic of Bangladesh, Ministry of Industries, Industrial Investment Policy for 1972-73, 12th January, 1972.

Rehman Sobhan and Muzaffar Ahmad, Public Enterprises in an Intermediate regime: A Study in the Political Economy of Bangladesh. The Bangladesh Institute of Development Studies, Dacca, 1980, pp. 313, 332-333.

M. Habibullah, "Problems of Nationalised Industries", The Business Review, Vol. 3, No. 2, April-June, 1977, p. 20.

M. Rahman, "On Budget Failure in Corporations", The Business Review. Vol. 3, No. 2, April-June, 1977, pp. 53-54.

The inadequate recognition of the value of budget is its turn, seems to have resulted from inadequacy of budget training of the managers and insufficiency of their involvement innthe process of budgeting.

Managers' orientation to budget and benefits accruing from it is a key factor in the success of budgeting in any organisation. This, in turn, seems to be influenced by their budget training and involvement in the budget process. The budgetary procedure itself seems to be at fault.

It seems to have failed to ensure adequate involvement of managers in the process of budgeting. A discussion of the budgetary procedure followed by the enterprises and their controlling corporation is given below:

Budgetary Procedure⁵. In the budgeting process of the nationalised industries, managers at the enterprise level are not adequately involved. The preparation of budgets at the enterprise level commences on the receipt of budget guidelines from the corporation. Budget guidelines contain details regarding number of working days, number of shifts to be operated, volume of production, wastage percentage, batch composition, consumption rate of direct materials, production efficiency, number of workers per machine, festival expenses, sales price and overtime. Thus, whatever budgetary planning is done is performed at the corporation level. Enterprise management does not take part in the development of budget guidelines.

The preparation of budgets commences at the enterprise level on the receipt of budget guidelines from the corporation. The accounts department plays an important role in the preparation of budgets. In order to facilitate the preparation of departmental budgets, it furnishes

^{5.} Budgetary procedure followed by the corporation and the enterprises under study has been discussed in detail in 3.5.

ed from the corporation. The heads of the departments are not acquainted with the technique of budgeting, so they ultimately turn to the accounts department for the preparation of their departmental budgets. As a result, the budgets are prepared by the accounts department on the basis of budget guidelines, past records and information gathered from the departments. The budgets are drawn up in the form prescribed by the corporation and are signed by the head of the enterprise and head of the accounts department.

The enterprise board is required to oversee the preparation of budgets. But, in practice, it cannot do so, as it usually meets on a quarterly basis. The budgets are sent directly to the corporation to comply with the time schedule set by it for submission of budgets and the fact in then reported to the board as and when it meets.

After the preparation of the budgets at the enterprise level, these are forwarded to the cost and budget section of the corporation for scrutiny. These budgets are then discussed and finalised at a meeting of the budget committee constituted by the corporation for the purpose. The committee is usually composed of senior officials from corporation head office and zonal offices and is headed by one of the Directors of the corporation. Enterprise heads and accounts heads represent the enterprise at such a meeting. After finalisation by the budget committee, the budgets are approved by the board of directors of the corporation as a routine affair. The approved budgets are then sent to the enterprises for implementation. On the receipt of the approved budgets, their salient features are communicated to the heads of the departments by the accounts departments of the enterprises.

The procedure thus followed seems to have failed to ensure adequate involvement of the managers at the enterprise level. When managers are adequately involved, they are likely to work with their superiors, subordinates, fellow managers and accounts personnel in the formulation and preparation of budgets. They are likely to point out factors and problems that should be considered. Similarly in the implementation of budgets, they are likely to personally investigate the variances in their units and work closely with their subordinates and others in taking corrective action. Moreover, they are likely to express their opinions on budget matters, offer suggestions for improving the budget system and engage in informal budget discussion with superiors and subordinates. In other words, they are likely to have an ego-involvement.

As the mamagers are not adequately involved in the process of budgeting, they have not developed commitment to budgets and do not consider them as their own. They do not offer constructive suggestions either during preparation or during implementation of budgets. As a result, the budgetary procedure followed does not promote real participation, but only what may be termed as 'pseudo-participation'. This hinders the budget oriented behaviour of the managers.

Budgetary Control: Budgetary control involves setting of standards, comparison between the actual and the standard and taking of corrective action. The budget reports and analyses indicate the need for action and the probable courses of action. Action must be taken by the managers if budget variances are to be removed. Both feedforward and feedback control require managerial action. The need for action calls for goal-congruence; that is the budgeting system is is to be so devised that the actions that

managers take in their perceived self interest serve also the best interests of the whole organisation. 6 This involves the issue of motivation of managers.

Managers are to be motivated to accept and use budgets. This, again involves the consideration of the needs, goals and attitudes of the managers who are working within the framework of budgets. If these are not attended to, undesired responses are likely to result. The budgeting system practised by the corporations seems not to have taken cognizance of these behavioural issues. The way the managers accept and use budgets is an important as the technical design of the system. The budgeting process affects behaviour of the managers. Acceptance and use of budgets may be viewed as the two dimensions of managers' behaviour. Acceptance and use pose serious problems as these are interlinked with many factors both internal and external to the organisation. Chris Argyris stressed the problem of acceptance. V. Bruce Irvine 10 also pointed out the difficulty of convincing people to accept and use budgets. Dunbar views the acceptance of goal by the budgetse as the critical step between the setting

^{6.} Robert N. Anthony, Planning and Control Systems: A Framework for Analysis, Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1965, p. 45.

^{7.} M. Rahman, op.cit. (1977), p. 56.
A.B.M. Khaldd, Accounting Problems in Nationalised Industries,
University Grants Commission, Dacca, (unpublished), 1979, p. 97.

^{8.} D.T. Otley, "Budget Use and Managerial Performance", Journal of Accounting Research, Vol. 16, No. 1, 1978, Spring, pp. 122-149.

^{9.} Chris Argyris, "Human Problems with budgets", Harvard Business Review, Vol. XXXI, No. 1. January-February, 1953.

^{10.} V. Bruce Irvine, "Budgeting: Functional Analysis and Behavioural Implications" in Alfred Rappaport (ed.), Information for Decision Making: Quantitative and Behavioural Dimensions, Englewood Cliffs, N.J., Prentice-Hall, Inc., 1975.

of goal and its achievement. Quoting evidences from Festinger 11 and Brehm and Cohen 12, he adds that human beings are negative feedback or homeostatic machines and assumes that if the budgeted managers can be persuaded to accept the goal, their homeostatic nature can be relied upon to achieve it or to bring performance as close to it as the environment will allow. 13 The problem of budget acceptance and use is complicated by production technology, environment - social, economic and political and organisational typology. Besides, these, acceptance and use are likely to be affected by organisation structure, budget characteristics, style of management, budget motivation, personality traits of the managers, their personal characteristics like age, experience, educational background, training in budget and the procedure followed in budgeting.

Unless the managers accept and use the budgets in an effective manner in discharging their managerial functions, the organisation is deprived of the beneficial effects of budgeting. The ultimate objective of budgeting is to bring about organisational and managerial effectiveness. These are stressed in comparative management models put forward by Farmer and Richman and Neghandi and Prasad. Budgets when accepted and used as a managerial tool can contribute to managerial and organisational effectiveness. They can bring about managerial effectiveness

^{11.} Leon Festinger, A. Theory of Cognitive Dissonnance, Evanston: Row, Peterson, 1957.

^{12.} Jack W. Brehm and Arthur R. Cohen, Explorations in Cognitive Dissonance, N.Y., Wiley, 1962.

^{13.} Roger L.M. Dunbar, Budgeting for Control, Administrative Science Quarterly, Vol. 16, No. 1, March, 1971, p. 89.

^{14.} R.N. Farmer and B.M. Richman, Comparative management and economic progress, Richard D. Irwin, Inc., 1965, p. 35.

^{15.} A.R. Neghandi and S.B. Prasad, Comparative Hanagement, New York, Appleton, Century-Crofts, 1971, p. 23.

by aiding management in their functions of planning, controlling, coordinating and motivating. They can also contribute to organisational effectiveness by specifying and clarifying the path to the achievement of the organisational goals. 16

If the budgets are not properly accepted and used, they are likely to give rise to many dysfunctional consequences. One of the important dysfunctional consequences is the introduction of slack as pointed out by williamsen 17, Lowe and Shaw 18, and Schiff and Lewin 19. Welsch 20 described the budget padding behaviour in organisation. Moreover, the systematic distortion of information resulting from the use of budgets for planning and performance evaluation were reported by Dalton 21, Mc Nerny 22, Cyert

^{16.} Henry L. Tosi, Jr., "The Human Effects of Budgeting System on Management", in Fred Luthans (ed.), Contemporary Readings in Organizational Behavior, N.Y., McGraw-Hill Book Company, 1977, p. 163.

^{17.} Cliver E. Williamson, The Economics of Discretionary Behaviour: Hanagerial Objectives in a Theory of the Firm, N.J., Prentice Hall, Inc., 1964.

^{18.} E.A. Lowe and R.W. Shaw, "An analysis of Managerial Biasing: Evidence from a Company's Budgeting Process", Journal of Management Studies, Vol. 5, No. 3, October, 1968, pp. 304-315.

^{19.} M. Schiff and A.Y. Lewin, "Where Traditional Budgeting Fails", Financial Executive, Vol. 36 No.5, 1968, 50-52, 55-56, 61-62.

—— and ——, "The Impact of People on Budgets", The Accounting Review, Vol. 45, April, 1970, pp. 259-268.

^{20.} G.A. Welsch, Budgeting: Profit Planning and Control, 2nd ed., N.J., Prentice-Hall Inc., 1964, p. 35.

^{21.} M. Dalton, Men Who Manage, New York, Wiley, 1959.

^{22.} J.P. Mc Nerny, Installing and Using an Automatic Data Processing System, Boston, Division of Research, Graduate School of Business Administration, Harvard University, 1961.

et al 23 and M. Rahman . Argyris 25 reported about the consequences of budget used as a pressure device. V. Bruce Irvine also lists the dysfunctional aspects of budget system. Because of such evidences of dysfunctional consequences, the proper acceptance and use of budget becomes all the more necessary if it is to be used as an effective management tool.

1.3 Objectives of the study:

This study aims at examining the extent to which budgets are being accepted and used by the managers of the nationalised industrial enterprises especially by the managers of the composite jute mills under Bangladesh Jute Mills Corporation (BJMC) and exploring the relationship between acceptance and use of budgets and some variables, namely, budget characteristics of attainability, flexibility, timeliness and follow-up, participation, budget motivation, and knowledge regarding the purposes of preparing the budget and some personal characteristics of the managers. In order to test the hypotheses listed later in this chapter, the objectives include the study of the following:

(1) the extent of acceptance and use of budgets by managers, namely, the enterprise heads, and heads of production and sales departments.

In other words, identifying the extent to which concerned managers

^{23.} Richard M. Cyert, J.G. March and W.H. Starbuck, "Two Experiments on Bias and Conflict in Organizational Estimation". Management Science, 7, (1961), 254-264.

^{24.} M. Rahman, "An empirical investigation into management use of accounting information and the influence of selected job related traits and organisational correlates", Manchester Business School, Ph.D. Thesis (Unpublished), 1976, pp. 187-189.

^{25.} Chris Argyris, The Impact of Budgets on People, N.Y., The Controller-ship Foundation Inc., 1952.

^{26.} V. Bruce Irvine, op.cit., pp. 76-83.

accept budgets and commit themselves to their successful implementation,

- (2) the budget making procedure, budget approval and implementation procedures in order to identify to what extent the managers are involved,
- (3) the influence of budget characteristies like attainability, flexibility, timeliness and follow-up upon the acceptance and use of budgets,
- (4) the relationship between the extent of managers' participation in the budget process and the acceptance and use of budgets by them,
- (5) the extent of motivation in the budget system and its influence on the acceptance and use of budgets, and
- (6) the relationship between managers' demographic variables like age, experience, educational background and training in budget and the acceptance and use of budgets.

1.4 Hypotheses of the Study.

The following hypotheses were tested in this study:

- 1. Acceptance and use of budgets by enterprise managers tend to be low.
- 2. Managers' attitude towards budget characteristics of flexibility, attainability, timeliness and follow-up tend to influence the acceptance and use of budgets.
- (a) Managers who perceive the budgets as flexible are likely to accept and use budgets more than those who view them as inflexible.
- (b) Managers who feel that timeliness is observed in the budget process are likely to be high acceptors and high users. Managers who feel that timeliness is not observed in the budget process are likely to be low acceptors and low users.
- (c) Managers who perceive the follow-up to be regular are likely to belong to the group of high acceptors and high users. While the managers who perceive the follow-up to be irregular are likely to belong to the

group of low acceptors and low users.

- (d) Managers who view the budget goals as attainable are likely to accept and use budgets more than those who view them as unattainable.
- 5. Managers' perceived participation in the process of budgeting tends to influence their acceptance and use of budgets. In other words, managers with high participation in the budget process are likely to be high acceptors and users, conversely, managers with low participation in the budget process are likely to be low acceptors and low users.
- 4. Managers' knowledge regarding the purposes of preparing budgets tends to affect the acceptance and use of budgets. Acceptance and use of budgets are likely to be high in the case of managers who have knowledge regarding the purposes of budgets. Managers who do not have knowledge regarding the purposes of budgets tend to be low acceptors and low users of budgets.
- 5. Motivation in the budget system tends to influence the acceptance and use of budgets. Managers who are highly motivated are likely to rank high in respect of acceptance and use of budgets. Managers whose level of motivation is low tend to be low acceptors and low users of budgets.
- 6. Managere' personal characteristics like age, experience, educational background and training in budget tend to influence the acceptance and use of budgets.
- 1.5 Coverage and Limitations of the Study.
- (a) Coverage of the study:

The study is concerned with the acceptance and use of budgets by managers of nationalised industries especially by the managers of nationalised jute industry. It seeks to determine the extent of acceptance and

use of budgets by the managers and to explore the relationship between acceptance and use patterns of budgets with variables like budget characteristics, participation, budget motivation, knowledge regarding the purposes of budgets and managers' personal characteristics.

There are several sector corporations engaged in the administration of nationalised industrial enterprises. In order to make the study fully representative of the nationalised industries, some enterprises under each of the corporations should have been studied. Time, fund and orgamisational constraints and the need to obtain a uniform set of responses from a group of enterprise managers working under a particular corporation stood in the way of such a comprehensive study. Preliminary study of the budgeting procedures of the corporations revealed no marked difference. Hence, this study covered mineteen (19) composite mills under B.J.M.C. Three types of managers namely, the enterprise heads, the production heads, and the sales heads were interviewed and their acceptance and use of budgets were considered. As all the corporations are regulated by the same statute and by policy directives from the Government and follow the same budgetary procedure, it has been thought that study of the acceptance and use of budgets by these managers will be relevant for others as well.

(b) Limitations of the study:

The first limitation of the study stems from the fact that all the factors influencing the acceptance and use of budgets have not been included. Only a limited number of variables of immediate interest has been included.

Secondly, the study is concerned only with operating budgets; it does not deal with capital and long term budgets. 27

Thirdly, the study does not consider the influence of organisational structure, personality traits²⁸ and managerial style on the acceptance and use of budgets.

Fourthly, it covers only one corporation out of the several existing corporations.

Fifthly, it covers only managers from three functional areas due to time and resource constraints. Although these managers hold key positions in the enterprise management, the inclusion of managers from other functional areas would have made the study more representative.

Lastly, it is based on the responses of the managers to different aspects of budget acceptance and use and considers secondary information only to supplement the primary data.

We have thus described the research problem and its background.

In the next chapter we intend to describe the design and method that we have followed in developing the concepts and in operationalising the problem.

^{29.} During the period under study, the enterprises incurred heavy losses as such they were not in a position to generate fund for capital expenditure. Expenditure under this head was very meagre, so the capital expenditure budget was not included for the purpose of this study.

^{28.} Personality traits were excluded because of difficulty of administering sophisticated measurement instrument like Ghiselli's Self Description Inventory (SDI) to our sample managers.

CHAPTER - II

DESIGN AND METHOD

2.1 Definition of concepts.

In this study, managers' acceptance and use of budgets are considered as end result variables, while the budget characteristics of flexibility, attainability, timeliness and follow up, participation, budget motivation, knowledge regarding the purposes of preparing budgets and some personal characteristics of the managers are taken as explanatory variables. Some of the variables have been predicted on the basis of research work conducted by others, while others have been identified in the exploration of the data in this study. A limited number of variables has been included for the purpose of this research. Because, "behavioral research more often than not presents difficult measurement problems due to inherent mon-quantifiability of the variables and the perplexity of developing and validating measurement instrumenta".

Here we have outlined the definition of the main concepts which are responsible for providing the basis of operationalising the variables and for the development of instruments of their measurements.

- (a) Manager: A manager is the person who is in charge of an enterprise or any department thereof. The categories of managers included for the purpose of study were as follows:
- (1) Enterprise Head: A person in charge of an enterprise is labelled as an enterprise head. The enterprise heads are of four ranks: Executive Director, General Manager, Deputy General Manager and Manager. The number

^{1.} Frank Collins, "The Interaction of Budget Characteristics and personality Variables with Budgetary Remponse Attitudes", The Accounting Review, Vol. LIII, No. 2, April 1978, p. 326.

included in the study from each rank was as follows:

General Manager 5

Deputy General Manager 10

Manager 3

Total: 19

The rank of an enterprise head is usually related to the size of the enterprise. Enterprise heads with higher ranks are usually entrusted with the management of enterprises having more than 500 locms. The enterprises heads play a vital role in the management hierarchy. They are the link between the enterprises on the one hand and the corporation and zonal authorities on the other. They are responsible for the overall management of the enterprise and are to act in accordance with directives of the corporation and the Ministry.

(2) <u>Department Head</u>: Managers in charge of the various departments of an enterprise are termed as departmental heads. This study included three types of departmental heads namely, production heads, sales head and accounts head.

Production Head: Production head is in charge of the production department and performs all supervisory functions for the smooth operation of the department. He produces finished goods according to the production planning provided by the Directorate of Production Planning and maintains close contact with other departments. The production heads are also of four ranks namely General Manager (Production), Production Manager, Assistant Manager and Senior Assistant. In the case of large enterprise, the production head is either a General Manager

or a Production Manager. The production departments of small enterprises are headed by Assistant Managers or Senior Assistants. The number of each rank included in this study was as follows:

General Manager (Production)	1
Production Manager	9
Assistant Manager	2
Senior Assistant	7
Total:	19

Sales Head: A manager in charge of sales department is labelled as sales head. A sales head maintains close contact with the Directorate of Marketing and other departments of the enterprise for the proper discharge of his functions. He effects local sales and executes export orders received from the corporation head office. Sales heads are of four ranks namely Deputy General Manager (Marketing), Senior Sales and Export Officer, Assistant Manager (Sales & Export), Sales and Export Officer. The number of each rank included in this study was as follows:

Deputy General Manager (Marketing)	1
Senior Sales & Export Officer	5
Assistant Manager (Sales & Export)	1
Sales & Export Officer	12
Total:	19

Here again the rank of sales heads is normally related to the size of the enterprise.

Agcounts Head: The manager in charge of accounts department is labelled as an accounts head. An accounts head maintains close contact with the Directorate of Finance of the corporation and other departments of the enterprise. He is responsible for the maintenance of accounts,

preparation of reports under the integrated accounting system and the newly introduced management information system. He assists the auditors in their audit work. Moreover, he advises the enterprise head on financial matters. The accounts heads are also of four ranks namely Chief Accountant, Semior Deputy Chief Accountant, Deputy Chief Accountant and Semior Accounts Officer. The number of each rank included in this study was as follows:

Chief Accountant	1
Senior Deputy Chief Accountant	2
Deputy Chief Accountant	11
Senier Accounts Officer	5
Total:	19

The rank of accounts head also vaftes with the size of the enterprise.

(b) Budget:

A budget is a plan to act as a guide for managerial action, a means of communication and a device for control. It may also be used as a device for performance evaluation and motivation. Budget may be classified as operational and capital budgets. Operational budgets are concerned with the day to day operations of the business such as production, sales, material, labour and overhead budgets. Thus, there are budgets of revenue, cost and expense relating to current operations and are embodied in the revenue budget. Operational budgets are also termed as

^{2.} Edwin H. Caplan, Management Accounting and Behavioral Science, Reading, Mass., Addison-Wesley Publishing Company, 1971, p. 84.

J. Izzetin Kenis, "Effects of Budgetary Goal Characteristics on Managerial Attitudes and performance", The Accounting Review, Vol. LIV, No. 4, October, 1979, p. 707.

operating budgets. Capital or financial budgets are concerned with capital expenditure and the sources from which they are to be financed. An operating budget may also be classified as programme and responsibility budgets. "The programme budget sets forth plans in terms of the major programmes the company plans to undertake The responsibility budget sets forth plans in terms of the persons responsible for carrying them out." Thus, the responsibility budgets are drawn up in terms of responsibility centres. 5 For the purpose of this study, budget means the annual budget Statement as prepared by the enterprises under the Bangladesh Jute Mills Corporation (B.J.M.C.). The preparation of annual budget statement has been made compulsory by the Bangladesh Infustrial Enterprises (Nationalisation) Order, 1972 and the B.J.M.C. Rules, 1977. The annual budget statement consists of revenue budget, cash budget and capital expenditure budget. The study is concerned with the revenue budgets of the enterprises. The revenue budgets show revenue, cost and expense relating to current operations.

goals or targets. Robert N. Anthony described commitment as follows:
"by agreeing to the budget estimates, the budgetee says to his superior,
in effect: "I can and will operate my department in accordance with the
plan described in the budget." By approving the budget estimates, the
superior says to the budgetee, in effect: "If you operate your department
in accordance with this plan, you will do what we consider to be a good

^{4.} Robert N. Anthony, Management Accounting, Richard D. Irwin, 1970, pp. 492-493.

^{5.} A responsibility centre is an organisational unit headed by a responsible manager. Anthony identifies three types of responsibility centres namely expense centres, profit centres and investment centres, (R. Anthony, op.cit., p. 427).

Acceptance is a psychological phenomenon and is likely to be influenced by the involvement of the budgetee in the budget process; the extent of his motivation to work for the achievement of budget goals, the extent of his educational background and experience, the budget characteristics and the knowledge regarding the proposes of preparing the budget. The relationship between acceptance and these variables has been explored. The importance of acceptance has been atressed by Chris Argyris, Wallace, Heiser, and Rahim 10. While stressing the importance of acceptance they pointed out the problems involved in the acceptance of budget.

In this study, acceptance refers to the commitment as reported by the managers regarding the achievement of budget targets. Commitment, in turn, is reflected in the acceptance of budgets by managers as their own and their use of budgets in discharging the managerial functions.

(d) Use: Use means use of budget and budgetary information for the purpose of discharging the managerial functions of planning, control, co-ordination, motivation and communication. In other words the use of budget

^{6.} Ibdd, p. 502.

^{7.} Chris Argyris, "Human Problems with Budgets", Harvard Business Review, Vol. 31, No. 1, 1953.

J. Bruns and Don T. Decoster (eds.), Accounting and Its Behavioral Implications, N.Y., McGraw-Hill Book Company, 1969, pp. 319-325.

^{9.} H.C. Heiser, Budgeting: Principles & Practices, N.Y., The Ronald Press Company, 1959, p. 130.

^{10.} A.M.A. Rahim, Industrial Managers' Acceptance and Use of Budgetary Control Techniques - An Empirical Approach, Unpublished Ph.D. Thesis, University of Manchester, 1969.

as a managerial tool is emphasised. Use of budget by managers is of utmost importance. "The functions of budgeting are not fulfilled, until managers, individually or collectively, have studied the infermation provided by budgets as fully as practicable in every way that will maximise effective planning, control and co-ordination of activities within an enterprise.

Moreover, it also may make possible a greater delegation of authority and the consequent enlargement of the total management effort available." 11

Like acceptance, use may also be related to the same set of variables.

This will also be explored. An attempt will also be made to ascertain the extent of relationship between acceptance and use.

(e) Participation: Participation is a concept used to denote "a process of joint decision making by two or more parties in which the decisions have future effects on those making them." However, the term has been defined in a variety of ways while being applied to various phenomena. Participation in budgeting refers "to the extent to which managers participate in preparing the budget and influence the budget goals of their responsibility center." This definition is likely to work well for the purpose of this study.

^{1.} H.J. Perrin, "Budgetary Planning and Control in the British Industry", Unpublished Ph.D. Thesis, University of London, 1958, pp. 15-16 quoted by A.M.A. Rahim, op.cit.

^{12.} J.R.P. French, Jr., J. Israel, and D.Ass, "An Experiment on Participation in a Norwegian Factory", Human Relations, Vol. 13, p.3, 1960.

^{13.} George Strauss, "Some Notes on Power Equalization", appearing in
The Social Science of Organisation, ed. Harold J. Leavitt (PrenticeHall Inc., 1963), p. 75.

^{14.} Izzetin Kenis, "Effect of Budgetary goal characteristics on Managerial Attitude and Performance", The Accounting Review, Vol. L IV, No. 4, October 1979.

Behavioural scientists like McGregor, Likert, Argyris and Locke advocate participation in the task of goal setting and decision making.

Experiments conducted by Coch and French 15 and Bass and Leavitt 16 have revealed that group participation in decision making result in improvement of the subsequent performance of the participants.

Many authors have pointed out that participation of managers in the preparation of budget and in setting budget goals encourage them to identify themselves with the goals, accept them wholeheartedly and work toward their achievement (Argyris, 1952¹⁷; Becker & Green¹⁸, 1962; Wallace¹⁹, 1966; Hanson²⁰, 1966; Dunbar²¹, 1971; Tosi Jr.²², 1974; Caplan²³, 1971;

^{15.} L. Coch and J.R.P. French, Jr. "Overcoming Resistance to Change", Human Relations, London, 1948, 4, pp. 512-534.

^{16.} B.M. Base and H.J. Leavitt, "Some Experiments in planning and Operating", Management Science. Baltimore, 1963, 4, pp. 574-565.

^{17.} Chris Argyris, The Impact of Budgets on Peoples, N.Y., Controlership Foundation Inc., 1952.

^{18.} Selwynw. Becker and David Green, Jr., "Budgeting and Employee Behavior", in William J. Bruns, Jr. and Don T. Decoster (eds.), op.cit, pp.327-41.

^{19.} Michael E. Wallace, Behavioral Consideration in Budgeting, in William J. Bruns and Don T. Decoster (eds.), op.cit, pp. 319-325.

^{20.} Barnest I. Hanson, "The Budgetary Control Function", The Accounting Review, XLII, April 1966, pp. 239-243.

^{21.} Roger L.M. Dunbar, op.cit. pp. 88-96.

^{22.} Henry L. Tosi, Jr., op.cit., pp. 153-167.

^{23.} Edwin H. Caplan, Management Accounting and Behavioral Science, Reading, Mass., Addison Wesley Publishing Company, 1971, pp. 83-88.



V. Bruce Irvine 24, 1978). Research studies conducted by Ken Milami 25, D. Gerald Searfoss and Robert M. Monczka²⁶; Frank Collins²⁷; Iszetin Kenis²⁸ Hofstede 29; Swieringa and Monour 30 and A. M. A. Rahim 31 indicate that participation in budget process results in better attitudes, a positive motivation to achieve the budget, a higher need satisfaction of the participants and better use of budgetary information.

Of course, there is another side of the coin. A study conducted by Stedry and Kay 32 has revealed that the introduction of participative budgeting in a large electric equipment company was coldly received by most of the first level supervisors. The reason behind this was that foremen were

V. Bruce Irvine, "Budgeting: Functional Analysis and Behavioral Impli-24. cations in Alfred Rappaport (ed.). Information for Decision Making: quantitative and Behavioral Dimensions, N.J., Prentice Hall Inc. 1975. pp. 83-86.

^{25.} Ken Kilani, "The Relationship of Participation in Budget Setting to Industrial Supervisor Performance and Attitudes: A Field Study", The Accounting Review. Vol. L., April 1975, pp. 274-284.

^{26.} D. Gerald Searfoss and Robert M. Monozka, "Perceived Participation in the Budget Process and Motivation to Achieve the Budget", Academy of Management Journal, Vol. 16, No. 4, December, 1973, pp. 541-554.

Frank Colling, "The Interaction of Budget Characteristics and personality Variables with Budgetary Response Attitude", The Accounting Review. Vol. LIII. No. 2, April. 1978.

^{28.} Izzetin Kenis, "Effects of Budgetary Goals Characteristics on Managerial Attitudes and Performance", The Accounting Review, LIV, No. 4, October, 1979.

G.H. Hofstede. The Game of Budget Control. London, Tavistock, 1968. 29.

R.J. Swieringa and R.H. Moncur, "Some Effects of Participative Budget-30. ing on Managerial Behavior", National Association of Accountants, 1975.

^{31.} A.M.A. Rahim, op.cit.

A.C. Stedry and E. Kay, "The Effects of Goal Difficulty on Performance: A Field Experiment", Behavioral Science, II (1966), pp. 459-70.

reluctant to accept the risk of censure for failure to achieve targets that they had set themselves. Hofstede also cited a study by Charnes and Stedry which refuted the advantages of participatively set goals over the non-participatively set ones. Stedry after presenting the results of some studies, stated the following: "... we can not conclude that participation will work for 'all of the people all of the time' even if one were to alter the situational variables so as to be more compatible with participation."

From the above, it may be said that the effectiveness of participation in budgeting is mixed. Farticipation is likely to be affected by personality traits of the participants, experience of successful participation of the participant, cultural influences on the participant and his superior and the situation.

An effort will be made to find out the extent of participation of the managers and its relationship to budget acceptance, and use in Bangladeshi cultural and organisational setting.

(f) <u>Budget Characteristics</u>: Budget characteristics are the attributes relating to the budget process and its product - the budget. Simon et.al 37

^{33.} A. Charnes and A.C. Stedry. Further Exploration in the Theory of Multiple Budgeted Goals, Research paper No. 12, Organisation Research Program, School of Industrial Management, H.I.T., Cambridge (Mass), 1963, p. 6.

^{4.} A.C. Stedry, Budgeting and Employee Behavior: A reply, in William J. Bruns, Jr. and Don T. Decoster (eds.), op.cit., p. 348.

^{35.} V. Bruce Irvine, op.cit, p. 85.

^{36.} G.H. Hofstede, op.cit, pp. 70-71.

^{37.} H.A. Simon, H. Guetzkow, G. Kozmetsky and G. Tyndall, Centralization Vs. Decentralization in organizing the controller's Department, N.Y., Controllership Foundation Inc., 1954, p. 25.

found that certain budget characteristics are important determinants of budget acceptance. They reported that budget acceptance increased as budget; were perceived to be more accurate, more reasonably attainable and more controllable. Frank Collins, 38 study of budgetary control and the relationships among some behavioral variables affecting individual responses to budgets suggests that perceived budget characteristics, attitudes towards these characteristics and personal flexibility are important correlates with budgetary response attitudes. This study considers the following budget characteristics: 39

- (1) Flexibility;
- (ii) Attainability;
- (iii) Timeliness; and
 - (iv) Follow up.
- (i) Flexibility: Flexibility denotes the degree of change, as suggested by the managers, that can be made in budgets keeping in view the changing conditions of business. In other words, it refers to the amenability of budgets to changes in business conditions. Managers operate in a dynamic environment as such there must be flexibility in the budget process to take care of the changes in the environment. Flexibility increases the value of budget as a managerial tool. There are different methods to bring about flexibility in budgets.
- (ii) Attainability: Attainability refers to the extent to which the budget targets are attainable as perceived by the managers. Budgets contain

^{38.} Frank Collins, op.cit., p. 324.

^{59.} Budget characteristics are viewed as fundamentals of budget process. G.A. Welsch, Budgeting: Profit Planning & Control, 2nd sd., N.J., Prentice-Hall Inc., 1964, p. 26.

targets of production, sale, profit and percentage of wastage. But these targets should be looked upon as attainable by the managers who work for their achievement. Budgeting is viewed as "a process of constructing a set of sub-goals for a given goal of profit attainment." Dunbar, therefore, considers budgeting as a 'goal-setting device and goal-achieving machine." These goals should be attainable in order to motivate managers to achieve them. If the goals are loose, they are likely to act as poor motivators. If they become tighter, the motivating effect of budget becomes stronger. After a certain limit of budget tightness, motivation is poor again. So, the budget goals should be so set by that they are reasonably attainable. Again the attainment of goal is dependent on its acceptance by the managers.

(iii) <u>Timeliness</u>: Timeliness is an important aspect of budgeting. Timeliness is to be observed in the preparation, and approval of budget, and in the preparation of performance reports, in control actions and in follow-up. Management control is a rhythmic process and follows a definite pattern and time table. In budgetary control, dissemination of guidelines, preparation of original estimates, transmission of these estimates through the management hierarchy, review, final approval, circulation of approved budget back through the organisation, reporting and the appraisal of performance should follow a definite time table. The observance of a time schedule in all these steps is essential for effective budgeting.

^{40.} Y. Ijiri, Management Goals and Accounting for Control, Amsterdam, North Holland Publishing Co., 1965, p. 5.

^{41.} R.L.H. Dunbar, op.cit., p. 88.

^{42.} G.H. Hofstede, op.cit., p. 144.

^{43.} R.L.M. Dunbar, op.cit., p. 89.

^{44.} Robert N. Anthony, Planning and Control System, A Framework for Analysis, Boston: Division of Research, Harvard Business School, 1965, p. 38.

- (iv) Follow up: Follow up is the process of ensuring that corrective actions, on the basis of budget reports, are taken and implemented. This is to be done at the departmental level, enterprise level and also at the zonal and corporation level by the respective authorities in the hierarchy. Budget reports bring to light the deviations from budget standards. Unfavourable deviations or variances call for managerial action. Follow up is necessary to ensure that such corrective actions are taken and properly implemented. Rahim and Hofstede identified follow up as an important variable in budget effectiveness.
- (g) <u>Personal characteristics</u>: Personal characteristics that have been considered include age, experience, educational qualifications and budget training of managers. These variables are likely to affect the acceptance and use of budgets. Moreover, these are likely to influence the behaviour of the managers. Hofstede considered age, length of service in the job and educational background of managers as external inputs into the budget system.
- (h) <u>Budget Motivation</u>: Performance is viewed as a function of ability and mbtivation. Ability is deemed to be the outcome of knowledge and skill. Knowledge, in turn, is influenced by the education, experience, training and interest of the manager. Skill is affected by aptitude and

^{45.} A.M.A. Rahim, op.cit., p. 3.

^{46.} G.H. Hofstede, op.cit., p. 251.

^{47.} Ibid., p. 125.

^{48.} V.H. Vroom, Work and Motivation, John Wiley, 1964, p. 203.

personality of the manager, as well as by his education, experience. training and interest. Motivation, on the other hand, is the function of physical factors, social factors and the needs of the manager. Physical factors include noise, lighting, temperature, humidity etc. These belong to the category of 'hygiene' factor as stated by Herzberk and may not be relevant for managerial motivation. Social factors of the job pertain to formal organisation and informal organisation. The former includes orgamisation structure, leadership climate, organisation efficiency, personnel policy and communication. The informal organisation comprises of informal group. So far as the individual manager's needs are concerned, these can be viewed in the light of the hierarchy of basic needs developed by Maslow of two-factor' theory of Herzberg. 51 Other motivation theories like McClelland's need for achievement concept. 52 and expectancy theory as put forward by Porter and Lawler and Vroom" are also relevant. For the purpose of the study, we have considered the motivation Theories in Chapter VIII. Budget is a tool for motivation. "As a motivation tool, the budget conveys information to the subordinate about the expectations of supervisors regarding what constitutes successful task performance and the consequent reinforcement contingencies. "54 Gordon Shillinglaw"55 opposes

^{49.} Robert A. Sutermeister, People and Productivity, N.Y., McGraw-Hill Book Company, 1963, pp. 8-35.

^{50.} Abraham H. Maslow, Motivation and Personality, Harper & Row, 1954.

^{51.} F. Hersberg, Work & the Nature of Man, London, Crosby Lockwood Staples, 1974.

^{52.} D.C. McClelland, The Achieving Society, N.Y. The Free Press, 1967.

^{53.} L.W. Porter and E.E. Lowler, Managerial Attitudes and Performance, Homewood, Ill., Richard D. Irwin, Inc., 1968.
V.H. Vroom, op. cit.

^{54.} J. Ronen and J.L. Livingstone, "An Expectancy Theory Approach to the Motivational Impacts of Budgets", The Accounting Review, Vol. L. October, 1975, p. 671.

the view that the budget itself can act as a motivating force but Hofstede supports this view by stating that "a budget in itself can be a standard for achievement and in this way an important contribution to his motivation." The budget, thus, can act as a motivating force.

Budget motivation refers to the strength of basic needs satisfaction as reported by a manager working under the budget system.

The study explores the relationship between the budget motivation of managers and their acceptance and use of budgets. The next section deals with the measurement of major variables.

2.2 Measurement of major variables.

In this section we recount the processes of operationalising the concepts. These concepts can be viewed as constructs and are operationally defined as variables. However, "the operational definition of a construct is not complete until there are exact and complete specification of the set of instruments to be used, as well as instructions for the operations to be carried to determine the value which the variable will assume in each case."

Let us now consider the question of measurement.

^{55.} Gordon Shillinglaw, "Divisional Performance Review: An Extension of Budgetary Control" in Bomini, Jaedicke and Wagners (eds.), Management Controls, New Directions in Basic Research, N.Y., McGraw-Hill Book Company, 1964, p. 154.

^{56.} G.H. Hofstede, op.cit., p. 67.

^{57.} A.D. De Groot, Methodology, Foundation of Inference and Research in the Behavioral Sciences, Mouton - The Hague, 1969, p. 241.

Replies to variables were measured by using the Likert-type 5 point Scale. 58 The use of this scale was preferred on the following considerations:

- (i) It was easier to construct and use for the particular type of interviewees.
- (ii) The range of responses permitted to an item provided more information about the individual's opinion on the issue referred to by the given item.
 - (iii) It permitted easy, precise and less costly coding.
- (iv) It permitted the interviewee to express his opinion on a range varying from 1 5 degrees and was considered more reliable than a patterned
 interview.
- (v) The scale permitted the use of items not manifestly related to attitudes being tested. 59
 - (vii The simplicity of this scale was also observed in many prior studies.

But the Likert scale has been criticised on the ground that the same score for two individuals does not necessarily indicate that they carry the same attitude. Nonetheless, the scales are widely used. These were used appropriately and cautiously in this study.

Measurement of the Degree of Acceptance of Budget. Acceptance of budget was sought to be measured by asking the respondents the following questions (Appendix - 1, Part F, Question No. 1):

^{58.} R. Likert, A technique for the measurement of attitudes, Arch. of Psychol., 1932, No. 140.

^{59.} M. Habibullah, Employee-Centered Supervision and Productivity in the Jute Industry, Bureau of Eusiness Research, University of Dacca, Dacca, 1980, p. 53.

- (i) To what extent do the managers in the organisation accept budget as their own?
- (ii) To what extent do the managers in the organisation accept budget as a tool of management?
- (iii) To what extent do the managers in the organization commit themselves to the achievement of targets set in the budget?

Responses to these questions were measured on a 5-point Likert Scale.

Managers who scored more than 9 in aggregate on these questions were considered as high acceptors while managers who scored 6 or less in aggregate were deemed to be low acceptors.

Along with the above questions managers were asked to comment on the extent of their involvement in setting budget targets, participation in preparation of budget, recognition for achievement of budget targets, accuracy of estimates, clarity of their authority and responsibility and the controllability of expenditure (Appendix - 1, Part F, Question No. 2).

Replies to the above questions were also recorded on a 5-point scale.

Comments on these factors were solicited to check the replies of the answers to the questions (i), (ii) and (iii) above. These factors were considered to have an influence on the acceptance of the budget by the managers.

Performance reports of the enterprises were also considered to form an opinion about the acceptance pattern.

Measurement of the Degree of Use of Budget. Budget use was considered to have the following dimensions: (Appendix - 1, Part-G, Question No. 1):

^{60.} C.H. Coombs. Theory and Methods of Social Measurement, in L. Festinger and D. Kats (eds.) Research Methods in the Behavioral Sciences. New Delhi, Amerind Publishing Co. Pvt. Ltd., 1976, p. 530.

- (1) Use of budgets for planning the activities of the enterprise/ department,
- (11) Use of budgets for controlling the operations of the enterprise/
- (iii) Use of budgets for evaluating the performance of the enterprise/department,
 - (iv) Use of budgets for self-evaluation,
 - (v) Use of budgets for evaluation of subordinates.
- (vi) Use of budgets for co-ordination of the activities of the enterprise/department,
- (vii) Use of budgets for cost control and cost reduction,
- (viii) Use of budgets for increasing the profitability of the enterprise,
- (ix) Use of budgets for motivating the employees to achieve the budget targets,
- (x) Use of budgets for facilitating communication throughout the organisation,
 - (xi) Use of budgets for economy and efficiency.

These dimensions of budget use were selected by considering the available literature on budgeting. Responses of managers to the above dimensions of budget use were recorded on a 5-point scale. Managers who scored more than 33 out of a maximum attainable score of 55 were labelled as high users while those scoring 22 or less were labelled as low users. Along with the above queries relating to the dimensions of budget use, managers were asked to express their degree of agreement or disagreement relating to the following factors which were deemed to hinder the use of budget as an

effective tool (Appendix - 1, Part-G, Question No. 2):

- (a) Lack of flexibility,
- (b) absence of budget education and training.
- (c) absence of reward for achievement of budget,
- (d) absence of proper follow up.
- (e) absence of top management support,
- (f) absence of proper feed-back,
- (g) non-provision of interpretation services by the accountant.

Literature on budgeting considers the above factors as a hindrance to effective budget use. The extent of agreement or disagreement of the respondents was recorded on a 5-point scale. Managers who use budget are likely to take budget dependent decisions. As such managers were also asked to state the type of budget dependent decisions taken by them. The above queries and the extent of variances as revealed by performance reports enabled us to assess the extent of budget use by managers.

Measurement of the Extent of Participation. Participation of managers in the budget process was viewed as a continuum ranging from non-participation to extensive participation. The measurement device used to assess perceived participation and the supervisor's effort to achieve the budget was originally developed by Fertakis to measure budget-induced pressure.

There were ninety-seven items in the original questionnaire. These were reduced to 44 (forty-four) items by Swieringa and Moncur 63 to measure

^{61.} Ken Hilani, op.cit., pp. 276-277.

Likert, New Patterns of Hanagement, N.Y., HeGraw-Hill Book Company,

1961, pp. 242-243.

^{62.} J.P. Fertakis, "Budget-Induced pressure and Its Relationship to Supervisory Behavior in Selected organisations", Doctoral Dissertation, University of Washington, 1967.

^{63.} R.J. Swieringa & R.H. Moncur, "Some Effects of Participative Budgeting on Managerial Motivation", New York, National Association of Accountants, 1975.

budget behaviour. These questions were also used by Bruns and Waterhouse. 64

Perceived participation was measured by adapting the questionnairs developed by Swieringa and Moncur. Eleven questions were asked to assess the extent of participation of managers in budget process (Appendix - 1, Part D). Replies of the managers were recorded on a 5-point scale. Managers who scored more than 33 out of a maximum score of 55 were considered to have a high participation in the budget process while managers scoring 22 or less were deemed to have low participation in the budget process.

Measurement of Budget Characteristics. As to budget characteristics, managers were requested to consider each of them separately and to record their opinion regarding them on a 5-point scale.

- (a) Attainability: Regarding attainability managers were asked whether budget targets were attainable or unattainable [Appendix 1, Part-C, Question No. 1(e)]. Answer to this question expressed the epimion of the managers regarding the attainability of the budget targets. They were also asked to give reasons for their answers [Part-C, Question No. 1(f)].
- (b) Flexibility: Managers were asked whether they considered the budget as flexible or inflexible / Appendix 1, Part-C, Question No. 1(c) /.

 Replies to this query revealed the opinion of the managers regarding this characteristics. Reasks for their answers were recorded separately

 [Fart-C, Question No. 1(d) /.
- (c) Timeliness: Regarding timeliness, managers were asked whether timeliness was followed in the issue of budget guidelines and in preparation,

^{64.} W.J. Bruns, Jr. and J.H. Waterhouse, "Budgetary Control and Organization Structure", Journal of Accounting Research, Autumn, 1975, pp. 177-203.

approval and review of budget / Appendix - 1, Part-C, Question No. 1(a) /.

Reasons for their answers were recorded / Part-C, Question No. 1(b) /.

Replies to this query revealed the extent of timeliness observed in budgeting.

(d) Follow up: As regards follow up, managers were asked whether the budget is followed up at department level and enterprise level by the higher authority. / Appendix - 1, Part-C, Question No. 1(g) / Answers to these questions expressed the opinion of the managers regarding follow up. Reasons for their answers were also recorded separately / Part-C, Question No. 1(h) /.

Measurement of Budget Motivation: Budget motivation refers to the strength of basic needs satisfaction as reported by a manager working under the budget system. Motivation is a psychological construct which is used to account for the factors that cause behaviour toward a goal. Since motivation is a psychological construct and can not be measured directly, researchers found it necessary to use other measurable variables as surrogates for motivation. The surrogate used to measure budget motivation in this study is the extent of basic needs satisfaction. The basic needs were enunciated by A.H. Maslow. One of the drawbacks of Maslow's theory is, "that its total claims have never been proven experimentally, and are very difficult to test in any way. However, the theory accounts very well for some empirical phenomena. "66 The theory was applied to the motivation experiments by Herzberg et. al (1959) 67, which were subsequently repeated

^{65.} A.H. Maslow, Motivation and Personality, N.Y., Harper & Row, 1954.

^{66.} G.H. Hofstede, op.cit., p. 53.

^{67.} F. Hersberg, B. Mausner and B.B. Snyderman, Motivation to Work, John Wiley & Sons, 1959.

by Schwartz et al (1963)⁶⁸, Myers (1964)⁶⁹ and others. Most of these experiments were concerned with white-collar or managerial employees. In the absence of satisfactory motivation measures which can be applied in this study, we thought that hierarchy of basic needs as developed by Maslow would be a starting point.

Hofstede stating that the basic needs of a budgeted manager are not different from other people, highlighted characteristics in a budget system positively and negatively motivating budgetees. 70

Budget motivation of managers was sought to be measured by asking them 12 questions (Appendix - 1, Part-H). These questions were asked keeping in view the basic needs that could be satisfied while working under the budget system. Replies of the managers to these questions were thought to be reflective of the extent of their need satisfaction. Managers who perceived greater need satisfaction were considered as highly motivated while those perceiving low need satisfaction were considered as poorly motivated.

Measurement of Knowledge regarding the purposes of preparing budgets.

The purposes at for which the corporation and the enterprises prepare budgets were ascertakeed from a perusal of relevant statutes, rules, corporation directives, interviews with corporation officials and from pilot

^{68.} M.N. Schwarts. B. Jennesaitis and H. Stark, Motivational Factors among supervisors in the utility industry; <u>Personnel Psychology</u>. 1963, 16, pp. 45, 53.

^{69.} M.S. Myers, "Who are your motivated workers?" Harvard Business Review. 1964, 1, 73-88.

^{70.} G.H. Hofsteds, op.cit., pp. 55-79.

study conducted at the enterprise level prior to the framing of the questionnaire. Managers were asked to record their extent of agreement or disagreement with the purposes of preparing budgets (Appendix - 1, Part-B).

Managers who scored more than 57 out of a maximum possible score of 95

were considered to have knowledge regarding the purposes, while managers

who scored 38 or less were deemed to have no knowledge regarding the purposes of preparing budgets.

- 2.3 Collection of Data. Collection of data relating to the enterprises was made from central statistics department of the corporation. Performance reports were consulted for collection of data regarding performance of the enterprises. Data relating to budget were collected from cost and budget section of the accounts department of the corporation. Annual Reports of the corporation for 1975-1976, 1976-1977 and 1977-1978 were also consulted for information relating to the corporation. For collection of data regarding acceptance and use of budgets questionnaires were developed.
- (a) Questionnaire phase. Two sets of questionnaires were developed.

 One set (Appendix 1) was used for interviewing the managers of the enterprises. The other set was used for interviewing the heads of the accounts departments to gather information regarding the budgetary practices and procedures (Appendix-2). For facilitating the preparation of the questionnaires, a pilot study was conducted in one of the jute mills regarding the acceptance and use of the budgets at the enterprise level. On the basis of the pilot study and in consultation with the research supervisors and experts in the field, the two sets of questionnaires were developed.

Administration, University of Dacca and University of Chittagong were also incorporated. Before interviewing the managers on the basis of the questionnaires so developed, these were pre-tested. This resulted in further refinement of the questionnaires. The main questionnaire for interviewing enterprise managers was divided into eight parts makely Part-A - Personal Information, Part B - Purposes of Preparing Annual Budget Statement, Part C - Budget Characteristics, Part D - Participation, Part E - Budget Procedures, Part F - Acceptance of Budget, Part G - Budget Use and Part H - Budget Motivation.

The other questionnaire for interviewing the heads of accounts department of the enterprises contained twenty-two questions concerning the budgetary procedure followed by the corporation and the enterprises.

In developing the questionnaires, questionnaires used in relevant previous research studies were also consulted. For designing Part-A of the questionnaire, Rahman's 71 questionnaire was followed. In developing Part-B of the questionnaire, corporation statutes, rules and directives were consulted. In developing Part-C of the questionnaire, Frank Collins 72 and Igzetin Kenis 73 studies were consulted. In developing Part-D of the questionnaire, questionnaire developed by Swieringa and Moncur was followed. Part-E of the questionnaire was framed on the

^{71.} Mawdudur Rahman, "An empirical investigation into management use of accounting information and the influence of selected job related traits and organisational correlates", Unpublished Ph.D. Thesis, Hanchester Business School, 1976.

^{72.} Frank Collins, op.cit.

^{73.} Izzetin Kenis, op.cit.

^{74.} R.J. Swieringa & R.H. Moncur, op.cit.

line of the questionnaire on "Standard Costs, Variance Analysis and Management" developed by Caplan with necessary changes to fit into this study.

Part F and Part G of the questionnaire were developed in consultation with the research supervisors and on the basis of the survey of the literature.

Part-H of the questionnaire was developed by following Habibullah's study on motivation.

Thus, the question of validity was carefully considered at the time of questionnaire construction. Considerations included (a) consultation of past research, (b) expert opinion, (c) pretesting and (d) finally matching with the environment of the enterprises.

(b) Interview Phase. Before the commencement of the interview, the research supervisors wrote to the Chairman of Bangladesh Jute Mills Corporation to accord necessary permission to conduct the study (Appendix-3). The Chairman granted permission and circular letters were issued to the nineteen composite mills under the corporation requesting them to extend all possible co-operation. (Appendix-4).

Personal interviews were preferred to mailed questionnaire to enable the research torker to establish personal contact with the managers and to ensure 100% response from the respondents. These proved to be of great value. The personal interviews also ensured replies from managers themselves and afforded an opportunity to the researcher to explain the questionnaire wherever it was necessary and to obtain the correct replies.

Moreover, the interviewer formed an impression about the acceptance and use patterns through informal discussion with the interviewees.

^{75.} E.H. Caplan, op.oit., pp. 71-81.

^{76.} M. Habibullah, Motivation Mix, Bureau of Economic Research, University of Dacca, 1974.

2.4 Selection of Samples.

(a) Selection of Corporation. In 1972, the Government of the People's Republic of Bangladesh established a number of Corporations for the purpose of co-ordination and supervision of the nationalised industrial enterprises. Initially it was decided to cover a number of enterprises under each of the corporations. Accordingly, we consulted the relevant statutes, rules, budget guidelines and other documents of the corporations. We held discussions with the accounts personnel and other responsible officials at the corporation level and at the enterprise level to acquaint ourselves with the budget practices and procedures followed by them. In view of the time, resource and organisational constraints, it was decided to select Bangladesh Jute Mills Corporation (B.J.M.C.) for the purpose of our study.

The Corporation occupies a unique position as it controls the jute industry of Bangladesh, which plays a vital role in the economy of the country. It is essentially an export-oriented industry and operates in a competitive market. It is an important foreign exchange earner and provides employment to 2,00,000 workers. Efforts to introduce sound accounting and budgeting were made from the early stage of the industry.

(b) Selection of enterprises. Under B.J.M.C. there are three types of mills, namely, composite mills, narrow loom mills and broad loom mills. Composite mills are those which have both narrow and broad looms. These mills mainly produce hessian, sacking and carpet backing cloth. Narrow loom mills are those which mainly produce hessian and sacking, while Broad loom mills specialise in the production of carpet backing cloth.

Again, resource and time constraints compelled us to limit our study to the composite mills numbering 19 in all. These mills were selected on a purposive basis. The reasons behind their selection were as follows:

- 1) Variety of products.
- ii) size of the units.
- iii) exposure to competitive foreign market.
 - iv) complex management problems due to (i) & (ii) & (iii) above.

These mills are located at different places of the country and are under the administrative control of Adamjee Zone, Dacca Zone I, Dacca Zone II, Chittagong Zone and Khulna Zone. The locate position of the sample mills were as under:

Table No. 2.1
Loomage position of the sample mills. 77

Milis	Number of inetalled looms as on 30.6.79				
No.	Nessian	Sacking	Carpet Backing cloth	Total	
1	2,141	882	225	3,248	
2	200	50	43	293	
3	224	126	65	415	
4	265	60	25	350	
5	154	86	65	315	
6	217	100	65	382	
7	268	190	58	516	
8	488	215	124	827	
9	494	250	207	957	
10	197	123	69	389	

^{77.} Bangladesh Jute Mills Corporation, Dacca, Quarterly Summary of Jute Goods Statistics, Vol. 23, 4th Quarterly, 1978-1979.

Table No. 2.1 (contd.)

Mills No.	Number of installed looms as on 30.6.79				
	Hessian	Sacking	Carpet Backing Cloth	Total	
11	783	260	120	1, 163	
12	150	100	65	315	
13	698	335	85	1,118	
14	168	88	32	288	
15	300	100	50	450	
16	150	25	52	207	
17	670	324	79	1,073	
18	602	273	80	95 5	
19	253	247	25	525	
otal:	8,322	3,644	1,514	13,480	

From the above it can be seen that the mills have a varying number of looms, Sample No. 1 has bee highest number of looms (3,248) while sample No. 16 has the lowest number (207). These mills have 52% of total installed loomage of the mills under B.J.H.C. These enterprises followed the same management and budgetary practices.

Organisational set-up of the enterprises: The activities of the mills are grouped into following departments:

vising production of the mill. The stores & maintenance section is also under the administrative jurisdiction of this department. The department is to produce according to the production plan given by production planning directorate of the corporation and to abide by other directives coming from

the corporation. The quality control section is also under this department.

- (41) Jute Purchase Department. This department is responsible for purchase of jute from different places directly through its purchase agencies which are located at the important jute producing areas. This department goes by the policy directives of the Directorate of jute and abides by other policy decisions coming from the Ministry and the corporation regarding purchase (quantity and quality) and price. This department is to maintain lisison with production and other departments for its proper functioning.
- (iii) Sales & Export Department: This department is responsible for local sales and foreign sales. It processes the export orders allocated to it by the Directorate of Marketing. This department is to maintain close contact with production department and outside parties namely the rail, inland water and port authorities, forwarding agencies, port and custom authorities and banks.
- (iv) Accounts Department. This department is responsible for preparing accounts under the Integrated Accounting System. It is also responsible for preparation of periodic financial statements. This department has
 wages section, report section and cost and budget section. The wages
 section is responsible for payment of wages to workers. Report section
 prepares reports required under Integrated Accounting System and newly
 introduced Management Information System (MIS) and other statistics for
 internal and external uses. The cost and budget section is responsible
 for the maintenance of cost records and preparation of budget and budget

reports. In connection with the preparation and implementation of budgets, this department is to maintain close contact with the other departments and cost and budget section of the Directorate of Finance of the Corporation.

(v) Administration Department. This department is responsible for general administration of the mill. It deals with matters relating to personnel, security, social service and trade union. This department looks after the overall administration of the mill.

Selection of managers. Heads of the departments of production and sales and the enterprise heads of the mineteen composite mills were selected on a purposive basis. In addition to them, the heads of the accounts departments were also interviewed for gathering information regarding budgetary practices and procedures. In all 76 managers, namely, nineteen enterprise heads, nineteen production heads, mineteen sales heads and mineteen accounts heads were interviewed for the purpose of this study.

2.5 Statistical Techniques. The statistical analyses of the data obtained were based on non-parametric statistics. Non-parametric statistical tests were applied as they do not require measurements so strong as parametric tests. Non-parametric tests have their merits and demerits. But the merits seem to outweigh the demerits. As a result, non-parametric statistical tests are increasingly used in research in the behavioural sciences.

^{78.} Sidney Siegel, Nonparametric Statistics for the Behavioral Sciences, Tokyo, McGraw-Hill Kogallusha Ltd., 1956, p. 31.

^{79.} Ibid., pp. 32-33.

^{80.} Ibid., p. 31.

Chi-square test was widely used to test the extent of association between the variables.

Whenever data did not permit the use of chi-square test, the Fisher exact probability test was used. This is a very useful nonparametric technique for analysing discrete data when the two independent samples are small in size.

With this brief note on research design and method, in the next chapter we describe the situational context of the research.

CHAPTER - III

THE SITUATIONAL CONTEXT

3.1 The Jute Industry. This research was conducted in mineteen composite jute mills under the Bangladesh Jute Mills Corporation (B.J.M.C.). In order to provide an overview of the situational context of the research, we have attempted to describe briefly the development of the industry, the formation of B.J.M.C., management, accounting, budgeting and management information systems of the corporation and the enterprises under its jurisdiction.

The jute industry is the premier industry of Bangladesh. It plays a very dominant role in the economy of the country. In 1947, Bangladesh, (then East Pakistan) inherited 27 'pucca' presses and 75 'kachcha' presses. Although Bangladesh produced 80% of the total world jute crop, with a virtual monopoly of the finer varieties of the fibre, not a single jute mill fell to her share as against 108 in the Indian Union. As a result she had to export her entire production of jute in raw form till 1950.

The situation worsened when India refused to import jute from then Pakistan following devaluation of her currency in 1949 and the refusal of then Pakistan to follow suit. The then Government felt the need for setting up jute mills in the country. With the active support of the central and provincial governments, private entrepreneurs like Adamjee and Bawanis came forward to establish jute mills in the country. This resulted in the setting up of Adamjee Jute Mills at Siddhirgonj and Bawa Jute Mills at Madangonj in Narayanganj in 1951. Since the establishment of the Pakistan

^{1.} Nafis Ahmed, An Economic Geography of East Pakistan, 2nd edition, Oxford University Press, London, 1968, p. 235.

Industrial Development Corporation (PIDC) in 1952, this corporation played a pieneering role in developing jute mills in the erstwhile East Pakistan. By 1960, the PIDC set up 12 jute mills bringing the number of mills to 14 and that of looms to 8,000. With the bifurcation of PIDC into East Pakistan Industrial Development Corporation (EPIDC) and West Pakistan Industrial Development Corporation (WPIDC) in July, 1962, the EPIDC took the imitiative to accelerate the growth of the jute industry in collaboration with private entrepreneurs. As a result the number of looms shot up to 12,000 in 1965 and to 22,000 in 1970. The rapid expansion of the industry was due to a preferential rate of exchange made available through an export bonus and cheap supply of labour and jute. Inspite of rapid growth, research studies have revealed a declining trend in the efficiency of the industry during the 1960's. This may be attributed to an attitude taken by industrialists towards productivity because of easy and quick profits earned by them through export bonus scheme. "Indeed, even highly inefficient producers were able to make good 'profits' at competitive prices."3 After analysing the cost of sales and returns from export sales of jute manufactures. Ahmad termed the profitability of the industry as a 'myth'.

3.2 Bangladesh Jute Hills Corporation (BJMC). After liberation, the whole pattern of industrial ownership and policy underwent radical change.

^{2.} Qazi Kholiquasaman Ahmad, The Jute Manufacturing Industry of Bangladesh (1947-1974). Unpublished Ph.D. Thesis, London University, 1976 and Qasi Kholiquasaman Ahmad and Anowaruszaman Chowdhury, "Productivity Trends in the Manufacturing Sector of Bangladesh: A case study of Selected Industries", The Bangladesh Economic Review, Vol. 1, No. 2, April, 1973.

^{3.} Qazi Kholiquzsaman Ahmad, "Was the Jute Industry Profitable in Preliberation Days?" The Business Review, Vol.3, No.2, April-June, 1977, p. 32.

^{4.} Ibid, p. 32.

The Government took over all units abandoned by Pakistanis and other absentee owners and nationalised jute, cotton textiles and sugar mills on 26th March, 1972 through the Bangladesh Industrial Enterprises (Nationalisation) Order, 1972. The Government set up a number of sector corporations including Bangladesh Jute Industries Corporation (subsequently named Bangladesh Jute Mills Corporation) and placed under it 78 industrial enterprises mentioned in the First Schedule of the above mentioned Order. These enterprises had 23,836 installed looms in 1971-1972. On 30th June, 1979, B.J.M.C. had 69 jute mills, 2 carpet mills and 3 other connected enterprises under its management. In the meantime, seven units were disinvested. The corporation thus holds a key position in the industrial sector of the country as it controls the leading industry of Bangladesh. The industry provides employment to about 2,00,000 persons which constitutes about 22% of the total industrial labour force of the country. It is the most important foreign exchange earner.

The main products of the jute mills of Bangladesh are hessian, sacking and carpet backing cloth. The mills also produce twine, tarpaulin, canvass, pack sheet carpet, jute matting and yarn (ordinary and special).

The following table shows the production performance of the industry: 5

Table showing the production performance of the industry.

Year	Production (in long ton)
1971-72	3,15,328
1972473	4,46,308
1973-74	5,00,199
1974-75	4,44,306

^{5.} Quarterly Summary of Jute Goods Statistics, B.J.M.C., Dacca. Vol. 23, 4th Quarter, 1978-79, p. 1.

Table 3.1 (contd.)

Year	Production (in long Ton)
1975-76	4,77,921
1976-77	4, 90, 057
1977-78	5,46,333
1978-79	5,01,068

(Source: B.J.M.C., Quarterly Summary of Jute Goods Statistics, Vol. No. 23, 1978-79, 4th Quarter, p.1)

During the post independence period, production of jute goods suffered a schack due to industrial unrest, marketing problems, inadequate maintenance of machinery and power supply. Over the past few years, the production of jute goods has begistered a gradual increase. Per leom output of different jute goods during the decade remained below the 1969-70 level. In 1969-70, productivity per loom/per hour was 7.91 lbs. for hessian, 21.61 lbs. for sacking and 14.48 lbs. for carpet backing cloth. As against this, productivity per loom/per hour was 6.26 lbs. for hessian, 17.75 lbs. for sacking and 13.43 lbs. for carpet backing cloth in 1978-79. So, the Second Five Year Plan of Bangladesh puts emphasis on raising efficiency and aims at achieving the following targets by the end of Second Plans

Hessian: 8.5 lbs./Loom-hour i.e. 66% efficiency.

Sacking: 22.00 lbs./Loom-hour i.e. 75% efficiency.

Carpet Backing
Cloth: 15.43 lbs./Loom-hour i.e. 76% efficiency.

^{6.} The Second Five Xear Plan (1980-1985), Planning Commission, Government of Bangladesh, p. XIII-31.

^{7.} Ibid. - XIII - 36.

with the above efficiency goal the production target to be achieved by the jute industry has been set at 7.36 lakh tons by 1984-1985 including the 0.29 lakh tone target set for the private sector. To achieve the above targets during the Plan period (1980-1985) emphasis has been placed on efficiency of production, balancing of machinery, labour productivity, industrial discipline, production of spare parts, uninterrupted supply of power, provision of adequate finance, judicious jute procurement policy, market development and research for finding alternative uses of jute goods and for evolving new product.

The industry is export-oriented. The following table shows the export of jute manufacture as a percentage of total exports from Bangladesh from 1973-1974 to 1978-1979:

Table 3.2

Table showing the FOB value of exports of jute manufactures and its percentage of total exports.

Year	Exports of Jute Manufactures (In million Taka)	Percentage of Total Exports (FOB)	
1973-1974	1,548.65	51.84	
1974-1975	1,829.33	58.33	
1975-1976	2,743.32	49.41	
1976-1977	2,718.52	40.76	
1977-1978	3,592.87	50.05	
1978-1979	4,314.84	44.80	

Source: Monthly Statistical Bulletin, Sept. 1980, pp. 268-269.

^{8.} Ibdd. - XIII - 36.

^{9.} Tbid. - XIII - 32.

Export of jute goods is expected to increase to 6.10 lakh tons in 1984-85. Synthetic substitutes like polypropelene (PP) products, high cost of production and competition from other jute manufacturing countries have posed a serious threat to the export of the jute products. Polypropelene products are being manufactured by the industrially advanced countries which, incidentally, were the principal buyers of jute products. Unless suitable strategies are devised for demand continuation and demand creation, this export oriented industry is likely to face serious difficulties in the future. It has been noted earlier that even in the 1960's the jute industry was not efficient yet it was able to make good profits. After liberation the situation has wormened due to stiff competition in the international market, inflationary condition resulting in high cost of production, lack of policy framework from the Government and financial constraints. The industry has sustained losses since 1971-1972. The annual operating loss of the industry from 1971-1972 to 1978-1979 is furnished below: 10

1971-1972		Tk.	16 orore.
1972-1973		Tke	59 crore
1973-1974		Tk.	35 crore
1974-1975		Tk.	24 crore
1975-1976	14.1	Tk.	30 crore
1976-1977	149	Tk.	53 crore
1977-1978		Tk.	95 crore
1978-1979	Jop. 1	Tk.	61 crore

Only in 1979-1980 was the industry able to earn a profit of Tk. 100 crore.

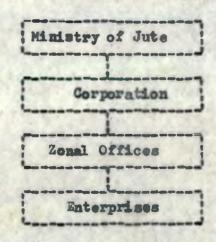
This continuous loss has eaten up the equity of the enterprises and has

^{10.} S.I. Khan, "Problems Relating to Finance to Jute Industry", in Problems of Jute Sector - As seen by BJMC, Public Relations Department, BJMC, Racca, May, 1978, p. 58. The figures for 1977-1978 and 1978-1979 were provisional and were taken from Annual Reports of the corporation for those years.

resulted in a serious financial crisis for them. To tide over this situation the Government granted cash subsidy to the industry in the years 1973-1974 and 1975-1976. In view of increasing burden of loss, the Government again decided to sanction export subsidy to the industry from 1st July, 1977. The enterprises are still in financial hardship and are burdened with heavy liabilities and interest charges. Efforts are needed to reduce costs through improved management efficiency, increased capital and labour productivity, and reduction of wastage.

3.3 Management of Bangladesh Jute Mills Corporation and the enterprises under its jurisdiction.

Management of nationalised industries in Bangladesh is characterised by a three-tier system: The Mimister in-charge, Sector Corporations and enterprise managements. ¹¹ In the case of B.J.M.C., there is a four-tier management system. The tiers are Mimistry of Jute, Corporation, Zonal Offices and Enterprise Management, this can be shown diagramatically as follows:



^{11.} Cari Kholiquezaman Ahmad, "Aspects of the Management of Nationalised Industries in Bangladesh", The Bangladesh Development Studies. Vol. II, No. 3, July, 1974, p. 687.

At the Ministry level, the Minister for Juts exercises Government authority for managing the corporation and the enterprises under it and is their owner on behalf of the people. He is responsible for formulating policies for them keeping in view the national interest. For their working he is responsible to the Parliament (Jatiya Sangsad) and through it to the people of the country. B.J.M.C. thus works under the policy guidance and supervision of the Minister for jute and runs the enterprises placed under its jurisdiction by Government Order. The responsibilities of the corporation are:

- "(1) to operate on a commercial consideration, having due regard to national interests, in the sost efficient and economic manner, within the policy framework and guidance given by the Government;
- (ii) to continuously strive to improve its performance for attaining better results;
 - (iii) to earn additional revenue for the Government; and
- (iv) to convey to the Government any matter which, in the corporation's view, should be provided for through a policy decision or by revision of an existing policy." 12

The corporation's primary function is to set production and sales targets for the enterprises under it and to oversee that these goals are achieved. To this end the corporation is to make advance plans and programmes with regard to the setting-up of production and sales targets, constantly review the targets set and task given, undertake continuous research

^{12.} Guidelines on the relationship between Government and autonomous bodies' Corporations and the autonomous bodies' Corporations and enterprises under them, Cabinet Secretariat, Cabinet Division, May 15, 1976, p. 1.

at improving performance, adopt appropriate measures for the elimination of wastages and leakages, undertake elaborate market study and research, continuouely strive for introducing advance methods of management and mechanization, for improving efficiency and reducing cost, exercise financial and budgetary control and see that the enterprisea attain the financial goals and are run profitably. The corporation is responsible for the overall viability of the enterprises under it. It is a body corporate and has perpetual succession and a common seal. It has power to acquire. hold and dispose of property, both movable and immovable, and can by its name sue and he sued. 13 The general direction and administration of the affairs and business of the corporation is vested in a Board of Directors consisting of a Chairman and six Directors: Director, Jute Purchase; Director, Finance; Director, Production Planning; Director, Technical; Director, Marksting and Director, Research and Quality Control. All of them are appointed by the Government. The terms and conditions of their appointment are also determined by the Government. The Chairman is the Chief Executive of the corporation. The Board acts under the supervision and control of the Government and is guided by instructions issued by the Government from time to time. Thus, the Board is under the tight grip of the Government.

The functions of the board are laid down in Article 6 of the Bangladesh Jute Mills Corporation Rules, 1977. The functions of the Board are as follows:

^{13.} Article 10(2) The Bangladesh Industrial Enterprises (Nationalisation) Order, 1972.

- (a) to formulate and submit for the approval of the Government, the management policies, including policies relating to organisation, personnel management and pricing in respect of the corporation and the enterprise;
- (b) to prepare Annual Budget Statement of the corporation and the enterprise for submission to the Government by 31st May each year;
- (c) to submit schemes, if any, to the Government for balancing, modermisation and expansion of an enterprise;
 - (d) to evaluate periodically the performance of an enterprise;
- (e) to examine and approve the gudited annual statement of accounts including profit and loss accounts and balance sheets before their submission to the Government;
- (f) to approve the annual reports of the corporation before their submission to the Government; and
- (g) to determine appropriation of profit of an enterprise, and surplus of the corporation before their submission to the Government for approval.

The Chairman as the Chief Executive is entrusted with the following functions:

- (a) to ensure that the Government policies, directives and instructions concerning the corporation and the enterprises are implemented,
 - (b) to see that all decisions of the Board are implemented,
- (c) to ensure that the financial and other targets of the corporation and enterprises are achieved economically, and
 - (d) to see that an enterprise functions smbothly and efficiently. 15

^{14.} Article 6, The Bangladesh Jute Mills Corporation Rules, 1977, Ministry of Jute, Government of the People's Republic of Bangladesh.

^{15.} Ibid, Article 8.

From the above functions of the Chairman, it is clear that the onus of running the corporation and the enterprises under it 'economically, smoothly and efficiently' lies with him. He is the repository of all authority and it is up to him to delegate this authority to Directors and enterprise management. In practice, there has been no real delegation to either of them. 16

For the purpose of better administration of the enterprises, they have been grouped into five zones: Adamjee, Dacca I, Dacca II, Chittagong and Chulma. Each zone has a zonal set up for supervising the affairs of the enterprises under that zone. These zonal offices have no controlling authority and, at beet, help in maintaining liaison between the corporation and the enterprises. Enterprises are the productive units and are run by enterprise management appointed by the corporation. Enterprise management exercises such powers and enjoys such operational freedom as are granted to them by the corporation. The responsibilities of an enterprise are as follows:

- (i) to operate on commercial considerations, having due regard to the national interests, in the most efficient and economic manner within the policy framework and guidelines prescribed in the rules and regulations,
- (ii) to continuously strive to improve its performance for attaining better results,
 - (iii) to earn additional revenue for the Government, and

^{16.} Rehman Sobhan and Muzaffer Ahmad, Public Enterprises in an Intermediate Regime, Dacca, Bangladesh Institute of Development Studies, 1980, pp. 323-324.

Quei Kholiquzzaman Ahmad (1974), op.cit, p. 609.

Quei Kholiquzzaman Ahmad, "The Manufacturing Sector of Bangladesh - An Overview", The Bangladesh Development Studies, Vol. VI, No. 4, Autumn, 1978, p. 406.

(1v) to earn more foreign exchange at minimum sacrifice. 17

For discharging the above responsibilities, the activities of each enterprise are grouped under purchase (jute and stores), production, sales, maintenance and administration departments. Each department is headed by a manager. The enterprise management does not enjoy adequate authority for making and implementing decisions. "These units are subjected to maximum control and enjoy minimum autonomy. It is quite clear that these units have no policy making options. Even within the framework of their budget and programme, they do not enjoy any meaningful operational autonomy. For all decisions, major or minor, in matters of personnel, procurement, finance, purchase, sales, prices, investments, etc., they have to turn at least to the corporation."

^{17.} Guidelines on the Relationship between Government and Autonomous Bodies' Corporations and the Autonomous Bodies' Corporation and Enterprises under them, Cabinet Secretariat, Cabinet Division, May 15, 1976, p. 8.

^{18.} Rehman Sobhan & Musaffer Ahmad, op.cit, p. 309.

^{19.} Enterprise boards started functioning from the last querter of 1977.

^{20.} Rehman Sobhan and Musaffer Ahmad, op.cit, p. 325.

The following are some of the management problems affecting the industry:

- (1) The powers and responsibilities of the tiers have not been precisely demarcated. This acts as a hindrance to responsibility budgeting which, in turn, has made the implementation of the concept of accountability a difficult task.
- (11) Enterprise managements do not enjoy adequate authority for making and implementing decisions.
- (iii) The corporation is, to a large extent, under bureaucratic control of the controlling Ministry and other Ministries from whom they seek policy guidance.
- (iv) Appropriate criteria have not been developed for evaluating the performance of the nationalised industries including jute industry. Market profitability criterion cannot be applied to the nationalised industries as they work under constraints imposed by the Government and cannot work freely, like the Private Sector, according to the dictates of the market signals.
- (v) Traditionally, the Government performed civil and military functions and played promotional and regulatory roles in the field of production.

 The nationalisation programme has, however, brought the function of production under the direct control of the Government. The preoccupation of the Government with the traditional functions has resulted in a lack of concern on its part to attend to the persistent problems like ineffective corporation and enterprise control structure, the lack of effective planning and programmes for personnel development, and the absence of appropriate policies regarding labour, pricing and incentive systems.

 21

^{21.} Qard Kholiqussaman Ahmad (1978), op.cit., pp. 405-407.

The Second Five Year Plan takes cognizance of these management problems and stresses that "improvement of the management of the public sector enterprises will be continued through re-organisation and decentralisation of authority and improvement of labour management relations.

There is great scope to improve quality of operation and management at all levels and labour productivity through imparting industrywise organised training and apprenticeship." 22

The Second Five Year Flan aims at strengthening and reorganising the zonal management in order to improve the overall management of the enterprises. The level of the monal chief will be higher than that of the enterprise head so that effective control can be exercised by the former. In the same way, the level of the other zonal officers will also be higher to enable them to supervise the enterprises in their line.

The plan also lays down that suitable modifications will be made in the composition and strength of the Board of Directors of the corporation so that the Directors can maintain functional supervision and control over the set up of that line in the zone and in the enterprises.

The plan also envisages a thorough recast of the jute purchase system with appropriate checks and balances. 25

The plan also stresses the need for granting maximum autonomy with provision for efficient monitoring of performance of enterprise management so that they can take prompt actions in the day-to-day operations. 24

^{22.} The Second Five Year Plan, P. XIII. 12.

^{23.} Ibid., p. XIII-34.

^{24.} Ibid., p. XIII-28.

3.4 Accounting system in B.J.M.C. and enterprises under it.

Accounting is the keystone of budgeting. Budgeting uses the language of accounting but does not in any way weaken or replace the accounting system. Rather it strengthens the influence of the latter.

Accounting provides historical data on the basis of which budget estimates are developed. In the course of preparation of budget, acounting expresses all planned transactions in terms of revenues, costs and profit.

Accounting system provides information about actual performance which can be compared with budget. This facilitates the calculation of variance and consequent analysis of variance and taking of corrective action. In order to make this comparison meaningful, the same chart of accounts and the same classification of revenues and expenses must be used in the accounting department and in budgetary procedures.

The accounts are to be arranged in such a manner that they reflect accurately the areas of managerial responsibility. In other words, responsibility accounting is needed. Responsibility accounting "is a system of accounting which is tailored to an organisation so that costs are accumulated and reported by levels of responsibility within the organisation.

/only
Each supervisory area in the organisation is charged/with the cost for which it is responsible and over which it has control. "25 Thus the introduction of responsibility accounting pinpoints performance of each level of responsibility and helps in fixing the liability of each level. Responsibility accounting system can also contribute to effective motivation.

^{25.} John A. Higgins, Responsibility Accounting in L.S. Rosen (ed.),
Topics in Managerial Accounting, Second Ed., Toronto, McGraw-Hill
Ryerson Ltd., 1974, p. 258.

widen its span of control and allow operating decisions to be made on a decentralised basis. Correlatively, assigning coats to the individual managers who have control over their incurrence is a factor in encouraging these managers to exercise effectively their authority to motivate their supervisees. The managers' performance in this regard is measured by the accounting reports, which are likely to be an incentive for the effective motivation of managers. Thus, responsibility accounting contributes to a wideming of top management's span of control and motivation of managers.

In view of the close relationship between budgeting and accounting, a discussion of the Integrated Accounting System followed by the corporation and the enterprises under it is considered necessary.

The enterprises under Bangladesh Jute Mills Corporation follow an Integrated Accounting System (I.A.S.) which combines financial accounting and cost accounting information in the same set of ledger. The system was introduced by the East Pakistan Industrial Development Corporation for the Jute mills under its management and was made effective from 1st July, 1967. The Integrated Accounting System was introduced to serve the following purposes:

- (a) to bring about uniformity in mode of accounting and presentation of information to the higher management,
 - (b) to determine the per unit cost of production,

^{26.} George J. Benston, "The Role of the Firms' Accounting System for Motivation", in William J. Bruns, Jr. and Don T. DeCoster (eds.), Accounting and its Behavioural Implications, N.Y., McGraw-Hill Book Company, 1969, pp. 167-168.

- (c) to provide for effective use of a budget through month to month comparison of actual results achieved as against budgeted targets, and
 - (d) to improve the reporting system. 27

After nationalisation, B.J.H.C. decided to adopt the Integrated Accounting System for the enterprises under its control and prepared an Accounts Manual for operating the system. The advantages claimed for the system are as follows:

- (i) it facilitates the integration of financial and costing records on the total absorption costing method,
 - (ii) it brings about uniformity in financial and costing records,
- (iii) it ensures the availability of accurate production cost per unit of production without keeping separate cost ledger,
- (iv) it facilitates comparison of performance as between the different periods of the same enterprise as well as between the different enterprises,
 - (v) it ensures uniformity in reporting system,
- (vi) it facilitates coding of accounts and transmission of accounting data through telexes and telegraphs,
- (vii) it aids in prompt compilation of the accounts for submission to corporation and enterprise management.

Under the system, the books of Accounts are divided into two parts:
General Ledger and Subsidiary Ledger. General Ledger Accounts operate as
Control Accounts for the Subsidiary Ledger Accounts and contain only a
limited number of accounts in summarised form. The details supporting
each General Ledger Accounts are to be found in the Subsidiary Ledger.
For the operation of the system, detailed expense accounts are to be

^{27.} Integrated Accounting System (Jute Mills), E.P.I.D.C., 1967, p. 1.

operated through a few control accounts. The number of Control Accounts is, however, much more than is necessary for the integration. This has been done for the purpose of enabling the enterprise accountants to obtain all information needed for the preparation of a Trial Balance, the summary Profit and Loss Account and the Balance Sheet. Balance Sheet items are classified according to the type of Assets and Liabilities. The General Ledger contains information in broad groups while the Subsidiary Ledger records information in detailed groups. Costs/expenses are classified according to the broad nature of expenses in the General Ledger. The system provides for recording transactions not only by detailed nature but also by departments or cost centres to which they relate.

For the purpose of relating the expenses to the respective cost centres, the operation of the enterprise has been divided into the twelve departments or cost centres, and allotted code numbers.

Operations of the Integrated Accounting System is primarily done through the operation of the various Control Accounts in the General Ledger.

Under the Integrated Accounting System, cost accounting gives historical information regarding cost of products. This cost information is of no use to management for control and decision making purposes. The allocation of costs among the various products is arbitrary. The inaccurate basis of computing equivalent production for unfinished goods hinders the calculation of actual cost of production. This results in inaccurate and misleading figures for operating results.

The introduction of process costing and standard costing may result in suitable allocation of cost and facilitate cost control. Armitage and

Norton, Chartered Accountants, Edinburgh advocated the adoption of standard costing as far back as 1968. "It is more satisfactory to use a system of standard costing in which standard costs are calculated in advance and actual costs are subsequently measured period by period against those standards. Such measurements can disclose the extent and causes of changes in cost. Simultaneously the profit or loss for the period can be measured and compared with the expected or budgeted profit." The introduction of standard costing is likely to strengthen the budgetary control system in practice.

The present accounting system does not involve responsibility accounting which is needed for establishing accountability. "Without proper responsibility budgeting, the principle of accountability can not be implemented." The present system of accounting for products should be replaced by accounting for position. 30

Due to improper and indistinct classification of expenses into fixed and variable and non-recognition of semi-variable expenses and their aggregation into fixed and variable elements hinders Break-even Analysis for a multi-dimenstional decision making process.

The jute industry is a process industry. Production processes like batching, preparing, spinning, weaving and finishing are carried on in different departments under the supervision of different people. In order to control costs of production through various stages, costs incurred through each of the separate processes has to be ascertained. The Integrated Accounting System fails to furnish this information.

^{28.} Investigation of Productivity and Costs in Member Mills of Pakistan Jute Mills Association, June, 1968 (Unpublished report), Part V.p. 12.

^{29.} Qazi Kholiquszaman Ahmad (1974), op.cit., p. 688.

^{30.} Mawdudur Rahman, Profit Planning, Rapport Bangladesh Ltd., Publication Division, Dacca, 1979, p. 20.

The Integrated Accounting System calls for preparation of the following monthly reports for submission to the corporation:

- (1) Balance Sheet and Movement of Funds.
- (ii) Cost of Production Statement.
- (iii) Bank Reconciliation Statement of the different accounts.
- (iv) Trial Balance for the month,
- (v) Statement of Profit and Loss for the month,
- (vi) Income schedule for the month,
- (vii) Cost of sale statement for the month,
- (viii) Equivalent Production Schedule.
 - (ix) Statement of sold and unsold stock of finished goods,
 - (x) Schedule of administrative expenses.
 - (xi) Schedule of selling and distribution,
- (xii) Worksheet for analysis and allocation of cost/expense incurred,
- (xiii) Wastage statement.

The reporting system is so designed as to supply the top management at the corporation level with a volume of information about the operation of the individual enterprises. However, these are not used very much by the enterprise management. Enterprises are required to send these reports, so they send them. Interprise management seems to have scanty feedback about these reports.

The elaborate reporting system under I.A.S. involves a huge amount of paper work on the part of the accounts personnel. It has been alleged that these reports pile up at the corporation and are not properly analy-

^{31.} Rehman Sobhan and Muzaffer Ahmad, op.cit., p. 328.

^{32.} H. Rahman (1977), op.cit., p. 55.

sed and interpreted. These are used only for compilation of some statistics and feports at the corporation level.³⁵

As these reports are not regularly followed up by the top management, the enterprise accountants and managers have become sceptical about the necessity of the reports and do not give due importance to their compilation. "Thus, it is not unusual to find some monthly reports having only actual columns filled-in, keeping budgets and variance columns blank."

There are instances when reports are found to be guess works and are an adaptation of previous reports. Moreover, it has been found that reports are sometimes fabricated to comouflage operational inefficiency.

Management Information System: Realising the importance of a Management Information System (MIS), the B.J.M.C. appointed EWP Associates to design a suitable MIS for the corporation. Accordingly, the consultants, after reviewing the present reporting system and consulting with the management at all levels, designed a Management Information System to meet the information needs of the head office, zonal offices and the enterprises. This MIS was implemented during 1980. The system aims at producing reports regarding production, labour, juts sales, technical operation, quality control, accounts and finance on a monthly/daily basis. On the basis of these reports a Monthly Performance Report is to be prepared by an enterprise. This report embodies relevant information regarding an enterprise and is to be prepared in 12 copies for the enterprise, zonal and corporation management. The report contains columns for showing comparison of

^{33.} Md. Muinuddin Khan, An Evaluation of Accounting Practices in Jute Industry, The Business Review. Vol. III, No. 1, January-March, 1977, p. 142.

^{34.} H. Rahman (1977), op.cit., p. 55.

^{35.} Md. Mainuddin Khan, op.cit., p. 142.

actual results with the budgeted figures on a monthly as well as cumulative basis. This is likely to aid management in controlling the operations of the enterprises under the corporation.

3.5 Budgetary procedure followed by B.J.M.C. and the enterprises under it.

This section describes the budgetary procedure followed by BJMC and the enterprises under it on the basis of available literature, corporation rules and regulations and on the basis of interviews conducted with the enterprise heads and heads of the departments of production, sales and accounts. Interviews with the accounts personnel of the corporation, zonal offices and the enterprises were especially held for the purpose.

It was the East Pakistan Industrial Development Corporation (EPIDC) which introduced the budget for controlling the units under its management. The Integrated Accounting System introduced by EPIDC made provision for comparison of budgeted and actual income and expenditure on a month by month basis. The industries under private management were luke-wark to the adoption of budgetary control techniques because these were earning huge profits in a protected market and were averse to the adoption of modern techniques of management. Private firms with foreign participation did, however, adopt budgetary control systems. A study conducted by A.A.M. Baquer and Md. Muinuddin Khan in 1969 revealed that out of 37 industrial concerns, 8 (21.6%) of the total practised budgetary control and 3 (8.1%) practised standard costing. 36 Another study conducted by M. Habibullah affirmed that

^{36.} A.A.M. Baquer and Md. Muinuddin Khan, Accounting Efficiency and Productivity, Bureau of Economic Research, University of Dacca, 1969 (unpublished), p. 147.

"the use of standard costing and budgetary control was very limited."

Therefore, the use of budgetary control was not very popular among the industrial enterprises in the pre-liberation period.

In the post-liberation period, the nationalisation programme of the Government of the People's Republic of Bangladesh brought about 313 industrial enterprises 38 under Government ownership. The Government realised the need for budgeting and made provision for the preparation of an annual budget statement. The annual budget statement is to be drawn up by each corporation according to a prescribed form for every financial year. This statement shows estimated receipts and expenditure and sums which are likely to be required from the Government. 39

The rules of the corporation provides that the annual budget statement for the corporation and the enterprises be submitted to the Government by 51st May each year.

Thus, the relevant statutes and rules make the preparation of a budget compulsory for the corporation and each enterprise.

The corporation and the enterprises under it prepare three types of budgets: Revenue Budget, Cash Budget and Capital Budget. The forms of the budgets are prescribed by the government and can be seen in Appendix-6.

^{37.} Dr. M. Habibullah, Industrial Efficiency and Profitability in Bangladesh, Bureau of Economic Research, University of Dacca, 1974, p. 107.

^{38.} The First Mye Year Plan (1973-1978), Planning Commission, Government of the People's Republic of Bangladesh, p. 195.

^{39.} Article 19 of the Bangladesh Industrial Enterprises (Nationalisation) Order, 1972 (P.O. No. 27 of 1972).

^{40.} Article 16 of the Bangladesh Jute Hills Corporation Rulss, 1977.
Ministry of Jute. Government of the People's Republic of Bangladesh.

The budgets are supported by schedules. The budgets show actuals for the previous year, budget for the current year, actuals for the expired budget period of the current year, revised budget for the current year and budget estimates for the coming year.

A revenue budget serves as the basis for a forecast of income and expenditure and a plan of operations. It may be used as a guide to policy-making and setting standards of efficiency.

and estimated expenditure for the budget period. The difference between revenues and expenses represents either estimated profit or loss. The figures in this budget are derived from various schedules (schedule of sale of products, schedule of interest on deposits/securities, schedule of other income, schedule of cost of raw materials, schedule of cost of power and fuel, schedule of factory expenses, schedule of administrative expenses, schedule of a profit and loss account. The revenue budget is drawn up in the form of a profit and loss account. This facilitates the use of the revenue budget is drawn up on the basis of production target set by the corporation.

It can be said that the revenue budget depicts the operating plan of an enterprise. When the revenue budgets of the enterprises under the corporation are welded together, they reflect the overall operating plan of all the enterprises.

A cash budget is an estimate of cash receipts and disbursements for the budget period and is prepared to assess the financial strength of an enterprise and to ensure its smooth operation.

A cash budget shows the opening balance, cash receipts on account of collection of book debts, recovery of loans, cash sales, other cash receipts, cash payments on account of revenue expenditure, income tax, share of overhead charges of the corporation, payment to national exchequer and outstanding creditors and payment on capital account for the budget period. The difference between the receipts and payments represents either a cash surplus or deficit.

A capital budget is prepared to show planned expenditures on fixed assets during the budget period. While drawing up this budget, the enterprise management is required to provide for capital expenditures which can directly improve the production and profitability position of the enterprise without affecting its liquidity position. In enterprise can provide for capital expenditures from the fund expected to be received under the Annual Development Programme (A.D.P.) and Balancing, Modernisation and Replacement programme. Separate columns are used for showing capital investments to be financed from the enterprise's resource, A.D.P. and B.M.R.

The Bangladesh Jute Mills Corporation initiates budget preparation by issuing budget guidelines (Appendix - 7) to the enterprises under it. The guidelines are prepared by the cost and budget section of the Directorate of Finance in co-operation with other Directorates of the corporation. In setting the budget, the past records of the enterprises and the policy directives received from the Ministry of Jute are taken into consideration. The enterprise managements do not take part in the formulation of budget guidelines.

Enterprises under the corporation follow the budget guidelines in the preparation of their respective budgets. Every year the budget guidelines are sent to the enterprises and the sonal offices in the form of a circular by the cost and budget section of the corporation.

The Budget guidelines prepared by the corporation contain the following particulars:

- (a) Production target.
- (b) Number of working days and working hours,
- (c) Wastage percentage: overall wastage percentage and jute wastage percentage,
- (d) Batch prices per maund of jute,
- (e) Standard batch composition,
- (f) Standard consusption of other direct materials,
- (g) Sales prices of different products.
- (h) Welfare expenses for festival holidays,
- (i) Capital budget, and
- (j) Overtime for workers and staff.

During the initial years, these guidelines remained more or less static but these have been made more elaborate from the year 1979-80.

A comparison of the contents of the budget guidelines can be seen in Appendix - 8.

On the receipt of the budget guidelines the enterprises start working on the budget. The accounts department of the enterprise, which is responsible for compiling the budget, issues latters to the departments of the enterprise for preparing their respective departmental budgets.

This department also furnishes relevant information to the departments of the enterprises on the basis of guidelines received from the corpora-

budgets for their respective segments of the enterprise as they are not acquainted with the techniques of budgeting. They naturally turn to the accounts department for preparation of their departmental budgets. Ultimately the budgets are prepared by the accounts department on the basis of budget guidelines and information gathered from the various departments.

The enterprise board is required to eause, prepare and implement, with prior approval and as directed by the corporation, the annual budget of the enterprise in accordance with the provision of Rule 16 of the Bangladesh Jute Hills Corporation Rules, 1977 and in the forms set out in Schedule II under the said Rules. But, in practice the budgets are prepared by the accounts department on the basis of budget guidelines and are sent directly to the corporation in order to comply with the time schedule sett by it for submission of budgets. The fact is then reported to the board as and when it meets. The budgets approved by the corporation budget committee are placed before the board and it, in its turn, instructs the enterprise management to see to their implementation. It also reviews the implementation of budgets in its quarterly meetings. The specific problems faced by the enterprise management in implementation of budgets are sometimes taken up by the board with the corporation for necessary action. The latter, after proper scrutiny, takes necessary action. But this is very time consuming.

Cost and budget section of the corporation receives the budgets sent by the enterprises. Zonal offices also receive copies of the budgets from enterprises under their jurisdiction. These are then placed before the

^{41.} The Enterprise Board Regulations, 1977, Bangladesh Jute Mills Corporation, Regulation No. 15(e).

Budget Committee constituted by the corporation for discussion and finalisation. Usually two committees are formed for finalising budgets at
different sones of the corporation. Each committee is headed by a Director,
while 2 General Managers from two directorates of the corporation act as
members, and the Senior Deputy Chief Accountant (cost and budget) acts as
member-secretary. The gonal General Manager and Deputy Chief Accountant
and the enterprise head and the head of the accounts department take part
in the budget discussion. Discussion with the corporation officials will
make one believe that the people from the enterprises actively participate
in the deliberations of budget meetings. But the enterprise heads and
the heads of the accounts departments who take part in these meetings have
a different story. One Deputy General Manager said: "It is the head office
people whose decisions prevail. Our suggestions are not given due weight.

As a result, 'pseudo participation' takes place."

The committee does not have sufficient time for verifying and scrutinizing the budgets of the enterprises in detail. A study of the detailed programmes of the Budget Committee reveals that the Committee spends, on an average, 1.5 hours in discussing and finalising the budget of an enterprise. So, it concentrates on important aspects of the Budget like production target, cost per ton, profit or loss per ton, total profit or loss for the budget period and capital expenditures. The enterprises surveyed reported that the revenue budgets were approved with minor changes but the capital expenditure budgets were sometimes subjected to cuts in view of the poor liquidity position of the enterprises.

The budgets, thus finalised by the Budget Committee, are formally approved by the Board of Directors of the corporation. The approved bud-

gets are then sent to the enterprises by the cost and budget section of the corporation for implementation. The budget approval process is a time-consuming one and, in some years, the approved budgets reach the enterprises after the commencement of the budget period. This delay undermines the importance of budgets.

On the receipt of the approved budgets, the accounts department communicates the budget targets to the heads of the other departments of the enterprises. Interviews with heads of accounts reveal that no formal meeting of managers is held at the enterprise level to discuss and find out ways and means of implementing the approved budgets. Efforts of the head of the accounts department to implement budgets are rendered ineffective by the apathetic attitude of other managers. One Deputy Chief Accountant stated that top management at the corporation and the head of the enterprise should follow-up the budget vigorously. Unless this is done, the budget will remain only on paper.

Under the Integrated Accounting System, enterprises send, along with other reports, a statement of profit and loss for each month showing the budgeted amount and variances for different items of the statement. In addition to the reports under the I.A.S., enterprises are required to send a performance report under the recently introduced Management Information System. These reports are sent to the sonal offices and head office. On the basis of the performance report, a performance review meeting is held at the zonal level and the zonal office prepares a consolidated performance report for the zone. Copies of the report are sent to the corporation and enterprises within the zone.

sent to zonal office are also of use to the enterprise managers for proper functioning of the enterprises. The researcher has perumed the copies of these reports. It seems that these are not prepared properly. These reports sometimes leave the column for budget and variance blank while only the actual column is filled in. The persons responsible for preparing the reports are not careful and enthusiastic about their preparation. It seems that their main objective is to comply with the requirements of the corporation fegarding their preparation and submission. Two renowned professional economists of the country analysed these reports and also concluded that these reports are not prepared with due care so that these perfunctory reports are not useful in judging whether enterprises managers are performing their functions effectively and efficiently. 42

Managers in the zonal offices and head office are also half-hearted in their approach towards these reports. According to M. Ahmad and Rehman Sobhan, they do not go through these reposts on time and analyse them carefully.

The variances, even when computed, are not analysed. As the budgeted volumes of production and sales are not adjusted to actual volumes achieved, the variance analysis becomes a meaningless exercise. When variances are analysed keeping in view the actual valume achieved and are segregated into efficiency variance and price variance, it becomes useful for control purposes. The corporation and the enterprises under it have, however, not been able to institute variance analysis. "Variances are seldom analysed,

^{42.} Rehman Sobhan and Musaffer Ahmad, op.cit., p. 328.

^{43.} Ibid., p. 328.

^{44.} M. Rahman (1977), op.cit., p. 54.

suggestions, responsibility allocation, explanations, revision of plans and standards and guidelines for formulation of policies and objectives.

Such an environment hinders the use of budget as a control tool.

The approved budgets of the corporation and the enterprises under it are submitted to the controlling Ministry, but it has been alleged that these are not examined in due time; nor are they given due importance. The Government thus has not been able to make use of this important instrument of control and accountability. The periodic review of performance has been used as an instrument of control and accountability. But the periodic review meetings have failed to produce the desired results because of the absence of proper direction. This (periodic review of performance) also became misdirected as the very nature of such meetings makes it difficult to sift the major from the minor issues. Thus accountability has been ineffective. The Budget as an instrument of control and accountability seems not to have been properly appreciated at the Ministry level.

3.6 Managerial environment prevailing in Bangladesh.

The managerial environment is marked by a shartage of trained and experienced managers. A good number of skilled managers were from erst-while West Pakistan. With the liberation of Bangladesh, they left the country. Thus, there arose a vacuum in the managerial field. This was, however, filled by promoting managers from the lower levels or by transfer from Government service or by new recruitment. Recruitment of managers

^{45.} Md. Muinuddin Khan, "An Evaluation of Accounting Practices in the Jute Industry", The Business Review, Vol. 5, No. 1, 1977, p. 138.

^{46.} Rehman Sobhan & Musaffer Ahmad, op.cit., p. 313.

^{47.} Ibdd., p. 313.

was influenced by local, political and circumstantial pressures, as such it was not done strictly on the basis of educational background and training. 48 After liberation, the then Government of Bangladesh created an Industrial Management Service (I.M.S.) to man the nationalised industries and made provision for the training of I.M.S. personnel both inside and outside the country. Though this was an appropriate step, it was only a partial solution to the management problems of the nationalised industries under the sector corporations. Reports submitted by different agencies and research conducted by scholars in pre-liberation and post liberation periods point to the fact that a substantial number of persons Carrying on Managerial roles were untrained and this was one of the most formidable impediments to efficiency and profitable performance of industries in Bangladesh. Figures supplied by the sectes corporations manage ing the nationalised industries put the number of persons requiring some formal management training at 10,000 in 1974, 50 The Second Five Year Plan also recognised the need for management training and states that "a progre-

^{48.} Nurul Islam, Development Planning in Bangladesh: A Study in Political Economy, Dacca, University Press Limited, 1979, p. 226.

^{49.} Report of the ILO/UNDP Mission on Management Development in the People's Republic of Bangladesh, I.L.O., Geneva, Oct. 1974.

Management Training in Bangladesh, I.L.O. Regional Office, Bangkok, 1973 (Unpublished Report).

Report on Mission on Management Development in Bangladesh, F.C.O./O.D.M. London, 1972, Report on Management Training Committee, Flanning Commission, Government of Bangladesh, 1972.

Investigation of Productivity and Costs in Member Mills, Pakistan Jute Mills Association, Armitage and Norton, 1968.

^{50.} Report of the ILO/UNDP Mission on Management Development in the People's Republic of Bangladesh, I.L.O., Geneva, Oct., 1974.

personnel at all levels should be trained at appropriate institutions at home and abroad."51

Shortage of trained competent managers to plan, direct, control and co-ordinate is seriously affecting the functional areas of management.

Efforts are needed to develop trained managerial personnel and to regulate migration of trained managers by providing adequate remuneration and incentive.

In the sector corporations, the enterprise managers do not possess the real authority for decision making and operational freedom. Two of the country's leading authorities on the subject put it like this: "A manager has limited and defined authority over matters of personnel administration in his enterprise. In other than personnel aspects, the general and factory administration of the enterprise is closely controlled by the corporations and the enterprises seem to have little flexibility or authority in the matter." This is hindering the functioning of the enterprises. Lack of authority stands in the way of taking bold and imaginative decisions. Decision-making becomes cumbersome and time-consuming. One writer describes the situation in the following manner:

The safest way is to take a slow, cautious, and shared decision, satisfactory to many but ineffective for the firm. Hence the nationalised industries lack the basic capability of taking non-programmed decisions Hence, instead of being dynamic, decision making is reduced to a safe, stereotyped and static process which is fundamentally designed for safety first, general satisfaction and harmony.

^{57.} The Second Five Year Plan (S.F.Y.P.), Planning Commission, Government of the People's Republic of Bangladesh, P. XIII, 24.

^{52.} Rehman Sobhan and Huzaffer Ahmad, op.cit., p. 326.
53. M. Habibullah, Problems of Nationalised Industries in Bangladesh.
The Business Review. Vol. 3. No. 2. April-June, 1977. p. 21.

Stands in the way of proper discharge of managerial functions. The Second Five Year Flan of Bangladesh recommends adequate delegation of authority to enterprises and the formation of high powered enterprise Management Boards to take management decisions within the framework of the policy laid down by the Government. The Flan also refers to inadequacies in organisation and management practices. It suggests that these inadequacies can be removed by continuously reviewing organisation structure, staffing pattern, policies and programmes for personnel development, financial and accounting practices including procurement and sales policies, quality of technical management and various administrative parameters such as proper delineation of duties and responsibilities, span of control at different levels, supervision and communication practices, and delegation of authority commensurate with responsibility at different levels.

Managers are surrounded by a formidable array of problems such as power failure, absence of an industrial labour force, labour unrest, finance, inadequate maintenance of old and inefficient equipment and frequent policy changes at the Government level. These tell upon the efficiency of the managers. In an expert oriented industry like jute manufacturing, managers face serious competition in marketing the products of their industry in the international market.

Managers in the public sector enterprises do not have clearly defined objectives. In contrast, managers in the private sector industries

^{54.} Government of the People's Republic of Bangladesh, Planning Commission, The Second Five Year Flan (1980-1985), p. XIII-24.

^{55.} Ibid. p. XIII.24.

have comparatively better defined objectives. The absence of clearly defined objectives hinders strategic planning and creates confusion. This also adversely affects managerial commitment to the objectives to be persued. 56

Managers in the public sector enterprises have to reckon with many interest groups while managers in the private sector have to satisfy a limited number of such groups. The interest groups in the public sector enterprises make conflicting demands on the enterprise. This puts the managers in a quandary.

Managers in the public sector enterprises are evaluated on the basis of criteria laid down in the Annual Confidential Reports (A.C.R.). The A.C.R. is written by the senior managers who, it is alleged, are not impartial in writing the same. In some cases, Annual Confidential Reports are not written on a regular basis and are not given due importance in deciding cases of promotion. "Apparently there is no means to know who is a good employee and who is a bad one. This means treating all employees at par and on the basis of seniority without differentiation as to merit and technical competence. The result is apathy, indifference and even sometimes callousness as to the performance of assigned duties." The situation is different in the private sector enterprises where promotions are more likely to be made on the basis of performance and competence.

^{56.} M. Habibullah (1977), op.cit., p. 17.

^{57.} Ibid., p. 20.

With this discussion about the jute industry, the Bangladesh Jute Mills Corporation, management, accounting and budget systems followed by the corporation and the enterprises under it and the general managerial environment prevailing in Bangladesh, in the next chapter we proceed to discuss the budget characteristics and managers' responses regarding them.

CHAPTER _ IV

BUDGET CHARACTERISTICS

4.1 Budget Characteristics.

This chapter discusses the budget characteristics and the responses of the managers regarding them. Budget characteristics are likely to have a significant effect on the acceptance and use of budgets. Simon, et al., found that certain budget characteristics are important determinants of budget acceptance by budgetees. Trank Collins, study suggests that perceived budget characteristics, attitudes toward these characteristics, and personal flexibility are important correlates with budgetary response attitudes. He concluded that budget characteristics are related significantly to budget response attitudes. The budget characteristics that have been considered for the purpose of this study are:

- (i) Flexibility,
- (ii) Attainability,
- (iii) Timeliness, and
 - (iv) Follow-up.

As already mentioned, data relating to these variables were collected by administering a questionnaire using a likert-type response scaling.

Flexibility. Business operates in an uncertain environment. Hence, conditions may not coincide with those that have been forecast. Therefore, a fixed budget is outdated since the anticipated relationship of one expense item to another and of incomes to expenses may not hold good.

^{1.} H.A. Simon, Harold Guetzkow, G. Kozmetsky and G. Tyndall, op.cit., p. 24.

^{2.} Frank Collins, op.cit., pp. 324-335.

^{3.} Ibid, p. 331.

A fixed budget represents a series of appropriations. Fixed appropriations have their usefulness for modern management but they can not take the place of a dynamic operating programme. This dynamic character gives special meaning to the managerial budget. Flexibility introduces necessary dynamism in budgets and makes them more relevant for the manager. Many authors stress the importance of flexibility in budgeting. The following may be noted:

"Budgets must be capable of flexibility. This is fundamentally the result of management attitudes and not inherent in the budget itself.

Management must recognize that forced adherence to a plan could cause decisions to be made that are not in the long-run interest of the business. Unforeseen opportunities may arise which were not planned. A decision resulting in a significant, unfavourable variance on the short range plan may be the best alternative in terms of long range profitability. Failure to take advantage of such situations may result in adherence to the budget but also in dysfunctional consequences in terms of achieving the objectives of budgeting."

"The business budget, if it possesses proper flexibility, will provide an instrument for the control of operations and costs."

"Perhaps inflexibility is the greatest danger in budgets. Even if budgeting is not used to supplant management, the reduction of plans to numerical terms gives them a kind of illusive definiteness. It is entirely

^{4.} V. Bruce Irvine, op.cit., p. 88.

^{5.} J.B. Heckert and J.D. Willson, Business Budgeting and Control, N.Y., The Ronald Press Co., 1955, p. 67.

possible that events will prove that a larger amount should be spent for this kind of labour or for that kind of material and a smaller amount for another, or that sales will exceed or fall materially below the amount forecast. Such differences may make a budget obsolete as soon as it is made; and if managers must stay within the straitjacket of their budgets in the face of such events, the usefulness of the budgets is reduced or negated. "6

rather than steadfast adherence to any given plan of action. It involves identifying and weighing a great number of possible alternatives in order not to be caught unprepared should even the most unlikely eventuality occur."

Flexibility in budgets can be introduced through the following means:

- (i) Variable budgets.
- (ii) Supplemental budgets,
- (111) Authorised variances,
- (iv) Supplemental forecasts,
 - (v) Review and revision.

Variable budgets, also known as flexible budgets, sliding scale budgets, expense formula budgets, expense control budgets indicate the changes in expenses or costs in relation to changes in volume, output or activity.

^{6.} H. Koontz and C. O' Donnel, Management: A Systems and Contingency Analysis of Managerial Functions, 6th ed., Tokyo, McGraw-Hill Kogakusha, Ltd., 1976, p. 662.

^{7.} William Travers Jerome III, Executive Control: The Catalyst, N.Y., John Wiley & Sons, Inc., 1961, p. 30.

^{8.} W.D. Knight & E.H. Weinwurm, Managerial Budgeting, New York, The Macmillan Company, London, Collier-Macmillan Ltd., 1964, p.53.

Variable budgets are dynamic budgets in that expense allowance for any volume, output or activity can be calculated easily. This facilitates the adjustment of budget allowance to the actual volume before comparison with actual allowance.

Flexibility can also be provided by means of supplementary authorised authors on a particular project if the expenditure originally authorised turn out to be inadequate for the purpose.

Authorised variances, both formal and informal, can be used to add flexibility to budgets. Formal authorised variances can be used for meeting situations where there are unanticipated changes in costs of material or labour during the budget year. Informally authorised variances can take care of cases where the manager of a department is in a position to justify the expenditures in excess of his budget for a particular item of expense.

In the case of supplemental forecasts, the original budget remains unchanged during the budget period. Changes in the business environment are embodied in the supplemental forecasts so that the latter can supplement the original budget.

Flexibility in a budget can also be introduced through periodic review and revision of the budget.

Budgets of the enterprises under B.J.M.C. are prepared on a fixed basis keeping in view the production target set by the corporation. These budgets show a fixed volume of production. Conversion, administration and selling cost budgets are drawn up accordingly. This makes the budgets inflexible. Budgets are revised only once, this being at the time of approval of the budget for the coming year. This revision is made for

the unexpired period on the basis of the actual position of the expired budget period. In the case of revenue expenditures, enterprises incurring expenditures beyond budget show them as unfavourable variances in the report with reasons for the same. In the case of capital expenditures, prior permission is to be obtained from the corporation for exceeding the budget. Enterprises are to go by the batch composition and produce according to production plans of the corporation. They can deviate from these only by acquiring permission from the head office, which is a time consuming process. In a centralised management system, decisions regarding such things as production, marketing and personnel are taken at the corporation level and the enterprises are to go by these decisions as embodied in their budgets. As a result, enterprise management feel that budgets lack flexibility. Budget inflexibility, it seems, also stems from enterprise inflexibility.

Managers' responses regarding budget flexibility. Data collected by the researcher in this study show the following pattern of managers' fesponses to budget flexibility:

^{9.} Rehman Sobhan and Musaffer Ahmad, op.cit., p. 309 & p. 530.

Table No. 4.1
Responses of managers regarding budget flemibility.

Extent of Flexibility Type of managers	Very much flexible	Flexible	Neither flexible nor in- flexible	sible	Very much inflexi-ble	Total
Enterprise Head	0	6(31.58)	0	13(68.42) 0	19 (100)
Production Head	0	3(15.79)	0	16(84.21)) 0	19 (100)
Sales Head	0	2(10.53)	0	17(89.47	0	19 (100)
Total :	0	11(19.30)	0	46(80,70)	0	57 (100)

(Figures in brackets are row percentages)

From the above table, it will be seen that about 81% of the managers interviewed looked upon budgets as inflexible while 19% of them viewed the budgets as flexible. About 32% of the enterprise heads, 16% of the production heads and 11% of the sales heads saw the budget as flexible while about 68% of the enterprise heads, 84% of the production heads and 89% of the sales heads viewed the budget is inflexible. Of the managers who saw the budget as flexible, 55%, 27% and 18% belonged to the categories of enterprise heads, production heads and sales heads respectively. None of the managers interviewed looked upon budgets as very much flexible or very much inflexible.

The proportion of managers viewing the budget as inflexible is highest among the sales heads. This is primarily due to the fact that sales are centrally managed at the level of the corporation. Orders are received by the directorate of marketing of the corporation. These are passed on to the enterprises for the purpose of shipping the goods

because of the centralised control of sales, the sales budget at the enterprise level loses much of its relevance.

As already explained elsewhere, budget guidelines are prepared at the head office of the corporation as per policy directives of the Government which decides how much hessian, sacking and carpet backing cloth would be produced in the next year. The corporation allocates the total production target among the enterprises under it on the basis of their installed capacity. Every enterprise is given a target of a certain amount of hessian, sacking and earpet backing cloth per loom per hour. Therefore, the production target becomes almost inflimible. Besides production target, batch composition, consumption rate of direct materials, wastage percentage atc. are stipulated by the directorate of production planning. These are then incorporated in the budgets of the enterprises. These can be changed only in exceptional circumstances with the prior approval of the said directorate. The process of approval is cumbrous and dilatory. Hence, a majority of the production heads regarded the budget as inflexible.

A relatively larger proportion of the enterprise heads considered the budget to be flexible. However, this flexibility does not refer to production target. They consider the cost budgets to be flexible.

4.2 Attainability.

A budget contains goals or targets for each segment of the organisation. These goals may be very loose and easily attainable or very tight and unattainable. Easily attainable goals present no challenge to participants and, therefore, have little motivational effect. Very tight and unattainable goals, on the other hand, result in facilings of failure.

frustration, lower aspiration levels, and may even result in rejection of goals by the participants. 10

A majority of text books on budgeting suggest that budget goals should be tight but attainable for motivating the participants. Hofstede 11 stated that tighter budget goals lead to higher motivation; but tight budget goals beyond a certain limit reduce metivation. Locke 12 also stated that difficult task goals lead to better performance than easy goals.

Izzetin Kenis 13 found that the "too tight" level of budget goal difficulty has adverse effects on the attitude and budgetary performance of managers. The "tight but attainable" range appears to be the optimum level of budget goal difficulty.

Therefore, it is in the best interest of the organisation to set budget goals that are attainable and at the same time challenging to the participants so as to meet their esteem and self-actualization needs.

This will engender a feeling of acceptance of budgets by the participants.

As the attainability of budget goals is important, a sound system of control should contain mechanism to prevent the development of unfavourable gaps. Hansen suggests mechanisms like participative budgeting.

flexible budgeting and establishment of a range of performance levels for each goal.

^{10.} S. Becker & D. Green, Budgeting and amployee Behavior in William E. Thomas (ed) Readings in Cost Accounting, Budgeting and Control, Rombay, Taraporevala Sons & Co. Private Ltd., 1970, pp. 386-390.

^{11.} G.H. Hofstede, op.cit., p. 160.

^{12.} E.A. Locke, "Towards a theory of Task Motivation and Incentives".

Organizational Behaviour and Human Performance (May, 1968), pp. 157-189.

^{13.} Izzetin Kenis, op.cit., p. 716.

^{14.} Erneet I. Hanson, "The Budgetary Control Function", in Robert J. Mockler (ed.), Readings in Management Control, N.Y., Appleton Century-Crofts, 1970, p. 331.

Managers' responses regarding attainability of budgets.

On being asked about the attainability of budgets, the managers replied as follows:

Table No. 4.2
Responses of maragers regarding budget attainability.

Attainability pe managers	Attainable	Unatteinable	Total	
Enterprise Head	5 (26,32)	14 (73.68)	19 (100)	
Production Head	2 (10.53)	17 (89.47)	19 (100)	
Sales Head	2 (10.53)	17 (89.47)	19 (100)	
Total :	9 (15.79)	48 (84.21)	57 (100)	

(Figures in brackets are row percentages)

The above table shows that 84% of the managers perceived the budgets to be unattainable while about 16% perceived them to be attainable. About 26% of the enterprise heads, 17% each of the production and sales heads felt the budget targets to be attainable while 74% of the enterprise heads and 89% each of the production and sales heads looked upon the budget targets to be unattainable. Production heads and sales heads had identical responses regarding attainability. Of the managers who perceived budgets as attainable, about 56% belonged to the category of enterprise heads and 22% each to the categories of production and sales heads.

A majority of the managers seems to perceive the budget targets as unattainable. This seems to be the outcome of a budget perceived as unrealistic.

A budget quantifies the future plan of an enterprise. The plan itself should be free from 'undue conservation and irrational optimism' so that the budget becomes realistic. 15 A realistic budget contains targets for production, sales, costs, productivity which can reasonably be attained. In setting budget targets all relevant factors, external and internal, should be taken into consideration. Some of these factors can be controlled, while others must simply be accepted. The external factors to be considered include political condition, economic condition, and population changes. The internal factors include plant capacity, availability of facilities, personnel and capital, cost behaviour and its controllability and the time factor involved in the cycles of procurement, production, distribution and income realization. 16 Unless these are given due weight in setting budget targets, the budget is likely to be unrealistic. An unrealistic budget is likely to affect adversely the attitudes of the people who are to work with it.

In the case of enterprises under B.J.M.C. as already stated targets are set in the budget for production, production costs, sales, percentages of wastage, and profit. These targets are set by the corporation on the basis of the past performance of the enterprises and likely future prospects of the industry. It has been found that the targets set were not generally achieved by the enterprises. It has also been found that, in one year, an enterprise budgeted for profit but at the end of the year it turned out that the enterprise had sustained a huge loss. Conversely, an

^{15.} G.A. Welsch, Budgeting: Profit Planning and Control, Englewood Cliffs, N.J., Prentice-Hall, Inc., 1964, p. 35.

^{16.} Herman C. Heiser, Budgeting: Principles and Practice, New York, The Ronald Press Company, 1959, p.5.

enterprise budgeting for loss came up with profit at the end of the year.

This was partly due to faulty planning and partly due to factors outside

the control of the management. These undermine the importance of budgets.

Production targets are set on the basis of the number of budgeted looms, working days and production per loom per hour. In the budget guide-lines for the years 1976-1977, 1977-1978 and 1978-1979 a uniform rate of production per loom per hour was set for all the enterprises irrespective of the condition of the machinery and the working environment of the enterprises. Some of the enterprises have very old and outdated machinery, some have shortage of back process machinery, while some of them have modern machinery with no shortage of back process machinery. If all of them are placed on the same feoting in respect of a production efficiency target (i.e. production per loom per hour), the target will not be realistic. But in practice, all enterprises are treated at par. As a result management may not accept the target in the right spirit.

The budget is prepared on the basis of a production target and an assumption is made to the effect that all goods produced will be sold. The validity of this assumption is seriously questioned by the enterprise managers as the volume and price of the jute goods are regulated by the forces in the international market. In some years, the sales targets could not be achieved due to a slack demand for jute goods in the international market. As jute goods fetch a substantial proportion of the foreign exchange earnings of the country, there is no alternative but to export jute goods according to the dictates of the foreign market. The price offered is, at times, far below the cost of production of goods. This situation has been aggrevated by competition from synthetics and

high tariffs imposed by some of the importing countries. The high cost of production due to such things as high wages, high cost of raw materials and other consumables, and increasing power rate is adversely affecting the competitive position of Bangladeshi jute goods. These are beyond the control of the enterprises. Faulty demand forecasts adversely affect the sales target. Sales forecasting needs improvement.

Moreover, the enterprise managers are to operate under many environmental constraints. Some of the constraints are beyond the control of enterprise management and sometimes beyond the control of the corporation. For instance, management hardly has any control over power failure and labour unrest arising out of pay-scales and fringe benefits. These constraints stand in the way of attainment of budget targets.

The above circumstances compled with the absence of flexible budgeting and responsibility accounting have resulted in non-achievement of budget
targets during the last few years. The enterprises reported unfavourable
budget variances in respect of almost all the targets. Records of production performance of the enterprises for the years 1976-1977, 1977-1978 and
1978-1979 showed constant shortfall vis-a-vis their budgeted production
(Appendix-9). Interviews with the Chief Accountant and the Senier Deputy
Gitef Accountant who happens to be the Member-Secretary of the corporation
Budget Committee reveal that budget targets were set at a higher level in
order to motivate the enterprise management to attain a high level of performance. As a result, as one of them commented, "actuals never come close to
budget targets."

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4.3 Timeliness.

Timeliness is an important characteristic of a good budgetary system.

Timeliness is required in the issue of budget guidelines and preparation and approval of budgets, preparation of performance reports, control action and follow-up.

Budget guidelines embodying the basic premises on which budgets are to be prepared should be made available to the managers for facilitating the timely preparation of budgets. None of the enterprises use budget manuals which could specify the time schedule to be followed during the different phases of budget development. Specification of a time schedule enables the management to approach budget planning and preparation in a systematic manner. The timely involvement of concerned people may lead to better planning and co-ordination.

Timeliness is to be followed not only in the preparation of budgets but also in their approval. The importance of timeliness is underlined by many authors. Welsch writes that "nothing detracts more from the effectiveness of budgeting than completion and, hence, distribution of the budget several months after the period has started." 17

Performance reports should be issued periodically. Such reports should be sent to the concerned manager shortly after the end of the period to which the report relates so that necessary corrective action can be taken in the future. Delayed reports are of little value as the concerned manager will not take them seriously.

Timely control action and follow-up will put the business on its right course. Delayed control action and follow-up will mar the beneficial

^{17.} Glenn A. Welsch, op.cit., p. 51.

effects of budgeting. Consequently, timeliness is of prime importance in making the budgetary process a success.

Enterprises under B.J.M.C. receive budget guidelines by April/May every year. Budget guidelines for 1976-1977, 1977-1978 and 1978-1979 were issued on 2nd May, 1976, 14th May, 1977 and 2nd May, 1978 respectively. Managers' responses regarding the timeliness in the issue of budget guidelines were

Table No. 4.3

Responses of managers regarding the timeliness in the issue of budget guidelines.

as follows:

Extent of timeliness in the issue of budget guidelines	Timely	Not Timely	Total
Type of managers			
Enterprise Head	17 (89.47)	2 (10,53)	19 (100)
Production Head	15 (78.95)	4 (21.05)	19 (100)
Salss Head	14 (73.68)	5 (26.32)	19 (100)
Total :	46 (80,70)	11 (19.30)	57 (100)

(Figures in the brackets are row percentages)

The above table shows that about 81% of the managers interviewed felt that budget guidelines were issued in time while 19% of them felt that budget guidelines were not issued in time. About 89% of the enterprise heads, 79% of the production heads and 74% of the sales heads felt that timeliness was observed in the issue of the budget guidelines. About 11%

of the enterprise heads, 21% of the production heads and 27% of the sales heads stated that timeliness was not observed in the issue of the budget guidelines. They opined that the budget guidelines should be issued earlier so that enterprises would have enough time to prepare the budgets in detail and forward them to the corporation and zonal offices in time.

Timeliness in preparation and submission of budgets by the enterprises.

Managers' responses regarding timeliness in preparation and submission

of budgets were as under:

Responses of managers regarding timeliness in the preparation of budgets.

Extent of timeliness in the preparation of budgeta Type of managers	Tinely	Not Timely	Tot al
Enterprise Head	18 (94.74)	1 (5.26)	19 (100)
Production Head	17 (89.47)	2 (10.53)	19 (100)
Sales Head	16 (84,21)	3 (15.79)	19 (100)
Total t	51 (89.47)	6 (10.53)	57 (100)

(Figures in brackets are row-percentages)

It can be seen from the above table that 89% of the respondents felt that timeliness was observed in the preparation and submission of budgets while about 11% of them felt that the preparation and submission of budgets were not timely. About 95% of the enterprise heads, 89% of the production heads and 84% of the sales heads were of the opinion that

the preparation and submission of budgets were timely while 5% of the Enterprise Heads, about 11% of the production heads and 16% of the sales heads stated that timeliness was not observed in the preparation and submission of budgets.

Timeliness in budget approval. Budget approval is given by the Board of Directors after discussion and finalisation by budget committee constituted for the purpose by the corporation. Discussion and finalisation meetings are held at different zones of the corporation. This process takes a lot of time as the enterprise representatives are required to take part in the deliberations of such meetings. After finalisation, budgets are submitted to the Board of Directors of the corporation for approval which is done as a matter of routine. After approval, the cost and budget section of the corporation sends the approved budgets to the enterprises. The approved budgets for 1977-1978 were sent to the enterprises in October, 1977 and those for 1978-1979 were received by the enterprises in November, 1978. The budget period commences from July and ends in June. The approved budgets thus reached the enterprises about 4 months after the dommencement of budget period. During this interregrum the enterprises operated on the basis of budget guidelines and draft budgets submitted to the corporation. All the managers interviewed felt that timeliness was not followed in approving the enterprise budgets. This seems to undermine the importance of budgets. Apparently people at the corporation level give only half-hearted support to the budget programme.

Managers interviewed also felt that timeliness was followed in sending monthly reports to the corporation/zonal offices. Enterprises are under obligation to send reports, so they send them. Managers interviewed also stated that budget reports for the functional areas of management were not prepared timely. This was due to pre-occupation of accounts personnel with the preparation of reports for the corporation and other routine accounting work.

Timeliness in performance review at the zonal level. Managers responses to timeliness in performance review were as under:

Table No. 4.5

Responses of managers regarding timeliness in performance review.

Extent of timeliness in performance review	Timely	Not timely	Total
ype of managers			
Enterprise Head	14 (73.68)	5 (26.32)	19 (100)
Production Head	12 (63.16)	7 (36.84)	19 (100)
Sales Head	11 (57.89)	8 (42.11)	19 (100)

(Figures in brackets are row percentages)

The above table shows that about 5% of the managers interviewed felt that timeliness was observed in performance review while 3% of them felt that timeliness was not followed in the review of performance.

About 74% of the enterprise heads, 63% of the production heads and 58% of the sales heads stated that timeliness was followed in the review of performance. But 26% of the enterprise heads, 37% of the production heads and 42% of the sales heads felt that timeliness was not observed in the review of performance.

The performance reports relating to a month are prepared in the first week of the next month. Every enterprise invariably sends them to the monal office gad corporation head office on tige. The review meeting is chaired by the Zonal General Manager and it is attended by the enterprise head and the accounts head. The production head and the wales head are not invited to attend the meeting. This meeting is held in the second week. On the basis of the performance reports of the enterprises and the discussion at the review meeting, a Zonal Monthly Performance Report is prepared in the third week and the copies thereof do not reach the enterprises before the last week of the month. The report is sent to the enterprise head who forwards them to the accounts department. In case of serious discrepancy between the budget target and actual performance, the enterprise head discusses the matter with the production head, sales head and other departmental heads. But, in general, these reports are kept in the file. These are hardly read carefully by anybody and therefore, corrective measures do not follow therefrom. As such, review meetings become somewhat of a post mortem and ineffectual.

The response scores of the managers regarding the above five dimensions of timeliness were summed up. The following table drawn up on the basis of these scores, shows the managers' responses regarding timeliness in the process of budgeting.

Responses of managers regarding timeliness.

Budget Characteristic: Timeliness Type of Managero	Timely	Not timely	Total
Enterprise Head	12 (63.16)	7 (36.84)	19 (100)
Production Head	11 (57.89)	8 (42-11)	19 (100)
Sales Head	10 (52.63)	9 (47.37)	19 (100)
Total:	33 (57.89)	24 (42.11)	57 (100)

(Figures in brackets are row-percentages)

From the above table it can be seen that about 50% of the respondents felt that timeliness was observed in the process of budgeting while 42% stated that timeliness was not observed. About 63% of the enterprise heads, 50% of the production heads and 53% of the enterprise heads, 42% of the production heads and 47% of the sales heads felt that timeliness was not followed in the budget process. Of the sanagers who felt that timeliness was followed in the budget process, about 37% belonged to the category of enterprise heads, 33% to the category of production heads and 30% to the category of sales heads. Of the managers who stated that the timeliness was not observed, about 29% belonged to the category of enterprise heads, 33% to the category of production heads and 38% to the category of sales heads.

From the data presented in the foregoing tables it can be said

that a majority of the managers felt that timeliness was observed in

the issue of budget guidelines, in preparation and submission of budget

and performance reports, and in performance review. But all the managers

observed that timeliness was not followed in the approval of budget.

This is likely to hinder the acceptance and use of budgets.

4.4 Follow-Np.

The proparation of a budget will not assure success unless the performance is followed up. Reports should be prepared at frequent intervals throughout the year. These should highlight the areas needing managerial attention for action. Every level of management should receive a report of its own performance and summaries of the reports of the level immediately below it.

The reports should be promptly used by having the variances analysed and the reasons behind the variances traced out. A manager should not only explain variances and their reasons but must also state that he is going to do about them. Progress in these areas should be checked in subsequent periods. If the prevailing conditions necessitate change in decisions or plane or policies, this should not be neglected. Top management should play an effective role in follow-up phase.

The purposes of follow-up may be summed up as follows:

- *(1) In the case of poor performance, to lead in a constructive manner to immediate corrective actions;
- (2) In the case of outstanding performance, to recognize it and perhaps provide for a transfer of knowledge to similar operations;

(3) To provide a basis for improved planning and control in the future. "18

A.M.A. Rahim found that senior manager's follow-up is one of the important factors that support managers' use of their budgets and information. 19 Hofstede found that the extent to which information was used depended primarily on whether managers participated in budget setting and less on follow-up. He concluded as follows:

mentioned budget and budget variances or figures expressing technical efficiency results frequently, seldom or never. The answer to this question appeared to be strongly correlated with budget motivation: they were significantly positively correlated with both measures of budget relevance and both measures of budget attitude, and second in weight for determining budget motivation to budget participation only."20

Although they differ in emphasis, it is significant that both Rahim's study and that of Hofstede identify the same variables as important.

Follow-up is necessary at all levels of management. This is to be done at department level by the enterprise heads, at enterprise level by the zonal authorities and at the corporation level by the Ministry of Jute. In other words, follow-up is done by the superior authority in the management hierarchy.

^{18.} Glenn A. Welsch, op.cit., p. 38.

^{19.} A.M.N. Rahim, op.cit., p. 392.

^{20.} G.H. Hofstede, op.cit., p. 251.

Responses of managers regarding extent of follow-up at department level were as follows:

Responses of managers regarding the extent of follow-up at department level.

	Type of managers	Enterprise Head	Production Head	Sales Head	Total
	Very Often	3 (15.79)	0	0	\$ (5.26)
Extent of	Often	16 (84.21)	18 (94.74)	13(68.42)	47 (82.46)
Follow-up at depart-	Sometimes	0	1 (5.26)	3(15.79)	4 (7.02)
ment level	Sel dom	0	0	3(15.79)	3 (5.26)
	Never	0	0	0	0
		19 (100)	19 (100)	19 (100)	57 (100)

(Figures in the brackets are column percentages)

From the above table, it can be seen that about 5% of the managers interviewed felt that the budget is very often followed up, while 85% felt that the same is often followed-up and 7% felt that the same is sometimes followed up. A small proportion (5%) of managers felt that follow-up seldom takes place. These managers, therefore, felt that the budget follow-up is more or less regular.

Responses of managers regarding extent of follow-up at enterprise level mere as follows:

Responses of managers regarding the extent of follow-up at enterprise level.

	Typs of managers	1	terpfise Head	P	Read		Sales Read	To	tal
	Very Often		0		0		0		0
Extent of Follow-up	Often	17	(89.47)	18	(94.74)	11	(57.90)	46(80.70
at enter- prise level.	Sometimes	2	(10.53)	1	(5.26)	4	(21.05)	7(12.28
	Seldon	0		0		4	(21.05)	4(7.02
	Never	0		0	A STATE OF THE STA	0		0	P
Total :		19	(100)	19	(100)	19	(100)	57	(100)

(Figures in the brackets are column percentages)

interviewed felt that follow up at enterprise level by the zonal and corporation authorities often takes place, while about 12% of them felt that the same is sometimes done and 7% felt that follow up at this level is seldem done. Sales heads seem to have the epinion that there is less budget follow up. This may be due to the fact that very little feedback reaches them.

At the enterprises where the main focus of attention is on achieving the production targets, none of the managers interviewed reported
follow-up to be very often. This is an indication of some sort of indifference to increasing the production by achieving the targeted result
on the part of the zonal and corporation management. If the corporation
and zonal offices are not seriously interested in augmenting production,

enterprises can not be blamed if they show slackness. From the above tables the respondents' responses to budget follow-up can be summed up as under:

Table No. 4.9

Responses of managers

to budget characteristic: follow-up.

Budget Characteristic: Follow-up Po managers	Regular	Irregular	Total
Enterprise Head	18 (94.74)	1 (5.26)	19 (100)
Production Head	18 (94.74)	1 (5-26)	19 (100)
Sales Head	12 (63.16)	7 (36.84)	19 (100)
Total:	48 (84,21)	9 (15.79)	57 (100)

(Figures in brackets are row-percentages)

From the above table it can be seen that about 84% of the respondents fult that follow-up of budgets was regular while 16% felt that the same was irregular. About 95% each of the enterprise heads and production heads and 65% of the sales heads perceived the follow-up of budgets as regular while about 5% each of the enterprise heads and production heads and 37% of the sales heads perceived the same to be irregular. Of the managers who stated the follow-up to be regular, 37.5% each belonged to the category of enterprise heads and production heads and 25% to the category of sales heads. On the other hand, managers who felt the follow up to be irregular, 11% each belonged to the category of the enterprise heads and production

heads and the remaining 78% to the category of sales heads. Enterprise heads and production heads felt the follow-up most because the top management at the corporation level put emphasis on their areas of operation.

From the data it may be said that a majority of the managers viewed the follow-up to be regular. It may be noted that during the early part of the budget period when approved budgets were not available, follow up was done on the basis of draft budgets submitted to the corporation and budget guidelines received from it.

In conclusion, it will be worth while to summarise the findings of this chapter. A majority of managers interviewed (81%) viewed the budget to be inflexible while 84% of managers considered the budget to be unattainable. Although 58% of the managers felt that timeliness was observed in the process of budgeting, all the managers interviewed reported that timeliness was not observed in the approval of budgets. A sizeable proportion (84%) of the managers viewed the follow-up to be regular, but felt that there are snags in the follow-up process. All these have implications for the acceptance and use of budgets by the managers.

with these discussions on budget characteristics, we proceed to discuss the acceptance and use of budgets by the managers and their relationship to budget characteristics of flexibility, attainability, timeliness and follow-up in the next chapter.

CHAPTER - Y

ACCEPTANCE AND USE OF BUDGET

5.1 Introductory.

managers' acceptance and use of budget as a tool of management. This chapter explores the acceptance and use pattern of budget and identifies two patterns of acceptance namely 'high acceptance' and 'lew acceptance' and two patterns of use namely 'high use' and 'low use' on the basis of the data collected. The relationship between acceptance and use and the relationship between these and budget characteristics of flexibility, attainability, timeliness and follow-up are also explored.

Budget is a tool of management. But, it is an inanimate thing.

It is brought to life by managers who are the leaders of the organisation.

Managers play a crusial role in the overall development of an organisation.

"The manager is the dynamic, life giving element in every business. Without his leadership 'the resources of production' remain resources and never become production. In a competitive economy, above all, the quality and performance of the managers determine the success of a business, indeed they determine its survival." Drucker identified three jobs of managements managing a business, managing managers and managing worker

^{1.} W.D. Knight and E.H. Weinwurm, op.cit., p. 5.

G. H. Hofstede, op.cit., p. 22.

Walter R. Bunge, Hanagerial Budgeting for Profit Improvement, N.Y., McGraw-Hill Book Company, 1968, p. VII.

Adrian Buckley and Eugene McKenna, "Budgetary Control and Buckness Behaviour" in L.S. Rosen (Ed.), Topics in Managerial Accounting, 2nd edition, Toronto, McGraw-Hill Ryerson Ltd., 1974, p. 43.

^{2.} Peter F. Drucker, The Practice of Hamagement, London, Heinemann Ltd., 1979, p. 3.

and work. In performing these jobs a manager sets objectives and goals, organises, motivates and communicates, measures performance and develops people.

A manager can use budget as a tool in performing all the managerial functions. He can use budget for quantifying the objectives and goals of the organisation, to assign specific functions to the people within it to achieve the goals, to motivate and communicate, to measure the performance of the people and to train them in developing scientific approach to management. Budget, thus is an important tool in the hands of managers. Unless it is accepted and used by them, it loses much of its value.

Chris Argyris, V. Bruce Irvine, Heiser, Y. Adjepong Boatang, Solm Perrin, A.H.A. Rahim on and Dumbar to stressed the importance of acceptance and use of budget. The mechanical and technical aspects of

^{3.} Ibid., p. 15.

^{4.} Ibid., pp. 337-338.

^{5.} Chris Argyris, "Human Problems with Budgets", Harvard Business Review. Vol. 31, No. 1., January, 1953.

^{6.} V. Bruce Irvine, op.oit., p. 76.

^{7.} Herman C. Heiser, op.cit., p. 130.

^{8.} Y. Adjepong Boatang, "Application of Budgeting Control in Industry:
A Tool of Management", Unpublished M.Sc. Thesis, Manchester University,
1965, p. 12.

^{9.} John Perrin, "Budgetary Planning and Control in the British Industry", Unpublished Ph.D. Themis, University of London, 1958, pp. 15-16.

^{10.} A.M.A. Rahim, op.cit., pp. 17-18.

^{11.} Roger L.N. Dunbar, "Budgeting for Control", Administrative Science Quarterly, Vol. 16, 1971, p. 89.

budget is not likely to yield the desired result if the human aspect is ignored. Budget "is prepared by people, revised by people and its requirements must be met by people". 12 It has been rightly suggested that "human behavior has implications for budgeting and also that budgeting has implications for human behavior". 13 Because of the behavioural implications of budgets, their acceptance and use are crucial for successful budgeting. The benefits of budgetary control can be obtained through proper acceptance and use. This has been aptly stated by A. M. A. Rahim in the following language: "Budgetary control, on the other hand, is the process of management control through the budget and the periodic information. As such it is management who controls and not the budget. Therefore, there is no such thing as budgetary control if it is to be taken literally, on the other hand, if the term is to be taken to mean the process of managerial control through the budget, then and only then there is such a thing called budgetary control". Chris Argyris also referred to the problems of getting budgets accepted. He advocated real participation as against pseudo-participation and training in human relations for the finance staff to overcome the problems of budget acceptance.

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^{12.} Ronald Beddingfield, "Human Behavlour - The Key to Success in Budgeting", Management Accounting, L1, (September, 1969), p. 54.

^{13.} Robert J. Swieringa and Robert H. Moncur, "The Relationship between Managers' Budget Oriented Behavior and Selected Attitude, Position, Size and Performance Neasures", Empirical Research in Accounting: Selected Studies, 1972 Supplement to the Journal of Accounting Research, p. 194.

^{14.} A.M.A. Rahla, op.cit., pp. 15-16.

^{15.} Chris Argyris, op.cit.

Budgetary control in itself is not a control but a means of control available to the manager who may or may not use it for control. He may use his experience or other media in place of budget. The difference between the use and non-use of budgetary control is similar to the difference between using a scientific method and relying on mere experience. Under the scientific method the experience is utilised in a systematic and rigorous way in place of the haphazard use of past performance or experience. Budgetary control does not disregard experience altogether, it reinforces experience and emphasises its use in a dystematic way. Thus, budgetary control is a volitional system. 16 Moreover, budgetary control makes the organisation effective. Budgets thus can be viewed as an effectiveness system rather than a survival system for the organisation. 17 The survival system includes activities necessary for the survival or existence of the system whereas the effectiveness system may be defined as "a pattern of interactions among the elements of the system which would make it more effective in the service of a given goal." 18

^{16.} Peter F. Drucker, Controls, Control and Management in C.P. Bonini, R.K. Jaedicke and H.M. Wagner (Editors), Management Controls, N.Y., McGraw-Hill Book Company, 1964, p. 287.

^{17.} Amitai Etzioni, "Two Approaches to Organisational Analysis:
A Gritique and a suggestion" in Bobbs-Nerrill Reprint Series in
the Social Sciences 8-80. Reprinted by permission of Administrative Science Quarterly. Vol. 5, (Sept. 1960), pp. 257-278.

^{18.} Ibid. p. 272.

5.2 Empirical studies on the use of budgets.

A number of studies was undertaken to examine the use of budgets, more specifically the impact of their use in performance evaluation.

The results of a few selected studies have been cited here.

A.M.A. Rahim¹⁹ conducted research in the field of industrial managers' acceptance and use of budgetary control techniques following an empirical approach. He conducted research in factories associated with the paper industry. They were glunted in different parts of the United Kingdom, in the South and North England and Wales. They were under the ownership of a holding company. Excepting the holding-subsidiary relationship, the factories had different technologies, products, sizes, budgetary systems and management. His findings show that only 5% of managers in the factories atudied use their budgetary information, with only 14% using it in accordance with the theory and 41% using it only in a limited sense. 20

The findings of his study suggest that manager's use of budgetary information is facilitated by factors such as: educational status of the manager, training in budgets, long experience in budgets, participation in budget-setting, senior manager's follow-up, accountant's rele as an interpreter and the budget being percedved by the manager concerned as practical. His study also revealed that factors which hinder or limit use are: poor education, lack of training in budgets, short experience in budgets, non-participation in budget-setting, non-follow up,

^{19.} A.M.A. Rahim, op.cit.

^{20.} Ibid, p. 7.

non-provision of information, non-provision of interpretation service by the accountant, and long experience without budgets. 21

The implications of the results of Rahim's study is that emphasis should be placed on such questions as to how best to ensure that managers are appropriately trained and how effectively to notivate them to study and to act on their budgetary control information apart from techniques of budgeting and the lay-out of budgetary information.

Rahman²² in an investigation of the use of budgets by managers observed that the high use managers tend to use the budget more as an end than as a means. While the lew-use managers tend to use the budget more as a means than as an end. ".... the means type managers maintain an attitude of using a budget as a guideline. They consider the budget as a facilitating link which helps them to aim at pre-selected target. The acidevement of pre-defined aims can be guided and explained by the budget, and not restricted to it. Therefore, the budget constraints do not cause any goal displacement in the case of means-type managers.

Contrarily the end-types construct their system of goals within budget constraints. The achievement of the budget becomes a matter of their immediate concern. The bounds of budgets fix the targets for him to aim at. His aim is limited within the budget constraints."25

Thus, M. Rahman's study established two types of budget use, namely, the means tupe (M-type) and the end-type (E-type) and related them to the accounting information use styles of managers.

^{21.} Ibid, pp. 392-393.

^{22.} Mawdudur Rahman (1976), op. cit.

^{23.} Ibid, p. 173.

Hopwood distinguished between a Budget Constrained (B.C.) use of accounting information and a Profit Conscious (P.C.) style. Under B.C. style, meeting the budget requirements was the single most important criterion in a superior's evaluation of his subordinates. In case of Profit Conscious (P.C.) style, the manager's performance is evaluated on the basis of longer run effectiveness of the organisation. His study indicated that a rigid Budget Constrained (B.C.) style was associated with high degree of job-related tension, poor relationships with both peers and subordinates and dysfunctional behaviour such as the manipulation of accounting data, whereas the more flexible Profit Conscious (P.C.) style had no such associations. He therefore, concluded that the flexible use style of budget was likely to lead to more effective organisational performance.

A subsequent study by Otley²⁵, using comparable measures, revealed no such associations and esened to suggest that the rigid style was more likely to lead to better performance than the more flexible etyle. The situational differences of the two studies might have contributed to such contradictory findings. Hopwood's study was based on responsibility (cost) centres in an integrated steel works which had extensive interdependence on each other. Otley's study involved responsibility (profit) centres in the coal mining industry which were for all practical purposes, independent of each other. Extensive inter-dependence of responsibility centres seemed to favour flexible use of budgetary information while

^{24.} A.G. Ropwood, An Empirical Study of the Role of Accounting Data in Performance Evaluation, Empirical Research in Accounting.

Supplement to Journal of Accounting Research, 1972, pp. 156-82.

^{25.} D.T. Otley, Budget Use and Managerial Performance, Journal of Accounting Research, Vol. 16, No. 1, Spring, 1978, pp. 122-49.

independence of responsibility centres appeared to favour rigid use.

Hopwood's and Otley's studies were concerned with use styles of budget keeping in view the evaluation of managerial performance.

The results of Otley's study predict the need to develop a more contingent theory of budgetary control based on differences in organisational types, the environmental circumstances in which they operate and the norms and values current both within the organisation itself and the society in which it is set. Otley²⁶ and Ginzberg²⁷ further expounded the contingency theory of management accounting.

This study is concerned with the acceptance and use of budgets by managers working in the composite jute mills under B.J.M.C. In the following three sections managers' acceptance and use of budgets are discussed and the relationship between acceptance and use of budgets is investigated.

5.3 Acceptance of budgets by the managers of composite jute mills in Bangladesh.

Acceptance of budgets by managers is extremely important. When the managers accept the budgets, they are likely to commit themselves to the implementation of the budgets and are likely to contribute creatively to the accomplishment of budget goals and voluntarily adjust their behaviour to achieve the budget targets. In the absence of such acceptance they are likely to ignore the budgets or work against their implementation.

^{26.} D.T. Otley, The Contingency Theory of Management Accounting:
Achdevement and Prognosis, Accounting, Organisations and Society,
Vol. 5, No. 4, 1980, pp. 413-428.

^{27.} Michael J. Ginzberg, An Organizational Contingencies View of Accounting and Information Systems Implementation, Accounting, Organizations and Society, Vol. 5, No. 4, 1980, pp. 369-382.

On the banks of the measurement discussed in 2.2, the following table shows the acceptance pattern of budgets of the sample managers.

Table No. 5.1

Acceptance pattern of budgets of the managers.

Acceptance pattern Type of managers	Hi gh	Low	Total	Level of signi- ficance
Enterprise Head	7 (36.84)	12 (63.16)	19 (100)	
Production Head	6 (31.58)	13 (68.42)	19 (100)	Not Significant
Sales Head	5 (26.32)	14 (73.68)	19 (100)	at .05 level.
Total :	18 (31.58)	39 (68,42)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it is evident that about 32% of the managers interviewed perceived high acceptance while 68% perceived low acceptance. About 37% of the enterprise heads, 32% of the production heads and 26% of the sales heads reported high acceptance whereas 63% of the enterprise heads, 68% of the production heads and about 74% of the sales heads recorded a lew degree of acceptance. Of the managers who perceived high acceptance, about 39% belonged to the category of enterprise heads, 53% to the category of production heads and 28% to the category of sales heads. Of the managers who perceived low acceptance, about 31% belonged to the category of enterprise heads, 53% to the category of production heads and about 36% to the category of production heads and about 36% to the category of sales heads.

Budget acceptance seemed not to be related significantly to the typs of managers (Chi-square = .49, not significant at .05 level). That is high acceptance and low acceptance of budgets by the managers were independent of their type.

5.4 Use of budgets by the managers of composite jute milis in Bengladesh.

Acceptance of budgets should be followed by proper use of budgets.

Managerial use of budgets is the key to successful budgeting. Budgets

may be used in discharging the various functions of management. The

use dimensions that have been considered are as follows:

- i) use of budgets for planning the activities of the enterprise/
- ii) use of budgets for controlling operations of the enterprise/ department,
- iii) use of budgets for evaluating the performance of the enterprise/
 - iv) use of budgets for self-evaluation,
 - v) use of budgets for evaluation of subordinates,
 - vi) use of budgets for co-ordination of the activities of the enterprise/department,
- vii) use of budgets for cost control and cost reduction,
- viii) use of budgets for ecanony and efficiency,
 - ix) use of budgets for increasing the profitability of the enterprise,
 - x) use of budgets for motivating the employees to achieve the budget targets,
 - mi) use of budgets for facilitating communication throughout the organisation.

In other words, the use of budgets as a tool of management is emphasised.

It is through managerial use that the budgets can yield the desired benefits. Proper use of budgets seems to be dependent on a number of variables. The stress on use without taking into cognizance the variables that affect use, is likely to yield no effective result.

As already mentioned, managers' responses regarding each dimension of budget use were scored on a 5-point scale. A manager was rated to have 'high use' in respect of a dimension if his score on the dimension was in the range of 4 to 5. On the other hand, he was rated to have 'low use' if his score on the dimension was in the range of 1 to 2. The score of 3 was treated as mentral. Managers' responses regarding the various use dimensions of budgets are discussed below.

department. Budgets may be used for planning the activities of the various departments of an enterprise. The activities are to be planned within the framework of the macro-level planning done at the corporation head office. Planning and budgeting goes together: one implies the other. Plans made are translated into money terms, and in this way they become budgets. At the enterprise level, there is a great need for planning the activities like production, procurement of raw-jute and other consumable items, hiring of workers, production facilities, sale of finished goods and cash-flow. Managers' responses regarding the use of budgets for planning the activities of the enterprises and its various departments have been shown in Table 5.2.

^{28.} Johan Galtung, Theory and Methods of Social Research, Oalo, Universitets for laget, New York, Columbia University Press, 1967, pp. 96-97.

Responses of managers regarding the use of budgets for planning.

Use of budgets for planning Type of managers	High	low	Total
Enterprise Head	6 (31.58)	13 (68,42)	19 (100)
Production Head	5 (26.32)	14 (73.68)	19 (100)
Sales Head	1 (5.26)	18 (94.74)	19 (100)
Total:	12 (21.05)	45 (78.95)	57 (100)

(Figures in brackets are row-percentages)

From the above table, it can be said that only 20% of the managers interviewed felt the use of budgets for planning to be high while a majority (79%) of them felt the use of budgets for planning to be low. The preponderance of low use of budgets is due to the fact that at the enterprise level the planning activity has not been taken seriously. Departmental heads are not seriously involved in planning. Most of the managers are technical hands or generalists directly recruited at various levels and have no training in budgeting and its value. As such they are lukewarm to budgetary planning. As the managers are not involved in macro-planning, they do not take the micro-planning seriously and remain uncommitted. They are only marginally involved in planning. This becomes evident when production is hampered due to shortage of spare-parts, paucity of funds to procure jute at harvesting season and consequent procurement of jute at

high cost during offseason, shortage of baling materials and frequent changes in production plans etc.

departments Budgets may be used for controlling the activities of the enterprise. Budgets may be used for controlling the activities of the enterprise. Budget contain standards of performance. An analysis of the actual performance against these standards brings to light the variances which indicate the need for corrective action. Unless the managers investigate the variances and take necessary corrective action, the budgets do not become useful as control device. At the enterprise level, budgets can be used for controlling the various activities. Managers' responses in respect of the use of budgets for controlling the activities of the enterprise and its various departments have been shown in Table 5.3.

Managera' responses regarding the use of budgets for controlling the activities of the enterprise/department.

Toe of budgets for control The manager	Hi.gh	Low	Total
Enterprise Head	5 (26,32)	14 (73.68)	19 (100)
Production Head	4 (21.05)	15 (78.95)	19 (100)
Sales Head	2 (10.53)	17 (89.47)	19 (100)
Total:	11 (19.30)	46 (80,70)	57 (100)

(Figures in brackets are row-percentages).

The above table shows that 19% of the managers interviewed reported high use of budgets for controlling the activities of the enterprise while about 84% of them reported low use of budgets for control. Managers at the enterprise level make little use of budgets for controlling the activities as they perceive the budget standards as unattainable. Moreover, the absence of adequate participation in the planning phase hinders the use of budgets in the control phase. The low use of budgets for control becomes evident by budget reports which show continuous unfavourable variances. The use of budgets for control purposes is hindered by non-controliable factors like power failure, strike, poor market demand etc. Lack of proper corrective action at the corporation level sometimes impede the control of operations at the enterprise level. Rehman Sobhan and Musaffer Ahmad put it this way: ".... the corrective action takes time and thus becomes ineffective except in a crists where a particularly concerned manager forces the corporation to action. Thus there has been enough administrative control but not enough scientific control to ensure better performance in the enterprise. "29 In a situation like this, it is not surprising that the use of budgets for control is at a minimum. Limited delegation of decision-making authority and excessive centralised control also contribute to such a state of affairs. The absence of timely budget reports at the departmental level also hinders the use of budgets for control. The accounts department remains busy in preparing financial accounts and in preparing reports for corporation and sonal office and do not have time to prepare reports for departmental managers. Even the

^{29.} Rehman Sobhan and Muzaffer Ahmad, op.cit., pp. 328-29.

copies of budget reports prepared for corporation and zonal offices are not made available to them.

department. Budgets may be used for evaluating the performance of the enterprise and its various departments. Budgets contain standards against which the performance of the various departments and the enterprise as a whole can be evaluated. Managers' responses regarding use of budgets for evaluating the performance of the enterprise and its various departments have been shown in Table 5.4.

Response of managers regarding the use of budgets for evaluating the performance of the enterprise/department.

Use of budgets for evaluating the per- formance of the enterprise/ department	High	Low	Total
Enterprise Read	10 (52.63)	9 (47.37)	19 (100)
Production Head	9 (47.37)	10 (52,63)	19 (100)
Production Head	9 (47.37) 7 (36.84)	10 (52,63) 12 (63,16)	19 (100) 19 (100)

(Figures in brackets are row-percentages)

The above table shows that 45.61% of the respondents felt that the use of budgets for evaluating the performance of the enterprise/department was high while 54.39% of them reported low use of budgets for evaluating

the performance of the enterprise/department. In the absence of other criteria for evaluating performance of the enterprise and its various departments, managers use budgets as a tool for evaluating the performance of the enterprise. But a majority of the managers (54.39%) does not use budgets for evaluating the performance of the enterprise and its department. This may be due to non-use of the budgets by top-management for evaluating the performance of the enterprise and its departments.

Managers, who evaluate the performance of their enterprises and departments on the basis of budgets, do so for deriving a satisfaction of accomplishment or for improving their future performance.

(iv) Use of budgets for self-evaluation. Budgets may be used for self-evaluation. This type of evaluation is likely to meet the managers' need for achievement. Self-evaluation may make managers satisfied for /performance good/or eager to take necessary steps for self-correction in case of unsatisfactory performance. Managers' responses regarding use of budgets for self-evaluation have been shown in Table 5.5.

Responses of Managera regarding the use of budgets for self-evaluation.

for self- evaluation	H i gh	Low	Total
f managers Enterprise Head	6 (31.58)	13 (68,42)	19 (100)
Production Head	5 (26.32)	14 (73.68)	19 (100)
Sales Hend	5 (26.32)	14 (73.68)	19 (100)

(Mgures in brackets indicates row-percentages)

The above table shows that 28.07% of the managers interviewed reported high use of budgets for self-evaluation while 71.93% of them reported low use of budgets for the said purpose. It seems that the managers with high need for achievement use budgets for self-evaluation while managers with low need for achievement make low use of budgets for self-evaluation.

(v) Use of budgets for evaluation of subordinates. Budgets may also be used for evaluation of subordinates. The evaluation of subordinates may enable the superior managers to recognise the performance of their subordinates and to suggest ways for improving their performance in case of unsatisfactory performance.

Managers' responses regarding the of budgets for evaluation of subordinates' performance have been shown in Table 5.6.

Responses of managers regarding the use of budgets for evaluation of subordinates.

Vae of budgets for subordinate evaluation pe managers	H i gh	Low	Total
Enterprise Head	5 (26.32)	14 (73.68)	19 (100)
Production Head	4 (21.05)	15 (78.95)	19 (100)
Sales Head	2 (10.53)	17 (89.47)	19 (100)
Total :	11 (19.30)	46 (80.70)	57 (100)

(Figures is brackets are row-percentages)

The above table shows that 19.30% of the respondents reported high use of budgets for subordinate-evaluation while 80.70% of them indicated low use of budgets for the said purpose. The low use of budgets for evaluation of subordinates' performance is due to the fact that the budget performance does not form the basis for formal performance appraisal. Subordinates are evaluated on the basis of Annual Confidential Reports (Appendix-10) prepared by their superiors. The Annual Confidential Reports rarely take cognisance of performance vis-x-vis budgets.

prise/department. Budgets may be used for co-ordinating the activities of the departments and those of the enterprise. The preparation of budget guidelines and meetings on discussion and finalisation of budgets seek to bring about necessary co-ordination in the activities of the various departments and thereby ensure devetailing of the activities of the enterprises.

Co-ordination is usually brought about in the planning phase. Managers' responses in respect of use of budgets for co-ordination of the activities of the enterprises.

Responses of managers regarding the use of budgets for co-ordinating the activities of the enterprise/department.

for co-ordination pe	H1 gh	Low	Total
Enterprise Head	10 (52.63)	9 (47.37)	19 (100)
Production Head	8 (42.11)	11 (57.89)	19 (100)
Sales Head	6 (31.58)	13 (68,42)	19 (100)
Total 1	24 (42.11)	33 (57.89)	57 (100)

(Figures in brackets are row-percentages)

The above table shows that 42.11% of the managers interviewed reported high use of budgets for co-ordination of activities at the department and enterprise level while 57.89% of them reported low use of budgets

for co-ordination. A majority of enterprise heads (53%), 42% of production heads, and 32% of the sales heads felt the high use of budgets for co-ordination of activities while 47% of the enterprise heads, 58% of the production heads and 68% of the sales heads reported low use of budgets for co-ordination. A majority of managers (57.89%) reported low use of budgets for co-ordination. This may be due to lack of participation in the process of budget development and the incongruity between different budgets. Lack of knowledge regarding the mechanism of budget co-ordination may also contribute to such feelings.

(vii) Use of budgets for cost control and cost reduction. Budgets may be used for cost control. They embody cost standards. If there is an unfavourable deviation from such standards, managers may take necessary steps to keep cost down to the standards. Cost reduction can be effected by re-examination of existing cost standards and revising the same downward wherever feasible. Several studies have suggested that there is scope for substantial cost reduction through effective utilisation of resources at the disposal of the industrial enterprises in Bangladesh. Hanagers' replies regarding the use of budgets for cost control and cost reduction have been shown in Table 5.8.

^{30.} M. Habibullah, Santi N. Ghosh, Helalussaman and N.A. Quddus, Government Subaidy to Jute Industry, A Study conducted by the Planning Commission, Government of Bangladesh, 1978 (Unpublished).

M. Habibullah, Industrial Efficiency and Profitability in Bangladesh, Bureau of Economic Research, University of Dacca, 1974.

M. Habibullah, Santi N. Ghosh and M.A. Quddus, Management Motivation through Result-Based Reward System, Dacca, Bangladesh Management Development Centre, 1981.

Responses of managers regarding the use of budgets for cost control and cost reduction.

Use of budgets for cost control and cost reduction Type f managers	***************************************	High	0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	Low	To tal.
Enterprise Head	11	(57.89)	8	(42,11)	19 (100)
Production Head	10	(52.63)	9	(47.37)	19 (100)
Sales Head	9	(47.37)	10	(52.63)	19 (100)
Total :	30	(52.63)	27	(47.37)	57 (100)

(Figures in brackets are few-percentages)

The above table shows that 52.6% of the managers interviewed reported high use of budgets for cost control and cost reduction while 47.37% of them reported low use of budgets for cost control and cost reduction.

Managers' responses regarding high use of budgets for cost control and cost reduction is due to the fact that the top management is putting great emphasis on cost control and cost reduction for increasing the competitive strength of jute goods in the foreign market. Cost reduction committees have been forsed for all the enterprises under the corporation and have started functioning.

(viii) Use of budgets for economy and efficiency. Budgets may be used for bringing about economy and efficiency in the operations of the enterprises. Managers' responses regarding the use of budgets for economy and efficiency have been shown in Table 5.9.

Responses of managers regarding the use of budgets for economy and efficiency.

for economy and efficiency pe managers	Hi gh	Low	Total
Enterprise Head	10 (52.63)	9 (47.37)	19 (100)
Production Head	10 (52.63)	9 (47.37)	19 (100)
		40 (== (=)	19 (100)
Sales Head	9 (47-37)	10 (52.63)	15 (100)

(Figures in brackets are row-percentages)

From the above table it can be said that 50.88% of the respondents reported high use of budgets for economy and efficiency while 49.12% of them indicated low use of budgets for economy and efficiency. As emphasis is placed on use of budgets for cost control and cost reduction, it is quite natural that a similar emphasis is placed on economy and efficiency. This seems to have influenced the responses of managers.

(ix) Use of budgets for increasing the profitability of the enterprise.

Budgets may be used for increasing the profitability of the enterprises.

Managers' responses regarding use of budgets for increasing the profitability of the enterprises have been shown in Table 5.10.

Table No. 5. 10

Responses of managers regarding the use of budgets for increasing the profitability of the enterprises.

Use of budgets for increasing profitability			† † † † †
nada gers	High	Low	Total
Enterprise Head	8 (42,11)	11 (57.89)	19 (100)
Production Head	4 (21.05)	15 (78.95)	19 (100)
Sales Head	5 (26.32)	14 (73.68)	19 (100)
Total :	17 (29.82)	40 (70, 18)	57 (100)

(Figures in brackets are row-percentages)

The above table shows that 29.82% of the managers interviewed reported high use of budgets for increasing the profitability of the enterprises while 70.18% of them felt that there was low use of budgets for increasing the profitability of the enterprises. The preponderance of lew use of budgets for increasing profitability of the enterprises may be due to a feeling that the principal goal of industrial enterprises under the public sector is not earning of profit. The losses suffered by the enterprises in the past and the tough competition they are facing in the overseas market seem to have influenced the responses of managers.

(x) Use of budgets for metivating the employees to achieve budget targets. Budgets may be used for notivating the employees to achieve the budget targets. Hanagers' responses regarding the use of budgets

for motivating the employees to achieve the budget targets have been shown in Table 5.11.

Responses of managers regarding the use of budgets for motivating the employees to achieve budget targets.

Use of budgets for motivation pe managers	Hi.gh	Low	Total
Enterprise Head	6 (31.58)	13 (68,42)	19 (100)
Production Head	9 (47-37)	10 (52.63)	19 (100)
Sales Head	5 (26.32)	14 (73.68)	19 (100)
Total :	20 (35.09)	37 (64.91)	57 (100)

(Figures in brackets are row-percentages)

From the above table it can be seen that 35.09% of the managers interviewed reported high use of budgets for motivation while 64.91% reported low use of budgets for the said purpose. The preponderance of low use of budgets for motivation is due to the absence of reward for achievement of budget targets or punishment for non-achievement thereof.

organisation. Budgete may be used for facilitating communication throughout the organisation. The budget process is likely to open up communication links between the corporation and the enterprises on the one hand and also among the various departments of the enterprises. Managers' responses in respect of use of budgets for facilitating communication

have been shown in Table 5.12.

Responses of managers regarding the use of budgets for facilitating communication.

Use of budgets for facilitating communication per managers	r Hilgh	Low	Total
Enterprise Head	8 (42.11)	11 (57.89)	19 (100)
Production Head	4 (21.05)	15 (78.95)	19 (100)
Sales Hoad	4 (21.05)	15 (78.95)	19 (100)
Total	16 (28,07)	41 (71.93)	57 (100)

(Figures in brackets are row-percentages)

The above table shows that 28.07% of the respondents made high use of budgets for facilitating communication within the enterprise, while 71.93% reported low use of budgets for the said purpose. Low use of budgets for planning and controlling coupled with low participation seems to affect the use of budget as communication device.

A majority of the managers reported low use of budgets for planning, controlling, evaluation of performance of the enterprise, self-evaluation and evaluation of subordinates, co-ordination, increasing profitability, motivation and communication. On the other hand, a majority of the managers interviewed reported high use of budgets for cost control and cost reduction and for economy and efficiency. These cannot be achieved

without proper planning, co-ordination and control. So, high use in these areas is not likely to yield the desired result by neglecting the other use of budgets. It can be concluded that a majority of the managers has falled to appreciate the use of budgets as a tool of management.

On the basis of the measurement discussed in 2.2, the following table shows managers' use pattern of budgets.

Table No. 5.13

Managers | Use pattern of budgets.

Use pattern Type of managers	High	Low	Total	Level of significance
Enterprise Head	8 (42.11)	11(57.89)	19 (100)	Chi-square = 1.11
Production Head	6 (31.58)	13(68,42)	19 (100)	Not significant at
Sales Head	5 (26.32)	14(73.68)	19 (100)	.05 level.
Total :	19 (33.33)	38(66.67)	57 (100)	

(Figures in brackets are row-percentages)

From the above table, it is clear that 3% of the managers interviewed reported high use while about 67% of them reported low use.

Forty-two percent of the enterprise heads, about 32% of the production heads and 26% of the sales heads reported high use while about 58% of the enterprise heads, 68% of the production heads and 74% of the sales heads reported low use. Of the managers who reported high use of budgets, 42% belonged to the category of enterprise heads, about 32% to the cate-

gory of production heads and 26% to the category of sales heads. Of the managers who reported low use, about 29% belonged to the category of enterprise heads, 34% to the category of production heads and about 37% to the category of sales heads.

Budget use seemed not to be related significantly to the type of managers (Chi-square 1.11, not significant at .05 level). In other words, high use and low use of budgets by the managers were not related to their type.

5.5 Relation between budget acceptance and budget use.

Acceptance of budgets is likely to result in their better use. In other words, there is likely to be a close relationship between the acceptance and use of budgets by managers. The following table shows the relationship between acceptance and use of budgets by managers.

Relationship between the acceptance pattern and use pattern of budgets by managers.

Acceptance pattern Wse pattern	High	Low	Total	Level of significance
Hi.gh	12	7	19	Chi-square = 13.15
Low	6	32	38	Significant at
Total:	18	39	57	

From the table it can be seen that of the 57 managers intorviewed, twelve managers (21%) reported high acceptance and high use, while thirty-two of them (57%) reported low acceptance and low use. Seven of them (12%) reported low acceptance but high use while six of them (11%) stated high acceptance but low use.

There was a significant relationship between the acceptance and use patterns of budgets (chi-square = 13.15, significant at .001 level). In other words, high acceptors were high users while low acceptors tended to be low users. However, there were a few managers who reported high acceptance but their use of budgets, was low. A small number of managers also reported low acceptance but their use of budgets was high. A discussion of the explanatory variables in the ensuing chapters will clarify the position of these managers.

In the next section, the relationship between budget acceptance and budget characteristics of flexibility, attainability, timeliness and follow up is emplored.

5.6 Relationship between budget acceptance and budget characteristics.

There is likely to be a close relationship between budget acceptance and budget characteristics. Budget characteristics and responses of managers regarding these have been discussed in Chapter-IV. The following paragraphs describe the relationship between budget acceptance and budget characteristics namely, flexibility, attainability, timeliness and follow-up.

(a) Relationship between budget acceptance and flexibility. The following table shows the relationship between budget acceptance and flexibility.

Table No. 5.15

The relationship between acceptance pattern of budgets and flexibility.

Budget charac- teristics Flexibility Acceptance pattern	Flexible	Inflexible	Total	Level of signifi- cance
High	11 (61)	7 (39)	18 (100)	Fisher's Exact
Low	0 (0)	39 (100)	39 (100)	Probability P = .0000001
Total:	11 (19)	46 (81)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it is clear that 61% of the managers reporting high acceptance felt the budgets to be flexible, while 39% of them felt the budgets to be inflexible. All the managers reporting low acceptance looked upon the budgets as inflexible. Thus a majority of the managera felt the budgets to be inflexible and this seems to have affected their acceptance.

There seems to be a significant relationship between budget acceptance and budget flexibility. The difference between high acceptors and low acceptors regarding budget flexibility was found to be significant at P = .0000001 (Fisher's Exact Probability Test, Table 5.15).

(b) Relationship between budget acceptance and budget attainability.

The following table shows the relationship between budget acceptance and attainability:

Table No. 5.16

The relationship between acceptance pattern of budgets and attainability.

Budget Charac- teristic: Attainability Acceptance pattern	Attainable	Unattainable	Total	Level of significance
High	9 (50)	9 (50)	18 (100)	Fisher's Exact
Low	0 (0)	39 (100)	39 (100)	Probability = P = .0000054.
Total:	9 (16)	48 (84)	57 (100)	

(Figures in brackets are row percentages)

From the above table it is evident that 50% of the managers feporting high acceptance thought the budgets to be attainable, while the remaining 50% of them felt the budgets to be unattainable. All the managers reporting low acceptance felt the budgets to be unattainable. Their feelings of unattainability seemed to have stood in the way of their budget acceptance.

There seems to be a significant relationship between budget acceptance and budget attainability. It can be said from the above table that high acceptors and low acceptors differ in respect of their responses regarding the attainability of budgets. The difference between the

two groups was found to be significant at P = .0000054 (Fisher's Exact Probability Test, Table 5.16).

(c) Relationship between budget acceptance and timeliness. The following table shows the relationship between budget acceptance and timeliness.

Table No. 5.17

The relationship between budget acceptance pattern and budget characteristic: timeliness.

Timeliness Acceptance pattern	Timely	Not timely	Total	Level of significance
High	18 (100)	0 (0)	18 (100)	
Low	15 (38)	24 (62)	39 (100)	Fisher's Exact Probability = Probability =
Total:	33 (58)	24 (42)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it can be seen that all the managers reporting high acceptance felt that timeliness was observed in the budget process. Thirty eight per cent of the managers reporting low acceptance process to be timely, while 62% of them felt the budget process to be lacking in timeliness.

There seems to be a significant relationship between budget acceptance and timeliness dimension of budgeting. Managers having high acceptance felt that timeliness was observed in the process of budgeting while a substantial number of the managers having low acceptance thought

that timeliness was not observed in the process of budgeting. The difference between the two groups was found significant at P = .0000033 (Fisher's Exact Probability Test, Table 5.17).

(d) Relationship between budget acceptance and budget follow-up. The following table shows the relationship between budget acceptance and budget follow-up.

Table No. 5.18

The relationship between budget acceptance and budget follow-up.

Follow-up Acceptance pattern	Regular	Irregular	Total	Level of significance
High	18 (100)	0 (0)	18 (100)	Fisher's Exact
Low	30 (77)	9 (23)	39 (100)	Probability = P = .0235
Total:	48 (84)	9 (16)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it can be seen that all the managers reporting high acceptance felt the follow-up to be regular. While 77% of the managers reporting low acceptance felt the budget follow-up to be regular and 23% of them perceived the budget follow-up to be irregular.

There seems to be a significant relationship between budget acceptance and the extent of budget follow-up. The difference between the managers having high acceptance and low acceptance regarding the follow-up dimension of budgeting was found significant at P = .0235 (Fisher's

Exact Probability Test, Table 5.18).

The above relationships are summarised in the following table:

Table No. 5.19

The relationship between the acceptance of budget and budget characteristics.

R	elationships explored	Tests applied	Result	Significance
(a)	Acceptance of budget and budget characte- ristic: flexibility	Pisher's Exact Probability test	P =.0000001	Significant at P = .0000001
(b)	Acceptance of budget and budget characte- ristic: attainability	Fisher's Exact Probability test	P =.0000054	Significant at P = .0000054
(c)	Acceptance of budget and budget characte- ristic: timeliness	Fisher's Exact Probability test	P =. 0000033	Significant at P = .0000033
(d)	Acceptance of budget and budget characte- ristic: follow-up	Fisher's Exact Probability test	P = .0235	Significant at P = .0235

The last section of this chapter deals with the relationship between the use of budgete and budget characteristics.

5.7 Relationship between budget use and budget characteristic.

As there is a close relationship between budget acceptance and budget use and also between budget acceptance and budget characteristics, so there is likely to be a close relationship between budget use and budget characteristics namely, flexibility, attainability, timeliness and follow-up.

(a) Relationship between budget use and budget flexibility. The following table shows the relationship between budget use and budget flexibility.

Table No. 5.20

The relationship between the use pattern and budget flexibility.

Budget charac- teristic: Flexibility	Flexible	Inflexible	Total	Level of signi- ficance
High	11 (58)	8 (42)	19 (100)	Fisher's Exact
Low	0 (0)	38 (100)	38 (100)	Probability = P = .000002
Total :	11 (19)	46 (81)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it can be seen that 58% of the high use managers felt the budgets to be flexible, while 42% of them felt the budgets to be inflexible. All the low use managers felt the budgets to be inflexible.

There seems to be a close relationship between budget use and budget flexibility as perceived by the managers. A majority of the high use managers (50%) felt the budgets to be flexible while all the lew use managers looked upon budgets as inflexible. The difference between the two groups was found significant at P = .000002 (Fisher's Exact Probability Test, Table 5.20).

(b) Relationship between budget use and attainability of budgets. The following table shows the relationship between budget use and budget attainability.

Table No. 5.21

The relationship between budget use and budget attainability.

Budget charac- teristic: Attainability Use pattern of budgets	Attaina bl•	Unattainable	Total	Level of significance
High	9 (47)	10 (53)	19 (100)	Fisher's Exact
Low	0 (0)	38 (100)	38 (100)	Probability P = .000012
Total :	9 (16)	48 (84)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it can be seen that 47% of the high use managers thought the budgets to be attainable, while 55% of them felt the budgets to be unattainable. All the low use managers perceived the budgets to be unattainable.

There seems to be a significant relationship between budget use and budget attainability as felt by the managers. The difference between high use managers and low use managers regarding the extent of attainability of budgets was found significant at P = .000012 (Fisher's Exact Probability Test, Table 5.21).

(c) Relationship between budget use and timeliness. The following table shows the relationship between budget use and budget characteristic: timelinese.

Table No. 5.22

The relationship between budget use and budget characteristic: timeliness.

Budget charac- teristic: Tiseliness Use pattern of budgets	Timely	Not timely	Total	Level of signi- ficance
High	19 (100)	0 (0)	19 (100)	Fisher's Exact Probability = P = .0000012
Low	14 (37)	24 (63)	38 (100)	
Total 1	33 (58)	24 (42)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it is clear that all the high use managers felt that timeliness was observed in the budget process. Thirty eeven per cent of the low use managers felt that timeliness was observed, while 6% of them were of the opinion that timeliness was not observed in the budget process.

There seems to be a significant relationship between budget use and timeliness in the budget process. The difference between high use managers and low use managers regarding timeliness was found significant at P = .0000012 (Fisher's Exact Probability Test, Table 5.22).

(d) Relationship between budget use and budget follow-up. The follow-ing table shows the relationship between the use pattern of budgets and budget follow-up:

Table No. 5.23

The relationship between budget use and budget characteristic: follow-up.

Regular	Irregular	Total	Level of significance
19 (100)	9 (0)	19 (100)	Risher's Exact
29 (76)	9 (24)	38 (100)	Deck 24 74 4
48 (84)	9 (16)	57 (100)	
	19 (100) 29 (76)	19 (100) 9 (0) 29 (76) 9 (24)	19 (100) 9 (0) 19 (100) 29 (76) 9 (24) 38 (100)

(Figures in brackets are row-percentages)

From the above table it is clear that all the high use managers felt that the follow-up was regular. Seventy six per cent of the lew use managers perceived that the follow-up was regular, while 24% of them felt that the follow-up was irregular.

There seems to be a significant relationship between budget use and follow-up of budgets. The difference between the high use and low use managers as to the extent of budget follow-up was found significant at P = .0181 (Figher's Exact Probability Test, Table 5.23).

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The following table summarises the above relationships.

Table No. 5.24

The relationships between budget use and budget characteristics.

R	lationships explor	red T	ests applied	Result	Significance
(a)	Use of budget and characteristic: flexibility	budget	Fisher's Exact Probability test	P = .000002	Significant at P = .000002
(P)	Use of budget and characteristic: attainability	budget	Fisher's Exact Probability test	P = .0000102	Significant at P = 0000102
(0)	Use of budget and characteristic: timeliness	budget	Fisher's Exact Probability test	P = .0000012	Significant at P = .0000012
(a)	Use of budget and characteristic: follow-up	budget	Fisher's Exact Probability test	P = .0181	Significant at P = .0181

The aim of the chapter was to find out the managers' acceptance and use patterns of budgets and the relationship between them and also the relationship between the acceptance and use of budgets and budget characteristics. The data revealed a significant relationship between the managers' acceptance and use of budgets. In other words, managers who were high acceptors were high users. Conversely, managers whose acceptance was low were low users of budgets.

The data also revealed a close relationship between budget acceptance and budget characteristics of flexibility, attainability, timeliness and follow-up. A close relationship was found to exist between budget use and budget characteristics of flexibility, attainability, timeliness and

follow-up. Managers who reported high acceptance and high use of budgets felt that budgets were flexible and attainable. They also felt that time-liness was observed in the process of budgeting and that follow-up was regular. On the other hand, managers having low acceptance and low use of budgets considered the budgets to be inflexible and unattainable. A substantial proportion of these managers felt that timeliness was not observed in the process of budgeting and that follow-up was irregular.

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The next chapter takes up the issue of participation and its influence on the acceptance and use of budgets.

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CHAPTER - VI

PARTICIPATION AND ACCEPTANCE AND USE OF BUDGET

6.1 Participation.

The use of participation as a management tool is one of the important principles of contemporary management movement. This chapter contains a brief survey of literature on participation in the budget context and a discussion of the scope and the extent of participation of the managers in the budget process and its influence on their acceptance and use of budgets.

Till about 1930 budgete were imposed budgets and reflected the traditional model of management. By then, the business community realised that "imposed budgets resulted in some dissatisfaction and advice was given to prepare them in the departments and have them revised or edited in the central offices." Thus participation was accepted as an important aspect of budgeting. In the Holden at.al. report about management policies and practices of 31 leading U.S. Industrial Corporations (1941) it is etated:

participation of the organization in both the preparation of the budgets and in following progress.... By this process each person commits himself to a definite accomplishment against which he is checked and can check himself. The results are usually impressive. Biofstede also reported about the prevalence of the same ideas in Europe.

^{1.} Budgetary Control in Manufacturing Industries, H.T., National Industrial Conference Board, 1931, p. 52.

^{2.} P.E. Holden, L.S. Fish and H.L. Smith, Top Management Organization and Control, A Research Study of the Management Policies and Practices of 31 Leading Industrial Corporations, Calif/London, Stanford University Press, 1941, pp. 206-207.

^{3.} G.H. Hofstede, op.cit., p.40.

Sord and Welsch interviewed management of 35 companies and reported that none of the companies used totally imposed budgets. Six firms (17 per cent) prepared objectives at higher levels and allowed subordinate managers to consider and comment on them before final adoption while twenty nine firms (83 per cent) requested subordinate managers to prepare their own goals and objectives for review and approval at higher levels. Thus participative budgeting is an accepted management policy in developed countries. Such does not appear to be the case in this country.

Participative budgeting means "allowing individuals who will be responsible under a budget to participate in the decisions by which that budget is established". 5 Hofstede lists three types of decisions in which subordinates can participate. These are: (a) decisions on the structure of the system, (b) decisions on the setting of standards, and (c) decisions about actions on reported variances.

Although traditionally stress is given to participation in decision on the setting of standards, Hofstede suggested that in the budget system, there is a great scope for participation in (a) & (c) above.

Contemporary literature is replete with beneficial effects of participative budgeting. A study by Argyris concluded that greatest contribution from budgeting activities would occur if subordinates were allowed

^{4.} B.H. Sord and G.A. Welsch, Business Budgeting, N.Y., Controllership Foundation, Inc., 1958, p. 95.

^{5.} Edwin H. Caplan, ep.cit., p. 85.

^{6.} G.H. Hofstede, op.cit., pp. 72-73.

^{7.} Chris Argyris, The Impact of budgets on people, H.Y., The Controllership Foundation, Inc., 1952.

to participate in the activity of budget creation. In a subsequent work Argyris stated: "The subordinates should be given an opportunity to participate in the various decisions that are made in their organisation which affect them directly or indirectly". The advantages of participative budgeting are as follows:

- i) it helps to provide the challenge and sense of responsibility to the participating sanagers and
- ii) it increases the probability that the goals of the budget will be internalised by the managers, that is, they will accept the goals as their own. The other benefits of participative budgeting listed by V. Bruce Irvine are as follows:
- " 1) It would have a healthful effect on interest, initiative, morale and enthusiasm.
- 2) It would result in a better plan because the knowledge of many individuals is combined.
- 3) It would make all levels of management more awars of how their particular functions fit into the operational picture.
 - 4) It would increase inter-departmental co-operation.
- 5) As a result of their involvement in the planning function, it would make junior management more aware of the future with respect to objectives, problems and other considerations".

^{8.} Chris Argyris, Organizational Leadership and Participative Management, The Journal of Business, XXVII, January, 1955, p. 1.

^{9.} Edwin H. Caplan, op.cit., p. 85.

^{10.} V. Bruce Irvine, op.cit., pp. 83-84.

In the budget context, participation is stressed because it is likely to result in better performance. The latter is the outcome of good communication, control and motivation fostered by participation. Horeover, participation in decision-making satisfies the need for autonomy, affiliation and achievement of participants and motivates them to work for the achievement of budget goals. Argyris whom 'participative' style of leadership as fulfilling the individual's need 'to obtain optimum self-actualization'. 12 In view of the motivational impact of participation, it is likely to be a key element in the acceptance and use of budgets.

Studies on participation in the budget context.

Hany authors have pointed out that participation of managers in setting budget goals encourages them to identify themselves with the goals,
accept them whole heartedly and work toward their achievement (Argyris,
1952¹³; Becker & Green, 1962¹⁴; Wallace, 1966¹⁵; Hansen, 1966¹⁶; Dunbar, 17
1971; Tosi, Jr. 18, 1974).

^{11.} G.H. Hofstede, op.eit., pp. 68-69.

^{12.} C. Argyris, Personality and Organisations, The Conflict between System and the Individual, N.Y., Harper & Bros., 1957, pp. 191-192.

^{13.} Chris Argyris (1952), op.cit.

^{14.} Selwyn W. Becker & David Green, Jr., "Budgeting & Employee Behavier, in William J. Bruns, Jr., & Don T. DeCoster (eds.) op.cit., pp. 327-41.

^{15.} Michael E. Wallace, "Behavioral Considerations in Budgeting" in William J. Bruns & Don T. DeCoster (eds.), op.cit., pp.319-325.

^{16.} E.I. Hanson, "The Budgetary Control Function", The Accounting
Review, XLII, April, 1966, pp. 239-243 and also in Robert J. Mockler
(eds.) Readings in Management Control, N.Y., Appleton Century-Grofts,
1970, pp. 326-332.

^{17.} Roger L. M. Dunbar, Budgeting for control, Administrative Science Quarterly, Volume No. 16, 1971, pp. 88-96.

^{18.} Henry L. Tosi, Jr. The Human Effects of Budgeting System on Management, in Fred Luthans (ed.) Contemporary Readings in Organizational Behaviour, Second ed., N.Y., McGraw-Rill Book Company, 1977, pp. 153-67.

Becker & Green 19 concluded that a successful perticipation budget does two things (1) it indhese proper motivation and acceptance of specific goals, and (2) it provides information to associate reward or punishment with performance. They came to the above conclusions after reasoning in the following manner:

"If greater interaction leads to greater group cohesiveness, and if group cohesiveness and induction to produce at a higher or lower rate are positively correlated, then the process of participation can be used to induce either higher or lower production.

If participation, at an upper level, generates positive attitudes on the part of the participating supervisors, then individual supervisors (each being a member of a cohesive sub-group) will attempt to induce those group and individual aspirations at the sub-group level which lead to higher rather than lower production.

If aspirations for high levels of performance are induced, then higher levels of performance will ensue.

If expectations of reward or punishment associated with the achieved level of performance are validated on the basis of knowledge of that achievement, then communication of result can affect subsequent levels of aspiration and subsequent performance.

Therefore, a successful participation budget increases group cohesiveness and induces positive attitudes."20

^{19.} Selwyn W. Becker & David Green, Jr., op.cit., p. 338.

^{20.} Selwyn W. Becker & David Green, Jr., Budgeting and Employee Behaviour: A rejoinder to a "Reply", in William J. Bruns Jr. & Don T. DeCoster (eds.), op.cit., p. 354.

Participation should be genuine in order to ensure the psychological involvement of managers. While practising participatory budgeting, one should guard against pseudo-participation as pointed out by Chris Argyris²¹ who illustrated participation as practised by the budget staff in the following manner:

most of them just mit there and nod their heads. We know they're not coming out with exactly how they feel. I guess budgets scare them; some of them don't have too much education... Then we request the line super-visor to sign the new budget, so he can't tell us he didn't accept it. We've found a signature helps an awful lot. If anything goes wrong, they can't come to us, as they often do, and complain. We just show them their signature and remind them they were shown exactly what the budget was made up of"

"Such statements seem to indicate that only "pseudo-participation is desired by the controller. True participation means that the people can be spontaneous and free in their discussion. Participation, in the real sense of the word, also involves a group decision which leads the group to accept or reject something new. Of course, organisations need to have their supervisors accept the new goals, not reject them; however, if the supervisors do not really accept the new changes but only say they do, then trouble is inevitable. Such half-hearted acceptance makes it necessary for the person who initiated the budget or induced the change, not only to request signatures of the "acceptors" so that they cannot later on deny they "accepted", but to be always on the look out and apply pressure

^{21.} Chris Argyris (1952), op.cit.

constantly upon the acceptors (through informal talks, meeting and "educational discussion of accounting").

In other words, if top-management executives are going to use participation, they should use it in the real sense of the word. Any dilution of the real thing "vall taste funny", and people will not like it."22

The practice of pseudo-participation is caused not only by the budget staff but also by the line personnel. Sord and Welsch²³ reported that only limited co-operation could be obtained from line personnel in developing budgets.

Another form of pseudo-participation takes place if the top management continually changes the budgeted figures resulting from participation. In such a case legitimate participation is absent. Such a policy will have dysfunctional consequences. This is supported by the studies of V.H. Vreom²⁴ who found that productivity was higher then participation was viewed as legitimate, but lower when it was viewed as not legitimate.

In the case of our enterprise managers it seems pseudo-participation takes place at Budget Discussion Meeting held at the Zonal level. Interviews with the enterprise managers revealed that their views were not given due consideration and that the opinion of the superior authority that is corporation officials prevailed. An enterprise head expressed

^{22.} Chris Argyris, "Human Problems with Budgets", in Stephen J. Carrol, Frank T. Paine and John B. Miner, (eds.), The Management Process, Cases and Readings, 2nd ed., N.Y., Mcmillan Publishing Co. Inc., 1977, p. 313.

^{23.} B.H. Sord and G.A. Welsch, op.cit., p. 102.

^{24.} As quoted by Andrew C. Stedry, Budgeting and Employee Behavior: A Reply in William J. Bruns and Don T. DeCoster (eds.), op.cit.,p. 348.

was being set constantly at 7 lbs. for hessian, 19 lbs. for sacking and 14 lbs. for carpet backing cloth for the years 1976-1977, 1977-1978 and 1978-1979 without considering the production efficiency achievement of the enterprises and that of the industry as a whole. This view was verified by comparing the production efficiency set in the budget guidelines with the actual efficiency achievement of the enterprises and that of the industry for those years and was found to be true.

Participation in budget may result in creation of slack by the managers. Cyert and March²⁵ defined organisational slack as the difference between the total resources available to the firm and the total resources necessary to maintain the organisation coalition. Michael Schiff and Arie Y. Lewin²⁶, Lowe and Shaw,²⁷ Dalton²⁸ and Gordon Shilling-law²⁹ pointed out how the managers build mack into the budget. Schiff and Lewin³⁰ were of the opinion that a slack environment is necessary in

^{25.} R.M. Cyert & J.G. March, The Behavioral Theory of the Firm, Prentice-Hall, 1963, pp. 36-38.

^{26.} Michael Schiff & Arie Y. Lewin, "Why Traditional Budgeting Falls",

Financial Executive, Vol.36, No.5, May, 1968, pp. 51-62.

----- and A.Y. Lewin, "The Impact of People on Budgets", The Accounting Review, Vol.45, No.2, (April 1970), pp. 259-268.

^{27.} A.E. Lowe & R.M. Shaw, "An Analysis of Managerial Biasing, Evidence from a Company's Budgeting Process", The Journal of Management Studies. Vol. 15, No. 3, October, 1968, pp. 304-315.

^{28.} M. Dalton, Men Who Manage, Wiley, 1959, pp. 36-38.

^{29.} G. Shillinglaw, Divisional Performance Review: An extension of Budgetary Control: In C.P. Bonini, R.K. Jaedicke, H.M. Wagner (eds.) Management Controls: New Directions in Basic Research, McGraw-Hill Book Company, 1964, pp. 149-163.

^{30.} M. Schiff & A.Y. Lewin (1968), op.cit., p. 57.

order to maximise personal goals while achieving the goals of the firm.

But excessive alack is detrimental to the interest of the firm. So, they suggested in-depth reviews by top management during the process of developing budget in order to reduce slack. 31

Searfoas and Monczka (1973) eximined the relationships between perceived participation in the budget process and both motivation to achieve the budget and level in the organisation hierarchy. Their research revealed the following:

- (1) Perceived participation in the budget process and motivation to achieve the budget are positively related along both the goal directing effort and evaluative effort dimensions of motivation, but more on the former;
- (2) The need for independence and authoritarianism did not moderate the relationship between perceived participation in the budget process and motivation to achieve the budget; and
- (3) A positive relationship exists between perceived participation in the budget process and organizational level. 32

Their research lent support to the view of modern organisational theory that the involvement in decision-making and goal setting processes will result in greater personal commitment to the organization and its goals. This personal commitment will, in turn, increase the level of motivation of the employee to strive towards achieving these goals. 33

^{31.} M. Schiff & A.Y. Lewin (1970), op.cit., p. 266.

^{32.} D. Gerald Searfoss and Robert M. Moncaka, "Perceived Participation in the Budget Process and Notivation to Achieve the Budget", Academy of Management Journal. Vol. 16, No. 4, 1973, p. 553.

^{33.} Ibid., p. 551.

Hofstede's research also revealed that budget participation was the variable with the strongest effect on all measures of motivation. The Ken Milani (1975) tudied foreman participation in budget-setting and its relationship to performance, attitudes towards the job and the company. He found that budget setting participation related well to attitudes but did not relate consistently to performance. He also found that attitudes toward the job and company (the two intervening variables) here no significant relationship to performance.

Frank Collins in a study of budgetary control and the relationships among some behavioural variables affecting individual response to
budgets came to the conclusion that perceived budget characteristics e.g.
accuracy, estimate certainty, controllability and participation; attitudes
towards these characteristics and personal flexibility were important
correlates with budgetary response attitudes. His study supported the
correlation of participatory budgeting and positive response attitudes.

Swieringa and Moncur (1975)³⁷ found higher need satisfaction among managers who were consulted on their budgets than those who were not consulted.

^{34.} G.H. Hofstede, op.cit., pp. 181-182.

^{35.} Ken Milani, "The Relationship of Participation in Budget-Setting to Industrial Supervisor Performance and Attitudes: A Field Study", The Accounting Review, Vol. L. April, 1975, pp. 274-284.

^{36.} Frank Collins, op.cit., pp. 324-55.

^{37.} Robest J. Swieringa and Rebert H. Moncur, Some Effects of Participative Budgeting on Managerial Behavior, National Association of Accountants, 1975, as quoted by Izzetin Kenis, op.cit., p. 709.

Izzetin Kenis³⁸ examined the effects of budgetary goal characteristics of participation, clarity, feedback, evaluation, and difficulty on job-related attitudes (job satisfaction, job involvement, job tension), budget related attitudes (attitude toward budget, budgetary motivation) and self-related performance (budgetary performance, cost efficiency, job performance). The results of his study showed that budgetary participation and budget goal clarity tended to have positive and significant effects on job-related and budget-related attitudes of managers. He also found that participation and goal clarity had significant influence on budgetary performance of managers.

Rahim's study revealed that participation in budget setting is very important as it improves managers' morale, furthers managers' interest, backing and achievement of the budgets. Participation also results in practical budgets. His study also suggested that participation or consultation in budget setting is a supporting factor in managers' use of budgetary information.

From the above discussion, it may be concluded that participation in the process of budgeting results in acceptance of budget, improvement in the quality of budget, motivation to achieve the budget targets, and use of budgetary information by the managers.

Limitations of Participation.

Participation is no panacea for all budget aystem ills. While practising the participative budgeting the personality differences of managers

^{38.} Izzetin Kenia, op.cit., pp. 707-721.

^{39.} A.M.A. Rahim, op.cit., p. 393.

^{40.} Ibid, p. 395.

and the organisational setting must be borne in mind. This has been aptly described by Swieringa in the following words:

"It appears that while increased participation by operating managers in budget setting process may be beneficial in some situations, it may, in fact, be detrimental in other situations. The reason for this variation appears to lie in the context within which participative budgeting is used - namely, within an organizational setting. This setting is complex and the interrelationships and interdependencies among organization members are both potent and subtle. The personalities of these members must be considered, as must be pattern of social relations and the processes of communication and social influence."

On the basis of evidences put forward by French, Israel and Ass, 1960; Tannenbaum, 1954; Tannenbaum and Allport, 1956 and Vroom, 1960°, Likert stated that "the amount and character of participation meed to be geared to the values, skills and expectation of the people involved if productive results are to be obtained." Limitations to the effect of participation on performance have also been pointed out by Hofsteds.

The proponents of participation were not without opponents.

Hofstedo cited a study by Charnes and Stedry which claimed that "it is not clear from recent evidence...... that participation in goal sett-

^{41.} R.J. Swieringa, "A Behavioral Approach to Participative Budgeting",
Hanagement Accounting, February, 1975, p. 35.

^{42.} Rensis Likert, New Patterns of Hanagement, N.Y., McGraw-Hill Book Company, Inc., 1961, p. 242.

^{43.} G.H. Hofstede, op.cit., pp. 70-72.

^{44.} A. Charnes and A.C. Stedry, Further Exploration in the Theory of Multiple Budgeted Goals, Research Paper No. 12, Organization Research Programme, School of Industrial Management, M.I.T., Cambridge (Mass), 1963, p. 6.

ing is so advantageous as to preclude the inclusion of non-participatively set goals in behavioral models." After presenting the results of some studies, Stedry expressed scepticism about the effect of participation.

After considering the pros and cons of participative budgeting it

may be said that participation is an important element but its content

must be aimed at achieving the goals of the organisation. The remarks

of Hofstede are worth mentioning "...... the human side of budgeting

is participation in standard-setting..... This sole concern is not

justified and that budgeting has many other human aspects. Yet the participation issue is important."

46

The next section deals with the scope and the extent of participation of the managers of the enterprises in the budget process.

6.2 Scope of participation of the managers in the budget process.

The area, level, fora and intensity of participation vary from organisation to organisation. 47 Managers of the enterprises under BJMC do not have scope of participation in strategic decisions leading to budget premises. These decisions are taken by the beard of directors of the corporation in consultation with the controlling Ministry and in the light of the macro-plan. Managers could have participated in the formulation of budget guidelines. But these are developed at the corporation head office

^{45.} A.C. Stedry, "Budgeting and Employee Behavior: A Reply" in William J. Brune, Jr. and Don T. DeCoster (eds.), op.cit., p. 348.

^{46.} G.B. Hofstede, op.cit., p. 174.

^{47.} Musaffer Ahmad, "Workers Participation: A framework for Analysis", Institute of Business Administration, University of Dacca, The Journal of Management, Business & Economics, Vol. 8, No. 1, 1982, pp. 103-115.

on the basis of strategic decisions taken at the top level. On being interviewed, the budget staff at the corporation head office told that enterprise managers are not formally consulted during the formulation of budget guidelines which form the basis for the preparation of enterprise budgets. But there is scope for informal discussion in this respect.

Managers have ample scope of participation in the preparation of budgets within the framework of budget guidelines. At this stage they can work with superior managers, fellow managers, subordinate managers and accounts personnel. Budget guidelines are sent to the head of the enterprise and to the head of accounts. The head of accounts intimates the budget targets to enable the departmental managers to prepare their respective departmental budgets. As the managers dislike figure works, they rely on the accounts department to prepare their departmental budgets on the basis of the information supplied by them. At this stage some managers work intensely with the enterprise head, fellow managers, subordinate managers and accounts personnel. While some managers supply necessary information as requested by the accounts department and refrain from interaction with others. These managers donot appear to take their responsibility very seriously. They need training for change of perception so that there is adequate interaction. Such interaction is likely to result in better budget oriented behaviour. In such a case, managers may offer suggestions for the improvement of budget system and also mention factors that should be taken care of in the preparation of budgets.

As there is no budget committee at the enterprise level, the opportunity of joint discussion regarding the different aspects of budget is also absent.

There is scope of participation at zonal level budget discussion and finalisation neeting of the budget committee through the two representatives of the enterprise - the enterprise head and the accounts head. As has been mentioned earlier, participation is not effective at this level. An enterprise head commenting on the functioning of the committee said:

"The budget committee meets to criticise our past performances rather than to listen to our problems."

Interviews with the enterprise managers and accounts heads also revealed that no formal meetings are held at the enterprise level to discuss and find out ways and acans of implementation of budgets. There is scope of participation in the monal performance review meetings held on a monthly basis. These review meetings are attended by the enterprise head and the accounts head. Actions for removing unfavourable variances are suggested at such meetings. The enterprise head holds informal discussion with other managers of the enterprise before and after the meeting.

Participation in the budget process may be formal and informal.

The scope of formal participation is more or less prescribed by the corporation. Considerable scope for informal participation exists in the budget implementation phase.

Extent of participation of managers in the budget process.

Likert 48 viewed participation as "a whole range of processes and activities" and described participation as "a continuum of processes

^{48.} Likert, op.cit., pp. 242-243.

ranging from 'little participation' to 'much participation'. Eleven questions (Appendix-1, Part-D) were used to measure a manager's extent of participation in the budget process. The use of five-point Likert scales enabled the scores on these questions to be summed up. The summation indicated the extent of the managers' participation.

The following table shows the extent of participation of the managers.

Table No. 6.1

The extent of participation of the annagers.

Extent of participation Type of managers	High	Low	Total.	Level of signi- ficance
Enterprise Head	7 (37)	12 (63)	19 (100)	Chi
Production Head	5 (26)	14 (74)	19 (100)	Chi-square = 1.65 Not significant at .05
Sales Head	3 (16)	16 (84)	19 (100)	
Total :	15 (26)	42 (74)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it is clear that 26% of the managers interviewed perceived high participation in the budget process while 74% of them perceived low participation in the budget process. Of the enterprise heads, 37% perceived high participation while 6% of them perceived low participation; of the production heads, 26% perceived high participation while 74% of them perceived low participation and of the sales heads.

16% belonged to high participation group while rest of them (84%) belonged to low participation group. Of the managers who perceived high participation, 47% belonged to the category of enterprise heads, 37% belonged to the category of production heads and the rest (20%) belonged to the category of sales heads.

So, it can be said that the enterprise heads had the highest degree of participation followed by the production heads and the sales heads. But there seemed to be no significant relationship between the extent of participation and the type of managers. That is high participation and low participation in the budget process as perceived by the managers were independent of their type. Hanagers who perceived high participation held a senior rank among the managers of their respective category. In other words, managers perceived high participation as they moved up in the management hierarchy. Because, they got more scope to participate in the budget process which is a top-down one. Ritchie and Miles also reported that perceived participation was higher as the position level in the organisation rose.

The next section explores the relationship between participation and acceptance and use of budgets.

6.3 Relationship between participation and acceptance and use of budgets.

Participation in the budget process is likely to influence the acceptance and use of budgets. The following table shows the relation-ship between participation and acceptance of budgets.

^{49.} J. Ritchie and R.E. Miles, "An Analysis of Quantity and Quality of Participation as Mediating Variables in the Participation Decision Making Process", Personnel Psychology, Vol. 23, 1970, pp. 347-359.

Table No. 6.2

The relationship between participation and acceptance of budgets.

Participation		636		
Acceptance of budgets	Hi.gh	Low	Total	Level of significance
High	10	8	18	Chi-square = 11.66 Significant at .001 level
Low	5	34	39	
Total :	15	42	57	

From the above table, it can be seen that of the fifty seven managers interviewed, ten managers (18%) perceived high participation and their acceptance was also high. While thirty four managers (60%) perceived low participation and their acceptance was low. On the other hand, eight of them (14%) perceived low participation but had high acceptance and five of them (9%) had high participation but their acceptance of budgets was low. There was a significant relationship between participation and acceptance of budgets (Significant at .001 level). Managers who perceived high participation were high acceptors while managers perceiving low participation tended to be low acceptors.

The following table shows the distribution of managers from different functional areas according to attributes of participation and use.

Table No. 6.3

The relationship between participation and use of budgets.

Participation Use of budgets	Hi.gh	Foa	Total	Level of significance	
High	10	9	19	Chi-square = 10.18	
Low	5	35	38	Significant at .01 level.	
Total :	15	42	57		

The above table shows that of the fifty seven respondents, ten (18%) perceived high acceptance and their use of budgets was also high. Conversely thirty three managers (58%) reported low participation and low use of budgets. But, nine of the managers (16%) perceived low participation and had low use. Five of the managers (8%) perceived high participation but their use of budgets was low. There is a significant relationship between participation and use of budgets by managers (Significant at .01 level). In other words, managers who perceived high participation tended to be high users while those perceiving low participation tended to be low users.

The close relationship between participation and acceptance and use of budgets supports the findings of Hofstede⁵⁰, Ken Milani⁵¹, Searfoss and Moncaka⁵², Collins⁵³, Swierings and Moncar⁵⁴, and Kenis⁵⁵. This also

^{50.} G.H. Hofstede (1968), op.cit.

^{51.} Ken Milani (1975), op.cit.
52. B.G. Searfoss and R.H. Monczka (1973), op.cit.

^{53.} Frank Collins (1978), op.cit.

^{54.} R.J. Swieringa & R.H. Moncur (1975), op.cit.

^{55.} Immetin Kenis (1979), op.cit.

lends support to the views of behavioural scientists like Argyris, McGregor, Likert and Locke.

On the basis of the discussions in this chapter it can be concluded that the extent of participation of the managers in the budget process was at a low level and this had a significant influence on their acceptance and use of budgets. The data suggest that managers who parceived high participation accepted and used budgets more than those who perceived low participation. In the next chapter, we discuss managers' knowledge regarding the purposes of preparing the budgets and its influence on their acceptance and use of budgets.

CHAPTER - VII

KNOWLEDGE REGARDING PURPOSES OF PREPARING BUDGET AND ACCEPTANCE AND USE OF BUDGET

7.1 Purposes of preparing budgets.

This chapter is devoted to the discussion of the purposes of preparing budgete from theoretical point of view and the purposes for which the corporation and the enterprises under it prepare budgets, managers' knowledge regarding the purposes of budgets and its influence on acceptance and use of budgets. Budget may be prepared for a number of purposes.

Stedry stated that the multiplicity of purposes for which budgets are prepared is implicit in Kohler's definition of budget. Purposes of preparing budgets from a theoretical point of view are stated below.

Managerial tool.

Budget may be prepared for use as a managerial tool. As budget aids management in planning, co-ordinating, controlling and motivation, it may be looked upon as a tool of management. Contemporary writers and practi-

^{1.} A.C. Stedry, Budget Control and Cost Behavior, N.J., Prentice-Hall, Inc., 1960, p. 3.

^{2.} Kohler defines budget as follows: "1. Any financial plan serving as an estimate of and control over future operations.

^{2.} Hence any estimate of future costs.

^{3.} Any systematic plan for the utilization of manpower, material or other resources". Eric L. Kohler, A Dictionary for Accountants, N.J., Prentice-Hall, Inc., 1970, p.67.

^{3.} W.D. Knight & E.H. Weinwurm, Managerial Budgeting, N.Y., The Macmillan Co., 1974, p. 6.

G.H. Hofstede, op.cit., p. 22.

W.R. Bunge, Managerial budgeting for Profit Improvement, N.Y., McGraw-Hill Book Company, 1968, p. wii.

Adrian Buckley & Bugune McKenna, Budgetary Control & Business Behaviour in L.S. Rosen (ed.) Topics in Managerial Accounting, Toronto, McGraw-Hill Ryerson Ltd., 1974, p. 43.

a management tool to facilitate the management task of leading the business towards its goals." In so far as budget is used to discharge the functions of management, it assumes the character of a management tool. The importance of budgeting in managing an organisation have been succinctly stated thus:

"Budgeting is a means of co-ordinating the combined intelligence of an entire organization into a plan of action based upon past performance and governed by a rational judgement of factors that will influence the course of the business in the future. Budgeting is not just control, not just forecasting. It is an exacting, rigorous analysis of the past and a careful calculation of probable and desired future operations. The object is to substitute deliberate, well-conceived, astute business judgement for accidental success in enterprise management."

Thus, budget can be a very potential managerial tool provided the technical aspect as well as the behavioural aspect is taken proper care of.

Authorisation to spend.

One of the purposes of preparing budgets may be to authorise capital and revenue expenditure. The authorisation function of budgets has its roots in Government budgets which are still authorisations to spend for specific purposes approved by the legislature. In the case of a business organisation, the capital expenditure budget has an authorisation function.

^{4.} G.H. Hofstede, op.cit., p. 22.

^{5.} A. Mats, O.J. Curry and G.W. Frank, Cost Accounting, 4th ed., Chio, South Western Publishing Co., 1967, p. 470.

In the case of this budget, the managers are required to restrict expenditure up to the authorised level. So far as the operating budgets are concerned, the authorisation function is not to be taken rigidly. It means that the upper expenditure level can be varied if the business condition so warrants.

Blanning.

Budgets may be prepared to plan the activities of an organisation.

Planning is a vital managerial function. It facilitates the growth and prosperity of a business enterprise. "Without planning, business becomes random in nature and decisions megningless ad hoc choices." Planning is a sine qua non for all organisations. Since planning sime at achieving the enterprise objectives, the very act of planning draws attention to these objectives. By emphasizing the objectives, planning brings about coordination among the activities of the various departments.

Planning forces the managers to look ahead and consider the periodic need to revise and extend plans in order to achieve their objectives.

Planning aids in economical operation by putting emphasis on efficient operation and consistency.

It facilitates control. "The better this planning is performed, the better are management's chances to get effective control. This seems to be self-evident and is why management control can not very easily be disasseciated from planning." Thus, planning and control are intertwined.

^{6.} H. Koontz and C.O'Donnel. The Nature and Purpose of Planning in David E.Ewing, ed., Long Range Planning for Management, N.Y., Harper & Row Publishers, 1964, p. 30.

^{7.} William Travers Jerome III, op.cit., p. 25.

Planning and budgeting also go together. "As budgeting implies planning, so planning in a business implies budgeting: every plan made must eventually be translated in money, and in this way it becomes a budget."

A budget is a useful tool of planning. In the planning phase, it enables actions to be based upon thorough investigation, study and research. Secondly, it enlists the assistance of the entire organization in determining the meat profitable course of action. This involves active participation of all managerial levels. Participation helps in building up esprit de corps, brings about uniformity in eutleok, and coordination among the activities of the different departments. It educates the junior members of the management about the objectives and problems of the organization. Thirdly, budget serves as a declaration of policy and defines the objectives of the concern in a precise and practicable manner. Finally, budgets can also be used as a tool for sensitivity analysis which involves the examination of how slight changes in management plans affect the budgets. Hany budgets can be prepared keeping in view the alternative plans se that the most desirable plan can been be selected.

Control.

One of the most important purposes of preparing budget is to control the operations of a business. "Control within an organisational system is the process by which one element (person, group, machine, institution or

^{8.} G.H. Hofstede, op.cit., p. 23.

^{9.} J. Brooks Heckert & James D. Willson, op.cit., pp. 14-16.

^{10.} J. Rosen and J.L. Livingstone, An Expectancy Theory Approach to the Motivational Impacts of Budgets, The Accounting Review, Vol. 50, October, 1975, p. 671.

norm) intentionally affects the action of another element. Peter F.

Drucker distinguishes between the singular 'control', and the plural 'controls'. According to him, 'control' refers to an end while 'controls' refer to means to achieve this end, 12 "Controls are analytical and operational, concerned with what was and is. 'Control' is normative, concerned with what ought to be, with significance rather than with meaning. 15 He views control system as a volitional system rather than a mechanical system.

Management control is a must for every business. "Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the organisation's objectives", while "operational control is the process of assuring that specific tasks are carried out effectively and efficiently". That ever may be the form of control it involves the setting of objectives, plans, policies and standards; comparing actual performance with such objectives, plans, policies and standards; analysing the deviations; taking corrective action on the basis of the analysis; follow up the effectiveness of the corrective action and feeding information back to the planning process.

^{11.} G.H. Hofstede, ep.cit., p. 11, adaptation of definition of control given by A.S. Tannenbaum, Control in Organisations, N.Y., McGraw-Hill Book Company, 1968, p. 5.

^{12.} Peter F. Brucker, "Controls, Control and Management", in Charles P. Bonini, Robert K. Jaedicke & Harvey M. Wagner (eds.), op.cit.,p.286.

^{13.} Ibid, p. 286.

^{14.} Ibid. p. 287.

^{15.} Robert R. Anthony, Planning and Control System - A framework for Analysis, Boston, Div. of Research, Graduate School of Business Administration, Harvard University, 1965, p. 27.

Budgetary control is one of the forms of management control in general. The budgetary control process involves the following steps:

- "(1) Preparation of a plan consistent with the goals of the business;
- (2) Review, discussion and adjustment of the plan as needed to facilitate its accomplishment:
- (3) Communication of subsections of the plan to responsibility.
 contres within the organization;
 - (4) Comparison of actual performance with plenned results;
 - (5) Analysis and explanation of variances from the plan;
- (6) Corrective action where significant unfavourable variances occur between planned and actual performance". 16

Budgets as a control device include setting of standards or targets of performance, seasuring or comparing actual performance sgainst standards or targets, pinpointing the deviations so that necessary corrective actions can be taken. Deviations are of great managerial concern for such remsons as:

- "(a) to highlight errors in budgeting procedures;
- (b) to indicate the need for budget revision; and
- (c) to pinpoint those activities requiring remedial action". 17

Managerial intervention thus becomes a necessity to take corrective action, to rectify errors in budgeting procedures and to revise the budget.

^{16.} Homer A. Black, John E. Chaspion, R. Gene Brown, Accounting in Business Decisions, Theory, Method and Use, 2nd ed., N.J., Prentice-Hall, Inc., 1967, p. 719.

^{17.} R.M.S. Wilson, Financial Control: A System Approach, London, McGraw-Hill Book Company (U.K.) Ltd., 1974, p. 107.

In analysing deviation for corrective action, the principle of management by exception is followed. This means the management should concentrate on significant deviations or variances and ignore others. In this connection, some authors 18 recommended the use of control limits for cost and budget data. All of them advocate a statistical approach to budget variances so that variances caused by chance factors are not taken cognisance of. In the Sord & Welsch study of budgeting practices, only one out of 366 companies reported about the setting of explicit control limits for budgets: "Only deviations of 4 per cent or 10 per cent under budget explained". 19 Hofstede 20 reported that control limits are seldom set in the case of his sample companies. "As a result what percentage of budget under or over attainment is acceptable, is left to a subjective interpretation, which can vary from person to person and, moreover, from moment to moment. So it happens, that the budgetee never knows which variances he is supposed to jump upon". 21

It is in the control phase that budgeting gives rise to many behavioural issues. These behavioural issues have been studied by

^{18.} D.J. Amicueci, Budget Variance Trend Reports, N.A.A. Bulletin Hanagement Accounting, New York, 1965, Ist section 11, 9-14.

E.W. Gaynor, Use of Control Charts in Cost Control, N.A.C.A.
Bulletin, 1954, Ist Section, 10, 1300-1308.

G.E. Noble, Calculating Control Limits for Cost Control Data,
N.A.C.A. Bulletin, 1954, Ist Section, 10, 1310-1317.

P.W. Henderson and B.R. Copeland, Application of Probability to
Cost Control Reports, Financial Executive, Brattleboro (Vt.), 1965,
12, 40-44.

^{19.} B.H. Sord and G.A. Welsch, Business Budgeting: A Survey of Management Planning and Control Practices, N.Y., Controllership Foundation, 1956. p. 238.

^{20.} G.H. Hofstede, op.cit., p. 97.

^{21.} Ibid, p. 97.

Argyris, 22 Simon et. al. 23 Stedry, 24 Stedry & Kay, 25 Hofetede, 26

DeCoster and Fertakis, 27 Schiff & Lewin, 28 Ridgway, 29 Selwyn Becker

& Green, Jr. 30. These studies have far reaching implications so far
as the application of budgetary control is concerned.

Co-ordination.

Budgets may be prepared for co-ordinating the activities of an organisation. Co-ordination is an important function of the management. Co-ordination is necessary to devetail the various activities of the organisation for achieving the desired result. "To co-ordinate is to harmonize all the activities of a concern so as to facilitate its working, and its success. It is giving to the material and social, functional, organic whole such proportions as are suitable to emable it to play

^{22.} Chris Argyris, The Impact of Budgets on People, N.Y. The Controllership Foundation Inc., 1952, Chris Argyris, Human Problems with Budgets, Harvard Business Review, Vol.31, No.1, 1953.

^{23.} H.A. Simon, H. Guetzkow, G., Kozmetsky & G. Tyndall, op.cit.

^{24.} Andrew C. Stedry, op.cit.

^{25.} A.C. Stedry & E. Kay, "The effects of Goal on Performance. A Field Experiment", Hanagement Science Report No. 23, Carnegie Institution of Technology, 1964.

^{26.} G.H. Hofstede, op.cit.

^{27.} D.T. DeCoster & J.P. Fertakis, Budget Induced Pressure and Its Relationship to Supervisory Behavior, Journal of Accounting Research, Vol.6, No.2, Autumn, 1968, pp. 237-246.

^{28.} M. Schiff & A.Y. Lewin, The Impact of People on Budgets, The Accounting Review, Vol. 45, April, 1970, pp. 259-268.

^{29.} V.F. Ridgway, Dysfunctional consequences of performance Measurements in L.S. Rosen (ed.), op.cit., pp. 284-290.

^{30.} Selwyn W. Becker & David Green, Jr., Budgeting & Employee Behavior in William E. Thomas (ed.) Readings in Cost Accounting, Budgeting and Control, Bombay, D.B. Taraporevala Sons, and C. Private Ltd., 1970, pp. 378-398.

its part assuredly and economically", 31

A good plan lays down the basis of co-ordination. When plans are made well in advance, with care and attention necessary to meet budgetary requirements, it is likely to be a co-ordinated plan which takes into consideration the objectives, problems and possibilities of the various departments and of the concern as a whole.

Co-ordination is brought about through proper communication. The budgetary process creates a series of communications both upward and downward for bringing about necessary co-ordination in the activities of a concern.

The absence of co-ordination restrains the proper functioning of a concern. If there are several divisions or departments in a concern, the efforts of all divisions or departments should be properly timed and co-ordinated in order to achieve the goals of the concern. This brings to fore another element of budgeting, that is, the need for constant review and revision of the plans. If some unforeseen and uncontrollable factors materially affect the functioning of a division or department, a suitable machinery should be available for adjusting the activities of other divisions affected thereby.

Evaluation of Performance.

Evaluation of performance is aided by budgets. They contain standards of efficiency and effectiveness. "It represents a standard of effectiveness in so far as it specifies a set of desired outputs and a

^{31.} Henri Fayol, General and Industrial Management, Trans. Constance Stores, London, Pitman Paper Backs, 1967, p. 103.

necessary to produce the specified output. 32 Actual performance data can be compared against budget standards. Thus budget can provide data which form the basis for objective evaluation. Budget reports are usually prepared to show the deviations both favourable and unfavourable which are the basis for at least three types of appraisals: 33

- 1) Self-appraisal,
- 11) Subordinate appraisal, and
- iii) Activity appraisal.

Self appraisal enables lower level management to identify the needs for action programmes and to guide the response. This also enables the lower management to fulfil their need for achievement. Subordinate appraisal enables higher management to evaluate the performance of subordinate managers and activity appraisal is concerned with the evaluation of performance of various company activities by the higher management. 34

The way in which budgets are used in performance evaluation tend to influence behaviour, attitude and performance of the participants. A permissive approach is likely to result in lower motivation and negative attitude while a supportive approach may lead to positive attitudes and behaviour. The use of budget as a tool of performance evaluation leads to many dysfunctional consequences as have been pointed out by V.F. Ridgway, 35

^{32.} D.T. Otley, "Budget Use and Managerial Performance", The Journal of Accounting Research, Vol. 16, No.1, Spring 1978, p. 124.

^{33.} Gordon Shillinglaw, "Divisional Performance Review: An Extension of Budgetary Control", in C.P. Bomini et.al. (eds.), op. cit., p. 153.

^{34.} Ibid, pp. 153-154.

^{35.} V.F. Ridgway, "Dysfunctional Consequences of Performance Measurement", Administrative Science Quarterly, 1 Sept., 1956, pp. 240-247.

Rosen and Schneck, 36 Argyris 37 and Likert 38.

Cost Control and Cost Reduction.

Budgets may be prepared for cost control and cost reduction. A budget is a useful tool for cost control, because it reveals the deviations from pre determined standards and thus, enables manakement to direct efforts to keep cost at or below a standard. Cost reduction includes: "(i) unit cost reduction by expenditure reduction of a given volume of output and/or (ii) unit cost reduction by an increase in productivity (i.e. an increase in output, yield or rate of output for a given expenditure)."39 In other words, cost reduction pertains to managerial efforts to reduce costs through improvement of such factors as methods. approaches, work arrangements, and product improvement. 40 Although distinctions are drawn between cost control and cost reduction, in a broad sense cost control includes cost reduction too. It may sound strange that an enterprise using budgets should also undertake cost reduction drives. But such drives are necessary to bring about economy and efficiency. The cost control concept is static in the sense that it stresses reaching and maintaining a stated level of performance. Moreover, "budgets have a way of growing from precedent, and the fact that a certain

^{36.} L.S. Rosen and R.E. Schneck, "Some Behavioral Consequences of Accounting Measurement Systems", Cost and Management, Vol. 41, No. 9, pp. 6-16, October, 1967.

^{37.} Chris Argyris, "Human Problems with Budgets", Harvard Business Review, Vol. 31, 1953, pp. 97-110.

^{38.} Renais Likert, The Human Organization, N.Y., McGraw-Hill Book Co. Inc., 1967.

^{39.} London, Institute of Gost and Works Accountants, Cost Reduction, 1956, p. 9.

^{40.} G.A. Welsch, op.cit., p. 163.

^{41.} Ibid., p. 164.

expenditure was made in the past becomes evidence of its reasonableness in the present; if a department once spent a given amount for supplies, this becomes a floor for future budgets". Linefficiencies of this type can be removed by reexamination of standard in the course of cost reduction drives.

Standards of Performance.

One of the purposes of preparing budgets is to set desired standards of performance. The setting of these standards facilitates control.

Because control process involves three steps: (i) astablishing standards, (ii) measuring performance against these standards and (iii) correcting deviations from standards and plan. Standards play an important rele in budgetary planning and control. "Budgets are based on standards, both financial and pre-financial i.e. technical: quantities, hours, percentages, quality levels. Standards are the bricks the budget structure is built from".

As stated in Chapter VI, the involvement of the managers in setting budget standards is likely to bring about the acceptance of such standards and to result in greater commitment to achieve them. Behavioural scientists point out that "individuals not only can, but do, actively resist the imposition of standards which they do not understand or consider legitimate."

They also point out that "organisational members frequently contribute creatively to the accomplishment of objectives to which they are committed and voluntarily adjust their behavior to correct deviations

^{42.} H. Koonts and C.O'Donnel, ep.cit., p.662.

^{43.} Ibid, p. 641.

^{44.} G.H. Hofstede, op.cit., p. 15.

^{45.} Raymond E. Miles and Roger C. Vergin, "Behavioral Properties of Variance controls' in William J. Bruns & Don T. DeCester (eds.), op. clt., p. 372.

from standards and procedures which they understand and accept." They further advocats the following requirements regarding etandards:

"Standards must be established in such a way that they are recognized as legitimate. This requires that the method of deriving standards must be understood by those affected, and that standards must reflect the actual capabilities of the organizational process for which they are established.

The individual organisation members should feel that he has some voice or influence in the establishment of his own performance goals.

Participation of those affected in the establishment of performance objectives helps establish legitimaty of these standards.

Standards must be set in such a way that they convey "freedom to fail". The individual needs assurance that he will not be unfairly censured for an occasional mistake or for variations in performance which are outside his control". Consideration of the above behavioural requirements regarding standards is likely to make the budget standards more acceptable to the members of the organisation.

Achievement of budget targets.

Budgets may be prepared for the achievement of targets embodied in them. The budgetary planning phase spells out these targets and maps out the path to be followed in achieving these targets. The setting of targets and their break down into various budgets act as a motivating factor. These act as bench marks at which the management directs its

^{46.} Itdd, pp. 372-373.

^{47.} Ibid, p. 373.

ment of these targets by comparing the actual against these targets.

If there is a shortfall in the achievement of targets, the reasons are analysed and these are broken down into controllable and non controllable elements. Managerial responsibility for controllable elements is fixed up. So far as the non-controllable elements are concerned, these are to be taken care of by amending the plane.

Communication.

Budgets may be prepared to provide a means of communication throughout the organisation. Communication is essential for operating an enterprise effectively. "Communication is the essence of organised activity and is the basic process out of which all other functions derive". **

Budgeting in the planning and control phase is likely to create upward, downward, lateral and diagonal communication channels. "The entire process of developing the budget consists of a series of communications, writtens or oral, by means of which higher levels of management convey to their subordinates general policies and instructions, and subordinate departments prepare detailed proposals for coordination and approval by their supervisors. The control process consists of a similar series of communications carried out principally by means of budget reports, by which all levels of management are kept informed of the progress of the business and of the extent to which the budget program is actually been carried out". **

^{48.} A Bavelas & D. Barrett, "An Experimental Approach to Organizational Communication" in Robert A. Sutermeister, People and Productivity, N.Y., NcGraw-Hill Book Company, 1963, p. 304.

^{49.} W.D. Knight & E.H. Weinwurm, op.cit, p. 289.

The importance of communication is also stressed by Simon et.al. on the following conclusion regarding staff-line communication:

"Direct and active channels of person-to-person communication between staff and line are more important for management's use of figures than the way the figures themselves are presented". 52

Hofstede's study confirmed Simon's results regarding the importance of person-to-person relationships for the use of figures. His study also revealed that communication between the superior and the subordinate within the line organization is more important than staff-line communication for the use of figures. 53 He further concluded that the communication between a budgetee and his boss is the most crucial to the functioning of the budget system, both for its motivation and for its job satisfaction outputs. 54 Thus budgeting fosters a good communication system within an organisation. A good communication system, in its turn, helps in the smooth functioning of the budgetary system. It is also an important factor in motivating the employees to achieve the objectives of the enterprise.

The direction of flow of budgetary control information within an organisation may have far reaching effects on its efficiency. Likert has shown that the direction of information flow is downward under authoritative systems of management while the same is upward, downward and with peers under participative system of management, and is accurate.

^{50.} H.A. Simon, H. Guetzkow, G. Kozmetsky and G. Tyndall, op.cit.

^{51.} G.H. Hofstede, op.cit.

^{52.} H.A. Simon et.al., op.cit, as quoted by G.H. Hofstede, op.cit,p.201.

^{53.} G.H. Hofstede, p. 203.

^{54.} Ibdd, p. 247.

^{55.} Rengia Likert (1967), op. cit, pp. 225-227.

Miles and Vergin⁵⁶ have stated that "performance data must not only flow upward for analysis by higher echelons, but they must also be summarised and fed back to those directly involved in the budget."

It has also been shown by Dorls N. Cook that "the degree of success or failure in performance is directly related to the frequency of feedback of performance and that the interest and satisfaction (attitude) of the participants are directly related to the degree of success or failure as evidenced by the performance report." 57

Budget reports should be in language easily understandable by non-accountant managers. Becker 58 suggest that the accountants should look to the coding and receiving process of the individuals to whom information is transmitted. This view is supported by Bruns, 59 Dyckman and Birnberg and Nath 1. All of them refer to the tendency of non-accountants to take accounting reports at face value and their failure to appreciate the differences arising out of differing accounting techniques.

^{56.} Raymond E. Miles and Roger C. Vergin, op.cit, p. 373.

^{57.} Deris M. Cook, The Effect of Frequency of Feedback on Attitude and Performance in William J. Bruns, Jr. and Don T. DeCoster (Editors), op. clt, p. 234.

^{58.} S.W. Becker. "Discussion of the Effect of Frequency of Feedback on Attitudes and Performance in William J. Bruns, Jr. and Don T. DeCoster (Editors), op. cit, pp. 417-420.

^{59.} William J. Bruns, Jr. "Inventory Valuation & Management Decision" in William J. Bruns, Jr. & Don T. DeCoster (Editors), op. cit, pp. 201-209.

^{60.} Thomas R. Dyckman, "The Effects of Alternative Accounting Techniques on Certain Management Decision" in William J. Bruns, Jr. and Don T. DeCoster (Editors), op. cit., pp. 211-220.

^{61.} Jacob G. Hirnberg and Raghu Nath, "Implications of Behavioral Science for Managerial Accounting" in Milliam J. Bruns, Jr. and Don T. DeCoster (Eds.), op. cit., pp. 7-22.

Motivation.

Motivation is an important element of management function. "Motivation is getting the members of the team to pull their weight effectively, to give their loyalty to the group, to carry out properly the tasks they have accepted, and generally to play an effective part in the job that the group has undertaken; with this general "inspiration" goes a process of supervision to ensure that they are in fact playing their part properly".

refrective management involves motivation of individuals and groups working together. Motivation can be effected through goal congruence i.e., acceptance of the goals of the organisation as individual or group goals. Financial incentives go to motivate individuals. But this is not the most important motivating factor. Factors like recognition of accomplishment, status, definite assignment of responsibilities, fairness in evaluation and responsible participation in decision making process have been found to be important in motivating managers and supervisors. Loose organisational set-up, undue pressure, uncoordinated operations, poor communication and paucity of information go against positive motivation. There are many ways of developing positive motivation and goal-congruence. Budgeting can play a significant role in motivation by ensuring participation in the planning process, improved communication and co-ordination, and confidence in the measurement and evaluation process. 65

^{62.} E.F.L. Brech, Management - Its nature and Significance, London, Pitman Paper Backs, 1969, p. 15.

^{63.} G.A. Welsch, op.cit., p. 18.

^{64.} Ibid, p. 18.

^{65.} B.H. Sord & G.A. Welsch, op.cit., pp. 37, 38 & 61.

There is a controversy as to whether budget can act as a motivating force. Shilliaglaw observes, "what is not commonly understood is that the budget itself is not intended to act as a motivating force." 66 Contrary to this view, Hofstede states that "a budget in itself can be a standard for achievement for budgetee and in this way an important contribution to his motivation." 67 Hofstede summarises the characteristics in the budget system motivating budgetses positively and negatively. Stedry 69 made an extensive examination of the use of budgets as a tool for motivation. He measured the effects of various budgets on an individual's level of aspiration as a method of determining the differences in motivation on these budgets.

From the above discussions, it is clear that budgets can be used as an important motivating element. Motivation through budgets has been discussed in chapter - VIII.

Overall economy and efficiency.

Budgets may be prepared to bring about overall economy and efficiency.

The ICWA views, inter alia, the following as the main purposes of budgetary control:

^{66.} Gordon Shillinglaw, "Divisional Performance Review: An Extension of Budgetary Control" in C.P. Bonini, et.al., op.cit., p. 154.

^{67.} G.H. Hofstede, op.cit., p. 67.

^{68.} Ind. pp. 74-75.

^{69.} A.G. Stedry, op.cit.

- "(a) to secure the most economical use of the factors of production,
 - (b) to provide a measure of efficiency with which the activities of the organisation have been co-ordinated."70

When a budget is used as an effective tool of management, it is likely to bring about economy and efficiency.

Pressure tool.

Budgets may be prepared to put pressure for raising production.

Since production increase through capacity utilisation is stressed, budgets may be used as a pressure-device for raising production. Chris Argyrie was the first to point out that budgets may be used as 'needlers'. 71 The use of budgets as pressure-devices may result in the creation of groups, department-centredness, pressure on supervisors etc. 72 These consequences have been aptly summarised by Argyris as follows:

management, and tends to place the factory supervisor under tension.

This tension may lead to inefficiency, aggression and perhaps a complete breakdown on the part of the supervisor. --- The use of budgets as needlers by top management tends to make the factory supervisors see only the problems of their own department. The supervisors are not concerned with other people's problems. They are not 'plant-centered' in outlook. "75

^{70.} The Institute of Cost & Works Accountants, London, An Introduction to Budgetery Control, Standard Costing, Material Control and Production Control, 1969, p. 79.

^{71.} Chris Argyris, The Impact of Budgets on People, N.Y., The Controllership Foundation Inc., 1952, p. 25.

^{72.} Ibid, p. 81.

^{73.} Ibid. p. 25.

Purposes of preparing budgets by the B.J.M.C. and the enterprises under it.

After a discussion of the purposes of preparing budgets from a theoretical point of view we new proceed to outline the purposes for which the Bangladesh Jute Mills Corporation (B.J.M.C.) and the enterprises under it prepare budgets.

(1) Compliance with corporation directives and statutes.

Budgets are prepared to comply with corporation directives and statutes. Enterprises are under the direct control and supervision of the corporation and are to follow the guidelines and directives issued by the corporation in connection with budgets. The preparation of budget by the enterprises is enjoined by such directives and guidelines.

The preparation of budget has also been made compulsory for the corporation and the enterprises under it by the Nationalisation Order and the B.J.M.C. Rules. 74

(ii) Facilitating the formulation of corporation budget.

Budgets at the enterprises level are prepared to facilitate the formulation of corporation budget. At the corporation level, the enterprise budgets are welded together for submission to the relevant Ministries. On the basis of the enterprise budgets, the corporation prepares its budget which shows revenue receipts and receipts on capital account as well as revenue expenditure and capital expenditure. The enterprise budgets aid in preparation of foreign exchange budget for development

^{74.} Bangladesh Industrial Enterprises (Nationalisation) Order, 1972, Article-19.

Bangladesh Jute Mills Corporation Rules, 1977, Clause-16, p.4.

and for non-development activities and also for insigible payments like delegation and training abroad, expenditure on account of office abroad, expenditure on international fairs, subscription to international organisations etc. The forms of these budgets are laid down in B.J.M.C. Rules, 1977.

(iii) Authorisation to spend.

budgets are prepared to authorise expenditure. This authorisation function holds good for capital expenditure budgets of the enterprises.

In the case of this budget, managers are required to restrict expenditure upto the authorised level. So far as the operating budgets are concerned, the expenditure level can be varied if the business condition so warrants with intimation to sonal office and corporation head office. Prior sanction is necessary for exceeding the capital expenditure budget.

(iv) Planning.

One of the purposes of preparing budgets is to facilitate the planning function at the corporation and enterprise level. The corporation is to plan the activities of the enterprises at the macro level. The corporation is required to plan for production, sales, capital expenditure (Balancing, Modernisation and Replacement), development and research, working capital, advertising and personnel. These plans are to be prepared keeping in view the external and internal factors affecting the industry. These are also influenced by national plan drawn up by the planning commission of the country. At the enterprise level, the plans are to be prepared for achieving the targets set by the corporation. These plans are usually drawn up within the framework of the guidelines given by the corporation.

The preparation of annual budget compels the management personnel at the corporation and enterprise level to look ahead and to formulate plans for the coming year keeping in view the constraints under which the industry is working.

Although a begining has been made in this direction, budgetary planning in all its manifestations has not yet gained ground at the corporation and enterprise level. This is partly due to uncertainties about Government controlled policy variables 75 and partly due to shortage of trained personnel.

(v) Control.

Budgets are prepared for controlling the activities of the corporation and the enterprises under its jurisdiction. In the first place, the budget is prepared to control the activities of the enterprises by the corporation. Since the enterprises are located at different parts of the country, there is the need for some amount of control by the corporation for their smooth operation and healthy growth. The budget seems to be the means for exercising such control. The corporation is supposed to intervene only in those enterprises whose results do not conform to the budget. Secondly, budgets are likely to enable the enterprise management to control the operations of the enterprises. Budget as an instrument of control has not been effective as the Government and the corporation have failed to make proper use of it. Hereover, policy-mix faced by the enterprises has been confusing and this has hindered control over their goal structure. Thus there has been enough administrative

^{76.} Rehman Sobhan and Mumaffer Ahmad, ep.cit., p. 331.

^{76.} Ibid, p. 313.
77. Ibid, p. 313.

control but not enough scientific control to ensure better performance in the enterprise". 78

Control limits are likely to facilitate budgetary control. But no such limits have been instituted in the budgeting system of the corporation and the enterprises.

(vi) Co-ordination.

Co-ordination of the activities of the corporation and those of the enterprises is brought about through budgets. It is of prime importance as the B.J.M.C. operates in a competitive international market. Co-ordimation of the activities of the enterprises is required to achieve the production and other targets set by the corporation. The corporation. in turn, is required to co-ordinate its activities for its smooth functioning. Co-ordination at the corporation level becomes all the more necessary as directives, often conflicting, coming from different Ministries are to be accommodated within the plan. Moreover, the dictates of the foreign market are also to be heeded and constraint like finance is to be taken care of for the purpose of proper co-ordination. Within each enterprise, the budget is likely to devetail its various activities keeping in view the macro-level requirements. This enables the enterprise management to run its affairs amouthly and systematically. Since budgetary planning not been taken seriously, co-ordination through budgets has not been effective. The situation has been aptly described by Rehman Sobban and Muzaffer Ahmad as follows:

^{78.} Ibid, p. 329.

"It may sound surprising but it is not unusual for the production target, foreign exchange budget and the enterprise's current and capital budgets to be at variance". 79

Thus, co-ordination through budgets has been ineffective.

(vii) Evaluation of Performance.

In the case of the corporation and the enterprises, budgets are rarely used for subordinate appraisal. Their performances are appraised on the basis of Annual Confidential Reports (A.C.R.) prepared by their superior managers.

Budget reports prepared by the enterprises are used for the appraisal of their activities. This is done through periodic review of budget reports at the sonal level and the corporation level. But the process of review has not been effective, as proper variance analyses are not made and investigated into. Where such analyses are done, they are not followed by necessary corrective action. The corrective action takes time and thus becomes ineffective. Thus, appraisal of activities of the enterprises on the basis of budget performance is yet to be made effective.

(viii) Managerial tool.

Budgets may be prepared to aid management in discharging managerial functions of planning, control, coordination, communication, motivation and performance evaluation. This potential purpose of budgets has not yet been fully achieved as the top management at the Ministerial level and the corporation as well as enterprise management have failed to utilise this

^{79.} Itdd, p. 332.

^{80.} Ibdd, p. 328.

as the behavioural aspect of budget has not been taken proper care of.

(ix) Cost control and cost reduction.

Budgets are prepared for cost control and cost reduction at the corporation level and at the enterprise level. These are essential for efficiency and economy. In case of enterprises under B.J.M.C., cost control and cost reduction are very much essential to increase the profitability of the enterprises and to increase the competitive strength of the jute goods.

Several studies have reported a wasteful way of administration of the industrial enterprises in Bangladesh suggesting a scope for substantial coat reduction through effective utilisation of resources. Standards Another study severaled the possibility of cost reduction. The general managers and sales managers reported that cost could be reduced to the extent of 10% on an average, the personnel and maintenance managers reported cost reduction by 11% and the production managers reported the same to the extent of 12%. Thus, there is a scope for cost reduction in jute and other industries of Bangladesh. One of the ways of reducing cost may be to re-examine the existing budget standards.

Realising the importance of cost control and cost reduction, the corporation has advised the enterprises to form cost control and cost reduction committees at the enterprise level to find out ways and means

^{81.} M. Habibullah, Santi N. Ghosh, Helaluzzaman and M.A. Quddus, Government Subsidy to Jute Industry, A Study conducted by the Planning Commission, Bangladesh, 1978 (unpublished).

M. Habibullah, Cost Structure in Jute Industry, Bureau of Economic Research, University of Dacca, 1978.

M. Habibullah, Industrial Efficiency and Profitability in Bangladesh, Bureau of Economic Research, University of Dacca, 1974.

^{82.} M. Habibullah, Santi N. Ghosh & M.A. Quddus, Management Motivation through Result-Based Reward System. Dacca, Bangladesh Management

for the same. Unless effective control is exercised on man, material and machine, efforts at cost control are not likely to yield the desired results. Cost control also calls for separation of controllable costs from non-controllable costs and fixing of responsibility for the former. Since responsibility accounting is not practised at the corporation and enterprise level, cost control has not been effective. Cost reduction can be brought about by a highly motivated and achievement oriented management. At present there is a dearth of such management.

(x) Achievement of production target.

Budgets are prepared with a view to achieving the targeted volume of production. The corporation sets production target for each enterprise under its jurisdiction keeping in view the number of looms, efficiency per loom per hour, number of working days and number of shifts to be operated. The setting of production target is also influenced by the macro target set for the industry by the Planning Commission. Budgets are thus based on fixed forecasts of production. The latter ultimately affects the other budgets of the enterprises. The production budget plays a pivotal role in the budgeting system of the enterprises. Since top priority is attached to the achievement of production targets by the Jute Ministry, the corporation and the enterprise management, the production budget naturally becomes the focus of attention of all the parties.

The production budget lays down the modus operandi of achieving the production target. The production budget involves the establishment of

policies relative to inventory levels, the determination of total quantity of each product that is to be manufactured during the budget period and the prorating of these production to interim periods. The production budget involves the setting of the material budget, the labour budget and the manufacturing expense budget. In addition to the above budgets, production budgeting entails consideration of the manufacturing facilities, the availability of internal and external services and working capital.

The preparation of material budget involves the consideration of the following factors:

- (1) Quantity required. This facilitates the proper planning and controlling of material purchases.
- (ii) Quality required,
- (iii) Price trend,
 - (iv) Availability and sources of supply,
 - (v) Frequency and size of deliveries,
 - (vi) Availability of storage and the working capital for additional purchase of materials.

In preparation of the labour budget the following factors need to be considered:

- (i) type and availability of labour,
- (ii) the size of the labour force at particular periods having regard to machine staffing ratios and loading schedules.
- (iii) the cost of labour, hours of work, need for shift work and overtime.

^{84.} G.A. Welach, op.oit., p. 110.

Next comes the manufacturing expense budget. This budget contains an emtimate of indirect materials, indirect labour and miscellaneous factory expense items such as taxes, insurance, power, supplies, depreciation, repairs etc.

The preparation of preduction and other related budgets clearly charts out the path to the achievement of production goal.

(xi) Achievement of profit target.

have targets of profits laid down in their revenue budgets. Though earning of prefit is not the sole objective of the enterprises, it is necessary for their sustained growth. There is some controversy as to whether the enterprises under the public sector should aim at earning profit. S.S.

Kherra, 85 V.V.Ramanadham and Nurul Islam 87 advocate the earning of profit for the growth of the industry itself and the generation of surplus for the industrial development of the country. The First Five Year Plan 88 and the Second Five Year Plan 89 of Bangladesh stress the generation of surplus by the enterprises in the public sector.

^{85.} S.S. Kherra, Government in Business, London, Asia Publishing House, 1963, pp. 235-239.

^{86.} V. V. Ramanadham, The Structure of Public Enterprises in India, Bombay, Asia Publishing House, 1961, pp. 89-97.

^{87.} Nurul Islam, Development planning in Bungladesh, A study in Political Economy, Dacca University Press Ltd., 1979, p. 233.

^{88.} The First Five Year Plan, Planning Commission, Government of the People's Republic of Bangladesh, pp. 261-262.

^{89.} The Second Five Year Plan, Planning Commission, Government of the People's Republic of Bangladesh, p. xill-25.

In setting profit targets, the estimated cost of production and selling prices are taken into consideration. The revenue budget thus lays down the mode of operation to be followed in achieving the profit target.

(xii) Procurement of fund from Government.

One of the purposes of preparing budgets is to obtain funds from the Government. The Government allocates funds under the Annual Development Plan on the basis of development and foreign exchange budgets submitted by the corporation. The corporation prepares these budgets on the basis of capital expenditure budget prepared by the enterprises. This budget stipulates the requirement of foreign exchange for such expenditure. Thus, the preparation of the above budgets by the corporation and the enterprises enables the Government to allocate funds for development of the industry.

(miii) Standards of performance.

Budgets are prepared to set desired standards of performance. The setting of standards facilitate control and informs the enterprise management about the expectation of the top management. The top management, in its turn, can evaluate the performance of the enterprise management on the basis of these standards.

Standards are set by the corporation head office and are subsequently embodied in the enterprise budgets. In setting these standards the enterprise management is not consulted by the corporation. Thus the behavioural requirement is not met. The budget discussion and finalisation meeting held at sonal level between the Budget Committee constituted by the corporation and the enterprise management does not involve the consideration of the standards. These are treated as 'givens'. The enterprise budgets contain standards regarding production, wastage percentage, consumption of jute and other materials per ton of finished goods, labour per machine, number of shifts for different products, efficiency per loom per hour for different products, rate of consumption of packing materials, overtime for factory workers and office etaff, number of working days and working hours, batch price per maund of jute, batch composition for products, sales prices of finished goods and profit. These are communicated to the enterprise management in the form of budget guidelines. These standards are rigid and can be changed only with the prior permission from the sonal and the corporation management. Inflexibility of budget standards affects the acceptance and use of budgets by the enterprise management.

(xiv) Communication.

Budgets are prepared for facilitating communication between the corporation and the enterprises and also among the various departments of the enterprises. The process of budgeting opens up series of communication channels between the corporation and the enterprises. Communication starts with the issue of budget guidelines from the corporation. At the enterprise level, the preparation of budget is likely to involve a good deal of communication among the various departments of the enterprises. The subsequent review and approval processes also result in communication between the corporation and the enterprises. Budget reports prepared by the enterprises and submitted to the gonal and corporation head office are a good means of communication. But the feedback from the corporation

and the zonal office is not regular. At the enterprise level, interdepartmental communication regarding budget is not effective. This is because the departmental managers do not seem to accept and use budgets in the proper perspective.

(xv) Hotivation.

One of the purposes of preparing budgets is to motivate the employees to work wholeheartedly to achieve the goals embodied in the budgets. Since managers at the enterprise level do not have adequate budget training and do not participate in the budget process in an effective manner, they do not seem to be motivated by budgets. The absence of goal-congruence and extringic rewards stands in the way of positive motivation. Insufficient feedback also affects motivation of the managers at the enterprise level.

Absence of performance appraisal on the basis of budget performance and absence of accountability for non-fulfilment of budget targets hinder effective motivation. Since managers budget motivation is at a low level, they are not likely to accept budgets wholeheartedly and use them in an effective manner in discharging their managerial functions.

(xvi) Pressure tool.

Budgets are prepared for putting pressure on the enterprise management to raise production. Production increase has become the focal point of attention, the achievement of production targets set in the budget is stressed by all parties. The corporation in order to comply with the macro level production targets, set production targets for the enterprises. The enterprise management feel the pressure as they are not consulted in setting such targets and the problems involved in achieving such targets are not

properly attended to by the corporation top-management. The pressure for boosting production thus is keenly felt by the enterprise management.

Managers were asked about this purpose to ascertain whether the budget is being actually used as a pressure device. Manager's agreement or disagreement with this purpose is as under.

Table No. 7.1

The use of budget as a pressure device as perceived by the managers.

Pressure device Type of managers	Agreement	Pisagreement	Total
Enterprise Head	14 (74)	5 (26)	19 (100)
Production Head	16 (84)	3 (16)	19 (100)
Soles Head	13 (68)	6 (32)	19 (100)
Total:	43 (75)	14 (25)	57 (100)

(Figures in brackets are row-percentages)

From the above table it is clear that 75% of the managers interviewed agreed that the purpose of budget is to put pressure for raising production while 25% did not view it as such. 74% of the enterprise heads, 84% of the production heads and 68% of the sales heads agreed with the use of budget as a pressure device. The production heads felt the pressure most, because there seems to be a constant pressure for raising production. It can be said that the use of budget as a pressure device

is prevalent in the enterprises under B.J.M.C., a phenomenon noted by Argyris.

(xvii) Overall economy and efficiency.

Budgets are prepared for overall economy and efficiency. In the case of the corporation and the enterprises under it, there is a great need for economy and efficiency for the survival of the industry. In view of huge losses suffered by the industry from 1971-1972 to 1978-1979 and tough competition in the international market, the need for economy and efficiency is being keenly felt. Budgets may bring about economy and efficiency by ensuring economic and efficient use of the factors of production.

The above purposes of preparing budgets were ascertained from a perusal of relevant statutes, rules, corporation directives, interviews with corporation officials and from pilot study conducted prior to framing of questionnaire. Managers were asked to record their extent of agreement or disagreement with the above purposes of preparing budgets. Managers' who agreed with the purposes were deemed to have knowledge regarding the purposes. While managers who disagreed with the purposes were deemed to have no knowledge regarding them. In the next section, the relationship between managers' knowledgeability and their acceptance and use of budgets is explored.

7.2 Managers' knowledge regarding the purposes of budgets and their acceptance and use of budgets.

Hanagers' were asked to record their extent of agreement or disagreement with the probable purposes of preparing the budgets on a 5-point scale.

^{90.} G. Argyris (1952), op.cit.

Managers who agreed with the purposes were deemed to have knowledge while those disagreeing with the purposes were deemed to have no knowledge. It has been assumed that the managers' knowledge regarding the purposes is likely to affect the acceptance and use of budgets by them. In other words, managers having knowledge are likely to accept and use budgets more than those who have no knowledge in this respect.

On the basis of measurement discussed in 2.2, managers' agreement or disagreement with the purposes of preparing the budgets are shown below. 92

Table No. 7.2

The agreement or disagreement of the managers regarding the purposes of preparing the budgets.

Agreement or Disagreement with the purposes of preparing the budgets The of unagers	Agreement	Disagreement	Total
Enterprise Head	19 (100)	0 (0)	19 (100)
Production Head	15 (79)	4 (21)	19 (100)
Sales Head	14 (74)	5 (26)	19 (100)
Total :	48 (84)	9 (16)	57 (100)

⁽Figures in brackets are row-percentages)

^{91.} One may have knowledge regarding the purposes of preparing budgets and still may disagree. For the purpose of this study, we considered such knowledge as ineffective.

^{92.} Managers' agreement or disagreement with the purposes of preparing budgets was measured without attaching any weight to them.

Attachment of weight might give better results.

From the table it is clear that a majority (84%) of the managers agreed with the purposes of preparing the budgets while 16% of them disagreed with the purposes. All the enterprise heads, 79% of the production boads and 74% of the sales heads agreed with the purposes. None of the enterprise heads disagreed with the purposes but 21% of the production heads and 26% of the sales heads disagreed with the purposes.

The following table shows the acceptance of budgets by managers vis-a-vis their knowledge regarding the purposes of budgets.

Table No. 7.3

A comparison of acceptance of budgets and knowledge regarding the purposes of budgets.

(Agreement)	(Disagreement)	Total	Level of significance
18 (100)	0 (0)	18 (100)	Hisher's Smact
30 (77)	9 (23)	39 (100)	Probability P = .023
48 (84)	9 (16)	57 (100)	
	18 (100) 30 (77)	18 (100) 0 (0) 30 (77) 9 (23)	18 (100) 0 (0) 18 (100) 30 (77) 9 (23) 39 (100)

(Figures in brackets are row-percentages)

From the above table it can be seen that all the managers having high acceptance had knowledge regarding the purposes of preparing budgets. While 77% of the managers reporting low acceptance had knowledge regarding the purposes of preparing the budgets and 23% of them had no knowledge

regarding the purposes. No manager having no knowledge regarding the purposes was a high acceptor of budgets.

Managers having high acceptance had knowledge regarding the purposes of budgets, while managers having low acceptance fell in both categories - 'knowledge' and 'no knowledge'. The difference between high acceptors and low acceptors were significant at P = .023 (Fisher's Exact Probability, P = .023) Table 7.3).

The following table shows the use of budgets by managers vis-a-vis their knowledge regarding the purposes of preparing budgets.

A comparison of use of budgets and knowledge regarding the purposes of budgets.

Knowledge regarding the purposes of preparing the budgets Use of budgets	Knowledge (Agreement)	No knowledge (Disagreement)	Total	Level of significance
High	19 (100)	9 (0)		Fisher's Exact
Low	29 (76)	9 (24)	38 (100)	Probability P = .018
Total:	48 (84)	9 (16)	57 (100)	

(Figures in brackets are row-percentages)

From the above table it is evident that all the high use managers had knowledge regarding the purposes of preparing the budgets. While 76%

of the low use managers had knowledge regarding the purposes of budgets and 24% of them had no knowledge regarding the same. Managers having no knowledge regarding the purposes were not high users of budgets.

High-use managers had knowledge regarding the purposes of budgets while low-use managers fell in both groups - 'knowledge' and 'no knowledge'. The difference between the two groups were found significant at P = .018

(Fisher's Exact Probability, Table 7.4).

This chapter dealt with the purposes of preparing budgets from a theoretical point of view and the purposes for which the corporation and the enterprises under it prepare budgets. Data revealed a significant relationship between managers' knowledge regarding the purposes of preparing budgets and their acceptance and use of budgets.

The next chapter discusses managers' budget motivation and its influence on their acceptance and use of budgets.

CHAPTER - VIII

BUDGET MOTIVATION AND ACCEPTANCE AND USE OF BUDGET

8.1 Budget motivation.

This chapter discusses some of the motivation theories and in the light of these theories evaluates the hudget motivation of the managers and its influence on their acceptance and use of budgets.

Budgets may be used to motivate managers to perform. They may be used to act as incentives for people to do a job efficiently. The psychology of budgeting is related to the field of job motivation which again belongs to performance motivation and motivation in general. 'Motivation' is a 'term employed generally for the phenomena involved in the operation of incentives or drives'.

According to Vroom, performance is a function of ability and motivation. Vroom's above idea may be expressed as follows:

Performance = f (Ability x Motivation)2

In this formula, ability and motivation are assumed to be mutually independent and the term 'ability' embraces all characteristics relevant to task performance except motivational conditions. These characteristics have to do with the manager's knowledge and skill relating to the task assigned to him. These are influenced by his educational attain-

^{1.} J. Drever, A Dictionary of Psychology, London, Penguin Reference Book, 1952, p. 178.

^{2.} V.H. Vreon, Work & Motivation, N.Y., London, John Wiley & Sons, 1964, p. 203.

^{3.} Ibid, p. 200.

ment, experience, aptitude and personality. Motivation on the other hand is a function of his needs, general economic condition of the country and social condition of the business enterprise. The latter includes managerial style, peer group loyalty, boss-subordinate relationship at various levels of organisation and the organisational structure.

In the following paragraphs we discuss briefly the motivation theories put forward by Maslow, McGregor, Herzberg, McClelland, Patton, Vroom and Porter and Lawler. All these theories have a common basis and all rely to a significant degree on the work of Maslow. But they indicate the diversity of approaches possible. The motivation process is so complex that no single theory is adequate to explain the whole process.

The diversity of people and organisations render the emergence of a single theory an unlikely phenomenon.

At first, we discuss Haslow's hierarchy of basic needs.

Maglow's Hierarchy of Basic Needs.

The basic needs of a budgeted manager will not be different from the basic needs of other people. Of all need classifications, we will choose the hierarchy of basic needs as developed by Maslow. This classi-

^{4.} Robert A. Sutermeister, People and Productivity, N.Y., McGraw-Hill Book Company, Inc., 1963, p. 8.

^{5.} M. Habibullah, Motivation Mix, Bureau of Economic Research, University of Dacca, Dacca, 1974, p. 1.

^{6.} N. Dopuch, J.G. Birnberg and J. Demski, Cost Accounting, Accounting Data for Management Decisions, N.Y., Harcourt Brace Jovanovich, Inc. 1974, p. 302.

^{7.} A.H. Maslow, Motivation and Personality, Harper & Row, 1954.

fication of needs is well adapted to the business situation.

The basic needs in Maslow's model are physiological, safety, love and belongingness, esteem and self-actualisation. An individual tries to satisfy the most basic needs and strives to move upward through the hierarchy towards self-actualisation. Maslow observes that "man is a wanting animal and rarely reaches a state of complete satisfaction except for a short time. As one desire is satisfied, another pops up to take its place. When this is satisfied, still another comes into the foreground, etc."

Physiological needs like the desire for food, water, clothing, shelter, wareth and other requirements for physical comfort are at the foot of the pyramid. If these needs are not reasonably satisfied, they block all other needs. Next comes the safety needs which relate to employment, fair treatment, comfortable routine and protection from unexpected events e.g., threat, deprivation and danger. Above the safety needs are placed the belongingness and love needs also known as social or affiliation needs. These needs are concerned with acceptance by one's fellow men, giving and receiving love and friendship. Social deprivations may cause temporary mental disturbances. Esteem needs are placed on the next level. Esteem needs, also termed as egoistic needs, are divided into self-esteem and esteem from others. Self-esteem needs include the desire for achievement, competence, autonomy and strength etc. Esteem from others embraces status, recognition and respect from one's fellowmen. Hofstede is of the

^{8.} Told, p. 69.

^{9.} E. Berne, Games People Play: The Psychology of Human Relationships, London, Andre Deutsch, 1966.

opinion that "the desire for power probably also belongs to the esteem group". 10

At the top of the hierarchy is placed the self-actualization of self fulfilment needs i.e. "the desire to become more and more that one is, to become everything that one is capable of becoming". 11

Maslow's hierarchy of basic needs was also used by McGregor.

McGregor suggested a means by which the organisation could meet the needs

of the individual as stated by Maslow and achieve its own goals too.

In conclusion it can be said that a satisfied need ceases to motivate and when the lower level needs are satisfied to a reasonable extent,
higher level needs then become active in motivation. The budgetary system
can be designed to satisfy the higher level needs of the managers.

Next, we take up Herzberg's motivation-hygiene theory or two factor theory.

Herzberg's Two-factor theory.

Herzberg's 12 concept is empirically based and is built on the hedonistic principle that people are motivated towards what makes them feel good, and motivated away from what makes them feel bad. His research purports to find a two-factor explanation of motivation. He identified the factors of achievement, recognition, challenging work, responsibility

^{10.} G.H. Hofstede, op,cit, p. 52.

^{11.} A.H. Maslow, op.cit., p. 92.

^{12.} F. Herzberg, B. Mausner & B.B. Snyderman, The Motivation to work, N.Y., John Wiley and Sons, 1959.

F. Herzberg, Work and the nature of man, London, Grosby Lockwood Staples, 1974.

and advancement as arousing good feelings in the work situation. These relate to the context of the job and are the real motivators.

On the other hand, he suggests that the factors of company policy and administration, supervision, salary, interpersonal relations and working conditions can produce bad feelings in the work situation. Hergberg calls these "hygiene factors". These belong to the context of the job.

The absence of the 'hygiene factors' causes dissatisfaction among exployees but their presence does not notivate them. These factors are also termed as 'maintenance factors' as they help to maintain a reasonable level of satisfaction in employees.

An important result of Hersberg's research is that the motivators and hygiene factors are quite separate and distinct from each other and are not to be considered as opposite ends of the same scale. Hersberg states: "Thus, the opposite of job satisfaction would not be job dissatisfaction, but rather no job satisfaction; similarly, the opposite of job dissatisfaction is no job dissatisfaction, not satisfaction with one's job". The implications of Hersberg's motivational theory is that the effective way to notivate employees is to give them challenging work in which they can assume responsibility. All tasks may not lend themselves to this approach, but various methods of "job enrichment" may be adepted to create more challenging jobs.

In conclusion it can be said that management aims at influencing organisationally desirable behaviour. But, such behaviour does not just take place - it is motivated by the needs of the people in the organisation.

^{13.} F. Heraberg, op.cit., p. 76.

Maslow identifies these needs and their impact on behaviour and Herzberg shows the applications of the same in the organisational setting. In devising a budget system these theories must be borne in mind to obtain the desired results. But studies conducted by Ewen, ¹⁴ Friedlander, ¹⁵ Myers, ¹⁶ Saleh, ¹⁷ Schwarts, Janusaitis and Stark ¹⁸ and Wolf ¹⁹ corroborate the findings of Hersberg. While Wernimont, ²⁰ Brayfield, ²¹ Vroom and Maier, ²² and Kahn ²³ disagreed with either the Hersberg et.al's methodology or their thesis that satisfiers and dissatisfiers are two different pheno-

^{14.} R.B. Ewen, "Some Determinants of Job Satisfaction, A Study of the Generality of Herzberg's Theory", Journal of Applied Psychology, 1964, 48, pp. 161-163.

^{15.} B. Friedlander, "Job Characteristics as Satisfiers and Dissatisfiers", Journal of Applied Psychology, 1964, 48, pp. 358-392.

^{16.} M.S. Myers, "Who are your motivated workers?" Harvard Business Review, January-February, 1964, 42, 73-88.

^{17.} S.D. Saleh, "A Study of Attitude Change in the Pre-retirement period", Journal of Applied Psychology, 1964, 48, pp. 310-312.

^{18.} M.N. Sehwarts, E. Jennsaitis and H. Stark, "Motivational Factors among supervisors in the utility industry", <u>Personnel Psychology</u>, 1963, pp. 45-53.

^{19.} M.G. Wolf, "The relationship of Content and Context Factors on Attitude towards company and job", Personnel Psychology. 1967, 20(2), pp. 121-132.

^{20.} R.F. Wernimont, "Intrinsic and Extrinsic Factors in Job Satisfaction", Journal of Applied Psychology, 1966, 50, pp. 41-50.

^{21.} A.H. Brayfield, "Review of F. Hersberg, B. Mausner and B. Snyderman, The Motivation to work", Personnel Psychology, 1960, 12, pp. 101-102.

^{22.} V.H. Vroon and N.R.F. Maier, "Industrial School of Psychology",
Annual Review of Psychology, 1961, 12, pp. 313-446.

^{23.} R.L. Kahn, "Review of F. Herzberg, B. Haugner and B. Snyderman, The Motivation to work", Contemporary Psychology, 1961, 6, pp.9-10.

mena, and some have disagreed with both. McCormick and Tiffin²⁴ also commerated studies supporting and non-supporting the motivation hygiene theory.

We now consider the contribution of D.C. McClelland to motivation theory.

McClelland's needs theory of motivation.

McClelland 25 discusses three types of needs:

- 1) the need for achievement,
- 11) the need for power, and
- iii) the need for affiliation,

McClelland is of the opinion that a person with high need for achievement possesses certain characteristies which enable him to work better in some situations than in others. These characteristics of an achiever are as follows: 26

- 1) He prefers tasks in which he can take personal responsibility for the outcomes.
 - 2) He sets moderate goals and takes "calculated risks".
 - 3) He wants precise feedback concerning his successes or failure.
- feelings about them.

^{24.} Ernest J. McCormick and Joseph Tiffin, Industrial Psychology, 6th ed., London, George Allen & Unwin Ltd., 1975, pp. 306-310.

^{25.} D.C. McClalland, The Achdeving Society, N.Y., The Free Press, 1967.

^{26.} D.C. McClelland, J.W. Atkinson, R.A. Clark and E.L. Lowell, The Achievement Motive, Appleton-Century-Crofts, 1953.

D.G. HcClelland, "Business Drive and National Achievement", Harvard Business Review, Vol. 40, No. 4, July-Aug. 1962, pp. 99-112.

He also found that the drive for achieving varies in individuals according to their personality and cultural background. He classifies managers as 'high achievers' and 'low achievers' and suggests that 'high achievers' are more successful managers than 'low achievers'. It is important to identify the personal characteristics of the high achiever and the low achiever in the context of both the budget and general management, if the best is to be obtained out of people.

We now consider McGregor's views on motivation.

McGregor's views on motivation.

According to McGregor, 27 traditional erganisation with the centralised decision making, superior-subordinate pyramid and external control
of work is the outcome of some assumptions about human nature and human
motivation. These assumptions are aid n to the view of man defined by
Mayo in the Rabble Hypothesis. Theory X 29 assumes that most people
prefer to be directed, are not interested in assuming responsibility and
want safety above all. This philosophy is accompanied by the belief that
people are motivated by money, fringe benefits and threat of punishment.

Managers who accept theory X assumptions have a tendency to structure control, and closely supervise their employees. These managers think that external control is clearly appropriate for dealing with unreliable,

^{27.} Douglas McGregor, The Human Side of Enterprise, Tokyo, McGraw-Hill Kogakusha Ltd., 1960.

^{28.} Elton Mayo, The Human Problems of an Industrial Civilization, N.Y., The Mcmillan Company, 1933.

^{29.} D. McGregor, op.cit., pp. 33-34.

irrespondible, and immature people. Drawing heavily on Maslow's hierarchy of needs, McGregor concluded that theory X assumptions about the nature of man are generally inaccurate and the management practices that develop from these assumptions will often fail to motivate individuals to work toward organisational goals. Management by direction and control may not succeed as it is a questionable way of motivating people whose physiological and safety needs are reasonably satisfied and whose social, esteem and self-actualisation needs are becoming predominant.

native theory of human behaviour called Theory Y. The theory assumes that people are not, by nature, lazy and unreliable. It further assumes that man can be basically self-directed and creative at work if properly motivated. Therefore, the essential task of management is to release this potential in man. The properly motivated person can achieve his own goals best by directing his own efforts towards accomplishing organisational goals.

Namegers who accept Theory I assumptions about nature of man do not attempt to structure, control or closely supervise the employees. Instead these managers help their employees mature by subjecting them to progress—ively less external control and allowing them to assume more and more self—control. Employees derive the satisfaction of social, esteem and self—gotualisation needs within this kind of environment.

Thus Theory Y aims at the establishment of an environment in which employees can best achieve their personal goals by committing themselves

^{30.} Ibid, pp. 47-48.

to the objectives of the organisation. In the process, employees are expected to exercise a large degree of internal motivation.

It may seem that the theories of Maslow, McGregor and Hersberg view motivation from different perspectives. But bamically they emphasize similar sets of relationships. Maslow stresses the rarely satisfied higher level needs as the motivating force. Hersberg views "satisfiers" as motivators after the hygiene factors have done away with dissatisfaction. McGregor's Theory which is based on assumptions concerning the motives of individuals views motivation from another angle.

Next we present Patton's views on managerial motivation.

Patton's views on managerial motivation.

Arch Patton³¹ stated that challenging work, status, leadership, competition, fear and money are the important motivators for the executives.

These basic motivators do not differ substantially from those put forward by other researchers.

We then discuss Vreom's valence-expectancy theory.

Vroom's Valence-expectancy Theory.

Following K. Lewin³² and others, Vroom³³ uses the following model showing the components of motivations

^{31.} Arch Patton, Men. Money and Motivation, N.Y., McGraw-Hill Book Company, 1961, Chapter 2.

^{32.} K. Lewin, The conceptual representation and the measurement of psychological forces. Contributions to psychological theory, Durham, H.C.: Duke University Press, 1938, 1, No.

^{35.} V.H. Vroom, op. cit.

Motivation = f (Valence X Expectancy)

The terms used here are defined as follows:

Motivation: The force to perform a certain act.

Valence: The performance of a person to attain a certain outcome of his act rather than not attaining it.

Expectancy: The extent to which a person believes a certain outcome of his act to be probable. According to Cofer and Appley³⁴, valences represent the affective, expectancies the cognitive element in motivation.

The above mentioned model is a simplified form as it considers only one possible outcome of the act. But in most of the eases, many outcomes will take place. In such a case, the model may be expressed as follows:

In the budget situation, Hofstede 36 adapts the Vroom model as follows:

"Budget motivation = f [valence of attaining budget X perceived influence on results + (Valences of other effects of actions X Expectancies of these other effects) 7

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^{34.} C.N. Cofer and M.H. Appley, Motivation: Theory and Research, N.Y./ London, John Wiley & Sens, 1963, p. 774.

^{35.} V.H. Vroom, op.cit., p. 18.

^{36.} G.H. Hofstede, op.cit.

The various concepts indicate the following:

Budget motivation: the force to take necessary actions to attain the budget.

Valence of attaining budget: the preference of attaining the budget above not attaining it.

Perceived influence on results: expectancy of the effect of one's actions on budget results.

Valences of other effects of actions: the preferences for these other effects.

Expectancies of other effects: the degree to which the budgetee believes these other effects to be probable."37

Rones and Livingstone developed an expectancy theory approach to the motivational impacts of budgets based on the model advanced by House se which in turn is derived from the Path-Goal hypotheses advanced by Georgopoulos, Hahoney and Jones and from previous research supporting the class of expectancy models of motivation.

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^{37.} Ibid, p. 48.

^{38.} J. Romen and J.L. Livingstone, "An Expectancy Theory Approach to the Motivational Impacts of Budgets", The Accounting Review, Vol. 50, October, 1975, pp. 671-685.

^{39.} R.J. House, "Some Preliminary Findings Concerning a Test of the Path Goal Theory of Leadership", (Unpublished manuscript, University of Toronto, April, 1972).

Notes on Questionnaires Frequently Used by or Developed by R.J. House, Faculty of Management Studies, University of Toronto, July, 1972.

^{40.} B.S. Georgopoulos, G.M. Hahoney, and N.W. Jones, "A Path Goal Approach to Productivity", <u>Journal of Applied Psychology (1957)</u>, 41. pp. 345-53.

In addition to Vroom , researches conducted by Atkinson 2, Galbraith and Cummings 43, Graen 44, Lawler 45 and Porter and Lawler 46 also support the expectancy model of motivation.

Porter and Lawler stated that an employee's motivation to perform is determined by two variables. The first of these variables is contained in the concept of an effort-reward probability. This effort-reward probability, in turn, is determined by two subjective subsidiary probabilities: the probability that the performance will result in the reward. Vream views the first of these subjective probabilities as an 'expectancy' and the second as an 'instrumentality'. The second relevant variable is the concept of reward value or valence. This indicates the individual's

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^{41.} V.H. Vroom, op.clt.

^{42.} J.W. Atkinson, "Towards Experimental Analysis of Human Motivation in Terms of Motives, Expectations and Incentives", in J.W. Atkinson, ed., Motives in Fantasy, Action and Society, Van Nostrand, 1958.

^{43.} J. Galbraith and L.E. Cummings, "An Empirical Investigation of the Motivational Determinants of Past Performance: Interactive Effects Between Instrumentality, Valence, Notivation and Ability." Organizational Behaviour and Ruman Performance (1967), 20, pp. 237-57.

^{44.} G. Graen, "Instrumental Theory of Work Motivation: Some Empirical Results and Suggested Modifications", Journal of Applied Psychology (1969), 53, (No. 2, Part 2), pp. 1-25.

^{45.} E.E. Lawler, "A Correlation Causal Analysis of the Relationship between Expectancy Attitudes and Job Performance", Journal of Applied Psychology (1968), 52, pp. 462-8.

E.E. Lawler, Pay and Organisational Effectiveness: A Psychological Perspective, Wiley, 1971.

organisational Behavior and Human Performance (1973), 9, pp. 482-503.

^{46.} L.W. Porter and E.E. Lawler, Hanagerial Attitudes and Performance, Homewood, ILL., Richard D. Irwin, Inc., 1968.

^{47.} L.W. Porter and E.E. Lawler, op.cit.

perception of the value of the reward or outcome that might be obtained by performing effectively. The reward value of outcomes originates from their perceived ability to satisfy one or more needs as specified by Maslow.

Although the valence-instrumentality expectancy theories have become popular. Miner and Dachler 48 pointed out some magging questions about them and Graen 49 preposed the addition of a concept of 'boundary conditions'.

From the above motivational approaches put forward by different experts, it can be said that they have a common core and emphasise the hierarchy of basic needs developed by Maslow. In budget motivation, it is necessary to stress the higher needs of esteem and self-actualisation. Hersberg's findings imply that there is a need to emphasise the motivating factors in the budget system and an adequate level of hygiene factors. Modregor pointed out the ways by which an organisation can meet the needs as proposed by Maslow and at the same time achieve its own goals. McGlelland's approach suggests that a manager should seek challenge from the setting of budget standards. Hofstede opined that a manager's motivation through budgets has two dimensions: the relevance of budget standards to the budgetee's tasks and his attitude towards the budget system. 50

For the purpose of this study, we will consider the hierarchy of basic needs developed by Maslow. The level of needs varies from person to person as well as from country to country. This variation is pointed out by Hofstede in the following language:

^{48.} J.B. Miner and H.P. Dachler, Personnel attitudes and motivation, Annual Review of Psychology, 1973, 24, pp. 379-402.

^{49.} G. Graen, ep.cit.

^{50.} G.H. Hefsteds, op.cit., p. 49.

"In the western countries physiological needs are almost universally satisfied, safety needs to a great extent; on the other hand, the standard for satisfaction of, for example, achievement needs will be much higher in the case of some occupational groups, for example scientiats, than for others, for example assembly line workers." 51

Is the case of managers of the enterprises under B.J.M.C., it is necessary to ascertain the level of their needs satisfaction. In the case of his budgeted managers Hofstede found that budget motivation through the satisfaction of their lower level needs will have a negative effect or no effect at all. Positive budget motivation can be built by trying to fulfill their higher level needs like esteem from others, self-esteem and some amount of self-actualisation. There are certain characteristics in the budget system which may positively and negatively motivate the budgetees. These characteristics will be pinpointed in the next section and the manager's budget motivation vis-a-vis their basic needs satisfaction will also be discussed.

8.2 Budget motivation and hierarchy of basic needs.

(A) Budget motivation and physiclogical needs.

Physiological needs of the managers are satisfied by financial rewards in the form of salary, fringe benefits etc. These enable the managers not only to meet their physiological needs but also to satisfy the higher level needs like social and ego needs. Some managers may derive a sense of security and status from such rewards. "Like the psychologists' inkblot, money is an essentiality neutral object which each man

^{51.} G.H. Hofstede, op.cit., p. 54.

^{52.} Ibid, pp. 54-55.

interprets in terms of his own habitual ways of thinking about the world and his relation to it."55 In the budget context, the individual interpretation by each budgetee is likely to influence the effect of financial rewards and penalties. The latter may have positive as well as negative effects depending on the nature of individual's reaction towards them.

In the Hersberg, experiments, salary was concerned with both positive and negative stories. "In fact, it was the most ambiguous of all factors found but still the negative element was predominant."

Achievement of budget targets may enable the managers to earn higher remuneration for meeting their physiological needs. So, the managers were asked:

"To what extent the achievement of budget target enables you to earn higher remuneration for meeting physiological needs e.g. feed, clothing, shelter etc."

All the respondents reported that there is little chance of their earning higher remuneration through the achievement of budget targets.

Till 1977-1978, the corporation had no incentive scheme. Realising its importance, the corporation introduced an incentive scheme from the last quarter of that year. Under the scheme, performance of the mills was scrutinised at the end of each month for determination of the "Best Mill of the month" and for payment of cash award to the mills so adjudged. The production, cost and wastage performances of the mills were considered for this purpose. Such cash award equivalent to salary/wages for a certain number of days were shared by workers, employees and managers including the head of the mill. The corporation officials interviewed reported that

^{53.} S.W. Gellerman, Motivation and Productivity, New York, American Management Association, 1963, p. 166.

^{54.} G.H. Hofstede, op.cit., p. 56.

the scheme had been kept in abeyance since March, 1980 due to large scale fabrication of performance reports. So the scheme was in operation for a short period of time. During the period under study, the enterprises surveyed could not qualify for such award. As such the managers did not feel the achievement of budget as a means of earning higher remuneration for meeting their physiological needs.

The managers were asked:

1

"To what extent your present pay and other fringe benefits provide incentive to work for the achievement of budget targets."

This query was made to ascertain the extent of their satisfaction with their present pay so that the same can motivate them to work for the achievement of budget targets. Seventy eight per cent of the respondents replied that their pay provided no incentive to work for the achievement of budget. The rest (22%) felt that their pay provided some incentive to work for the achievement of budget targets. Other studies also found a similar kind of dissatisfaction among managers about their pay because of rising price level of essential goods and services. The pay scales of the managers are dependent on their rank. Managers having a higher rank enjoy a higher pay scale than other managers in the same category with a lower rank. The pay scales of the managers are shown in Appendix-11.

Status increases and promotions are likely to fulfil the higher needs, like esteem needs. Managers were asked: "To what extent the achievement of budget targets gives you chances of accelerated promotion and unearned increment." All the respondents felt that there was no chance

^{55.} M. Habibullah, et.al. (1981), op.cit., p. 35.

of their getting an unearned increment through the achievement of budget target. There is provision for granting unearned increment for extraordinary performance, but the same is rarely granted. So, the managers
have such an attitude towards unearned increment.

As to promotions 80% of the managers felt that there was no chance of their getting an accelerated promotion on the basis of their budget performance. While 20% of them felt that there was chance of their getting such promotion on the basis of their budget performance. Interviews with the members of the promotion committee revealed that there is provision for accelerated promotion for managers demonstrating outstanding performance, but that is granted only in exceptional circumstances. Enterprise managers interviewed did not mention a single case of accelerated promotion during the period under study.

Managers are promoted on the basis of Annual Confidential Reports

(ACR) written by their senior (Appendix-10). The ACR form is filled up

at the end of every year and contains a number of items on the basis of

which a manager's performance is to be measured on a scale of 5 points.

The items are as follows:

Part - B

- 1. Intelligence and mental alertness.
- 2. Judgement and sense of preportion.
- 3. Initiative and drive.

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- 4. Power of expression.
- 5. Ability to plan, organise and supervise work.
- 6. Quality and quantity of work.
- 7. Perseverance and devotion to duty.

- 8. Capacity to guide and train subordinates.
- 9. Cooperation and tact.
- 10. Integrity: (a) Intellectual, and (b) moral.
- 11. Sense of Responsibility: (a) General and (b) In financial terms.
- 12. Personality.

The ACR writer is to assess the promotability of managers in the following manner:

- 1. Deserves recommendation for accelerated promotion.
- 2. Promotion.
- 3. Recently promoted, it is too early to be recommended for second promotion.
- 4. Not yet mature for being promoted, but may be premoted in course of time.
- 5. Unsuitable for further promotion: The incumbent has reached ceiling of advancement.
- 6. Detailed remarks. 56

The items on ACR make it quite clear that there is a great scope for subjective judgement and for malice, bias, prejudice and irrational behaviour. 57 Except item number 6 of Part-B, none is related to budget.

From the form of ACR it is quite obvious that no stress is given to budget performance in deciding cases of promotion.

Hofstede's remark that "the main risk in both salary and status/
promotional incentives is that they will reinforce latent feelings of
industice about the budget" seems not to apply to the managers under B.J.M.C.

^{56.} M. Habibullah, et.al. (1981), op.cit., pp.29-30.

^{57.} Ibid. p. 30. G.H. Hofstede, op.clt., p. 56.

From the above discussion it can be concluded that there seems to be little incentive in the formal reward system to positively motivate the managers to work for the achievement of budget targets.

(B) Budget motivation and safety needs.

Safety needs are placed above the physiclogical needs in the need hierarchy developed by Maslow. Data collected by M. Habibuliah revealed that "all categories of the respondents, namely, lower level managers, middle level managers and upper level managers attach highest amount of importance to job security". 59

In the budget context, heavy stress on salary, promotion and status rewards and penalties, management by fear and emphasis on accountability may frustrate the safety needs of the budgetee. Apart from the rewards and penalties system, the budget can frustrate the safety needs of the budgetee if he is not prepared for the change which a dynamic budget seeks to bring about. In such a case the budgetee may look upon the budget as a threat to his comfortable routing.

Managers were asked: "To what extent the non-achievement of budget target threatens your security of employment". The replies of the respon-

^{59.} M. Habibullah (1974), op. cit., p. 37.

^{60.} G.H. Hofstede, op.cit., p. 57

^{61.} Ibid. p. 57.

Table No. 8.1

The extent of frustration of need for security of the managers.

e managers	Threatened	Not threatened	Total
Enterprise Head	14 (74)	5 (26)	19 (100)
Production Head	12 (63)	7 (37)	19 (100)
Sales Head	10 (53)	9 (47)	19 (100)
Total:	36 (63)	21 (37)	57 (100)

(Figures in brackets are row-percentages)

From the above table, it is evident that 6% of the managers perceived that the non-achievement of budget threatened their security of employment while 57% of them felt that the non-achievement of budget did not threaten their security of employment at all. Of the managers who perceived non-achievement of budget target as threatening their security of employment, 39% belonged to the group of enterprise heads, 3% to the group of production head and the rest that is 28% belonged to the category of sales heads. Of the enterprise heads, 74% perceived non-achievement as threatening and the rest (26%) did not perceive it as threatening their security of employment. Of the production heads, 6% felt that their security of employment was threatened by non-achievement of budget while the rest (37%) felt otherwise. Fifty three per cent of the sales heads had the feeling that the non-achievement of budget threatened their security of employment while the rest (47%) had no such feeling.

Enterprise heads feel the frustration of the need for security of employment most, followed by the production heads and the sales heads. It is because the enterprise heads are the ones to be asked first for non-achievement of budget targets set for their enterprises. Enterprise budgets are drawn up on the basis of production targets. Hence the production heads also feel the threatening aspect. The sales heads' fulfilment or achievement of target is dependent on the achievement of production targets by the production heads and the condition of overseas market which is very much beyond their control. So, they do not perceive the non-achievement of budget so much threatening their security of employment. Even then a majority of them tend to perceive the threatening aspect of the non-achievement of budget. This may be the result of budget being used as a pressure device to raise production (Ch. VII, Table No. 7.1) and the fear of penal transfer.

Though a majority of the managers (6%) perceived that their need for security was threatened by the budget, there was not a single case of dismissal or demotion for non-achievement of budget targets during the period under study. In case of very bad performance, some enterprises received warning letters from the corporation. But no responsibility was fixed for such performance.

(C) Budget motivation and affiliation of social needs.

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In Maslow's model, the affiliation or social needs occupy the third position. These needs are placed above the safety or security needs. In the budget context, the fulfilment of affiliation needs is likely to result in positive attitude while its frustration may result in negative attitude.

The budgeted manager is an integral part of the social network of the organisation. He is likely to have social relationship with his superiors, subordinates, peer managers and accounts people.

Frequent communication between the budgetee and his superior is likely to satisfy their need for affiliation. If the superior is motivated by the budget, he can induce the same feeling in the minds of his subordinates. Within the enterprise, it seems, there is a good interpersonal relationship between the superior manager and his subordinates, that is, between the enterprise head and other managers. But the communication with the superiore at the corporation level is not frequent. Moreover, it is marked by power relationships. As one enterprise head said:

The people at the corporation deem themselves to be superiors and want to impose their epinion on us.

One of the assumptions about human behaviour in the accounting theory of budgeting, as reported by Hofstede, is that people react on control systems as individuals. 62 Contrary to this belief, there may be group reactions and formation of peer groups with a group norm against the budget or with a group norm reinforcing budget motivation. In the former case, the effect on the individual's budget motivation is likely to be negative, while in the latter case it is likely to be positive. In the case of our managers, there seems to be no strong relationship among peer managers, so there is a neutral condition with regard to budget motivation.

^{62.} G.H. Hofstede, op.cit., p. 37.

The fulfilment of budget depends on the performance of the manager and his subordinates and there is likely to be 'a psychological work contract. between the two. Budget pressure may break the psychological work contract and result in negative feelings for both of them. There is evidence that budget is used as a pressure device for raising production (Chapter VII, Table No. 7.1). This is likely to jeepardize the superior-subordinate contract and this may result in negative feelings for the managers and their subordinates.

The relationship between the managers and the accounts personnel has something to do with budget motivation. The budget section of the orgamisation by exercising bureaucratic power through the budget may open up the possibilities for negative budget motivation. The relationship between the managers and the Accounts personnel seems to be satisfactory. The managers were asked: "Do you think the accounts department of the enterprise is handling the budget programme satisfactorily?" / Appendix-1, Part-E. Question No. 6(a)7. Ninety-one per cent (91%) of the managers interviewed expressed satisfaction about the handling of the budget progrsame by the accounts department. Those who expressed dissatisfaction. emphasized the need for training of accounts personnel and for setting a separate budget cell to administer the budget. The accounts people, they opined, remained busy in accounts work and in preparing different types of reports for sonal office and corporation head office. Hence, they devote little time to the preparation of internal budget reports for the various departments of the enterprise.

^{63.} Chris Argyris, "Organisational Effectiveness Under Stress", Harvard Business Review, 1960, Jpp. 137-146.

^{64.} G.H. Hofstede, p. 60.

Managers were asked the following questions to determine the extent of their affiliation or social needs satisfaction: "To what extent your social needs are fulfilled while working under the budget system." The replies of the managers to the above query were as under:

Table No. 8.2

The extent of social needs satisfaction of the managers.

Social Needs satisfaction Type of manager	High	Low	Total
Enterprise Head	12 (63)	7 (37)	19 (100)
Production Head	8 (42)	11 (58)	19 (100)
Sales Head	7 (37)	12 (63)	19 (100)
Total:	27 (47)	30 (53)	57 (100)

(Figures in brackets are row-percentages)

From the above table it is clear that 47% of the managers felt their social needs satisfaction to be high while 57% felt the same to be low. Sixty three per cent of the enterprise heads, 42% of the production heads and 37% of the sales heads expressed their social needs satisfaction to be high, while 37% of the enterprise heads, 58% of the production heads and 65% of the sales heads felt the med satisfaction to be low. Of the managers who expressed their need satisfaction to be high, 44% belonged to the category of enterprise heads, 30% to the category of production heads and 26%

to the category of sales heads. Of the managers who felt the satisfaction of their needs for affiliation to be low, 2% belonged to the category of enterprise heads, 3% to the category of production heads and 40% to the category of sales heads. Thus, the enterprise heads felt the need satisfaction more than the other heads, because their position in the enterprise enables them to have close contact with corporation and sonal authorities as well as with managers and employees within the enterprise.

(D) Budget metivation and esteem needs (recognition by superior).

In the hierarchy of basic needs, the need for sateem comes after the affiliation need. These needs are also termed as egnistic needs. According to Shillinglaw, "budget variances are useful inputs to at least three separate but interrelated types of appraisal:

- (1) Self-appraisal by lower management to identify the need for action programs and to guide the response.
- (2) Subordinate appraisal, by higher management to evaluate the performance of subordinate executives, and
- (3) Activity appraisal, by higher management to evaluate the performance of various company activities".

Self-appraisal is connected with achievement motivation (discussed in the next section) while subordinate appraisal is concerned with the recognition motivation of the subordinate. The latter belongs to the 'esteem from others' need group. Subordinate appraisal may be used for granting financial rewards and imposing penalties. Recognition for budget performance may come from boss as well as from peers or staff. In a hierar-

^{65.} Gordon Shillinglaw, op.cit., p. 153.

chical organisation, it is the recognition from the boss which is valued. Recognition may take the positive form of praise or the negative form of criticism. Favourable budget variances may be the basis for praise while negative or unfavourable variances may be the basis for criticism. Where the principle of management by exception is emphasized, there is a tendency to pimpoint unfavourable variances while favourable ones are ignored. "The system is therefore strongly biased towards criticism for insufficient performance, and even unfounded criticism, rather than towards positive recognotion". 66

The effect of recognition by superior may not be lasting. Meyer,
Kay and French state on the basis of a study that although "criticism has
a negative effect on achievement of goals, praise has little effect one way
of another."

The same is corroborated by Herzberg et.al. experiments,
wherein it is shown that "the good feelings caused by positive recognition
are generally quickly gone and relatively less enduring than good feelings
caused by all other factors (the same, incidentally, helds true for the bad
feelings because of lack of recognition)".

Thus, recognition by superior
has a short-run positive as well as negative motivation.

In the case of enterprise managers under B.J.M.C. the following questions were asked to ascertain the extent of their recognition need satisfaction:

(a) "To what extent the achievement of budget target is recognised".

^{66.} G.H. Hofstede, op.cit., p. 61.

^{67.} H.H. Meyer, E. Kay and J.R.P. French, Jr., Split Roles in Performance Appraisal, Harvard Business Review, 1965, 1, 123-129 quoted by Hofstede, op. cit., p. 62.

^{68.} W. Herzberg et.al., 1959, p.72 quoted by G.H. Hofstede, op.cit.,p.62.

(b) "To what extent the achievement of budget target results in recommendation of names for Presidential Award and Certificates".

In putting these questions, we considered the need for recognition by superior only.

Managers' replies to the query regarding the recognition for achievement of budget target were as under:

Table No. 8.3

The extent of recognition need satisfaction of the managers.

High	Low	Total
9 (47)	10 (53)	19 (100)
5 (26)	14 (74)	19 (100)
5 (26)	14 (74)	19 (100)
19 (33)	38 (67)	57 (100)
	9 (47) 5 (26) 5 (26)	9 (47) 10 (53) 5 (26) 14 (74) 5 (26) 14 (74)

(Figures in brackets are row-percentages)

From the above, it is evident that 67% of the managers expressed low level of satisfaction regarding the need for recognition while 33% of them expressed a high degree of satisfaction. Forty seven per cent of the enterprise heads, 26% each of the production heads and sales heads indicated their recognition used satisfaction to be high, while 53% of the enterprise heads and 74% each of the production and sales heads perceived

the need satisfaction to be low. Of the managers who indicated high need satisfaction, 48% belonged to the category of enterprise heads and 26% each to the category of production heads and sales heads. Of the managers who expressed need satisfaction to be low, 26% belonged to the category of enterprise heads and 37% each to the category of production heads and sales heads. As usual, the enterprise heads felt the need satisfaction most, followed by the production and sales heads. It seems that recognition for budget achievement is not enjoyed by the majority of the managers.

Manager's replies to query regarding recognition in the form of recommendation of names for awards and certificates, are tabulated below:

Table No. 8.4

The extent of recognition for achievement of budget in the form of awards and certificates as perceived by the managers.

Recognition in the form of awards and certificates Type of managers	High	Low	Total
Enterprise Head	5 (26)	14 (74)	19 (100)
Production Head	3 (16)	16 (84)	19 (100)
Sales Head	2 (11)	17 (89)	19 (100)

(Figures in brackets are row-percentages)

From the above table, it is clear that 18% of the managers interviewed felt that their names were likely to be recommended for Presidential
Awards and Certificates as a recognition of their achievement of budget

Twenty six per cent of the enterprise heads, 16% of the production heads and 11% of the sales heads perceived high possibility of recommendation while 74% of the enterprise heads, 84% of the production heads and 89% of the sales heads perceived the possibility to be dim. From the above it can be said that the possibility of granting rewards in recognition of budget performance is very limited.

(E) Budget metivation and aelf-esteem needs (achievement).

Successful budget performance is likely to meet the need for achievement, classified by Maalow as a need for self-esteem. Hermberg also showed achievement attuation to be the single most powerful group of motivating cituations for the interviewees. Budget reports show the actual performance against the standards embodied in the budget. These reports also bring to limelight the favourable or unfavourable variances in the operational area of the manager. This gives the budgetee an opportunity for self-appraisal and to derive a feeling of achievement or otherwise.

Knowledge of performance, according to Ammons, is likely to have the following consequences:

"Knewledge af performance affects rate of learning and level reached by learning.

Knowledge of performance affects motivation. The most common effects of knowledge of performance is to increase motivation.

^{69.} F. Hersburg, et.al., op.cit., 1959. p. 72.

The more specific the knowledge of performance, the more rapid improvement and the higher the level of performance.

The longer the delay in giving knowledge of performance, the less effect the given performance has.

When knowledge of performance is decreased, performance drops. "70

Leavitt and Mueller 71 found that zero feedback is accompanied by low confidence and hostility while free feedback is accompanied by high confidence and amity. Thus lack of knowledge regarding performance results adversely affects not only performance but also morale.

Managers were asked: "To what extent you are satisfied with the knowledge of your success in achieving budget targets".

All the respondents reported that they were satisfied with the knowledge of their success in achieving budget targets. But they pointed out that they could have this satisfaction occasionally in respect of a few budget targets. A majority of them stated that the budget targets were set at such a level that they felt the same to be unattainable (Table 4.2).

The need for achievement is also linked up with the level of aspiration.

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Level of aspiration is of great importance for achievement motivation through budgets. Level of aspiration has been defined by Frank as: "the level of future performance in a familiar task which an individual knowing his level of past performance in that task, explicitly undertakes

^{70.} R.B. Amons, "Effects of Knowledge of Performance, A Survey and Tentative Theoretical Information", Journal of General Psychology, Vol. 54, 1956, pp. 283-290, (Emphasis appears in the original).

^{71.} H.J. Leavitt and R.A.H. Mueller, Some Effects of Feedback on Communication, Human Relations, Vol. 4, 1951, pp. 401-410.

to reach". 72 It may be described as 'goal that when just barely achieved, has essociated with it subjective feelings of success, when not achieved, subjective feelings of failure". 73 Thus the level of aspiration is a subjective borderline between performance deemed predominantly successful and performance deemed predominantly unsuccessful:

not depend on an absolute level of achievement. What for one person means success means failure for another person, and even to the same person the same achievement will lead sometimes to the feeling of failure and sometimes to the feeling of failure and sometimes to the feeling of success. What counts is the level of achievement relative to certain standards, in particular to the level of achievement (goal line); if the achievement lies on or above the goal line, the subject will probably have a feeling of success; if it lies below the goal line he will probably feel failure, depending on the size of this difference and the case with which the achievement has been reached. 74

and attainment discrepancy i.e., level of actual new performance minus level of aspiration, are the two important measures in the level of Aspiration Theory. The former is generally associated with high metivation and good performance while the feelings of success and failure tend to be positively associated with the latter.

^{72.} J.D. Frank, "Individual Differences in Gertain Aspects of the Level of Aspiration", American Journal of Psychology, Vol. 47, 1935, p. 119.

^{73.} K. Lewin, T. Dembo, L. Festinger and Pauline Sears, "Level of Aspiration J.M. Hunt (ed.), Personality and the Behavior Discrders, Vol. 1, N.Y., The Renald Press Company, 1944, pp. 353-378.

^{74.} Ibid, pp. 374-375.

^{75.} G.H. Hofstede, op.cit., p. 65.

Child and Whiting summarize their findings regarding aspiration level into five conclusions:

- "(a) Success generally leads to a raising of the level of aspiration, and failure to a lewering.
- (b) The stronger the success the greater is the probability of a rise in level of aspiration; the stronger the failure, the greater is the probability of a lowering.
- (c) Shifts in level of aspiration are in part a function of changes in the subject's confidence in his ability to attain goals.
- (d) Effects of failure on level of aspiration are more varied than those of success.
- (e) Failure is more likely than success to lead to withdrawal in the form of avoidance of setting a level of aspiration". Hippit and Bradford stated that people who experience failures tend to:
 - 1. Lose interest in work,
 - 2. Lower their standards of achievement,
 - 3. Lese confidence in themselves,
 - 4. Give up quickly,
 - 5. Fear any new task and refuse 'to try new methods or accept new jobs'.
 - 6. Expect failure,
 - 7. Escape from failure by day dreaming,
 - 8. Increase their difficulty in working with others,

^{76.} J.L. Child and J.W.M. Whiting, "Determinants of Level of Aspiration: Evidence from Everyday Life" in H. Brand (ed.), The Study of Personality, New York, John Wiley and Sons, Inc., 1954, pp. 145-158.

9. Develop a tendency to blame others, to be over-critical of others' work, and to get into trouble with other employees. 77

Chris Argyris reported that supervisors experiencing failure showed these characteristics. 78

The attainment discrepancies in the previous task, cultural and group factors as well as personality factors influence the level of aspiration.

Stedry carried out laboratory experiments to test the effect of explicit budgets on level of aspiration. In his experiment, student subjects were divided into 3 x 4 factorial, allowing combinations of the following conditions:

- a) No aspiration level question.
- b) Aspiration level question before budget statement.
- c) Aspiration level question after budget statement.
- A) Low Budget (attained 69% of the time).
- B) Medium Budget (attained 59% of the time).
- C) High Budget (attained 39% of the time).
- D) Implicit Budget (goals not stated to subject before).

^{77.} Ronald Lippit and L. Bradford, "Employee Success in Work Groups",

Personnel Administration, December 4, 1945, pp. 6-10.

C. Argyris, "Human Problems with Budget", Harvard Business Review. 1953.

^{78.} C. Argyris (1953), op.cit.

^{79.} A.C. Stedry, op.cit.

He experiment resulted in the following determination:

"However, there is a strong interaction effect between budgets and the aspiration level determination grouping. The group of high budget subjects who received their budgets prior to setting their aspiration levels performed better than any other group, whereas the 'high' budget group who set their aspirations before receiving the budget were the lowest performers of any group".

From Stedry's results, Hofstede concluded that:

- "(a) Formulating an explicit level of aspiration does influence performance. It appears that formalization of the 'level of aspiration' procedure helps people who otherwise would not have done it for themselves to set an aspiration level and consequently perform better.
- (b) The influence of the formal budget level on performance is conditioned by the way in which people set their aspiration levels.
- (c) Only the high budgets were better than the unknown budgets. "81

 Becker & Green 82 also highlighted the relationship between aspiration level and performance.

Notatede tested the effect of budget levels on performance. His findings revealed that in case of very loose budget, the budgetee sets his aspiration level below the budget level and his actual performance coincides with the aspiration level. As the budget level is tightened, the budgetee adapts his

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^{80.} Ibid. pp. 89-90.

^{81.} G.H. Hofstede, op.cit., p. 146.

^{82.} S.W. Becker and D. Green, Jr., ep.cit., in William J. Bruns & Fen T. DeCoster (eds.), op.cit., pp. 335-338.

aspiration level keeping in view the tight budget. As a result his aspiration level is pushed up and his performance also improves. As the budget is further tightened up, his aspiration level is further geared up, but his performance shows a downward trend. When the budget is very tight, it has a depressing effect on both aspiration level and performance. When the budgetee views the budget as impossible, he ceases to set aspiration level and his performance further deteriorates. Thus, the aspiration level influences performance and is also influenced by the latter.

Although no attempt was made in this study to measure the aspiration level of managers, it appears that a majority of the managers wiewed budget goals as unattainable (Table No. 4.2). This might have affected their aspiration level and performance.

(F) Budget motivation and egoistic needs.

Automony need belongs to the category of egoistic needs. It is defined as "the degree to which a person within an ergamisational system is able to affect his own actions and environment". Automomy for managerial persons is defined with reference to the following:

- a) authority connected with their management position,
- b) opportunity for independent thought and action in their management positions.
- c) opportunity for participation in setting goals for their management positions, and

^{83.} G.H. Hofstede, op.cit., pp. 148-149.

^{84. 1}bid., p. 13.

d) opportunity for taking part in the determination of methods and procedures affecting the work connected with their nanagement position. 85

The above elements of operational automony are based on sound principles of management. The first element relating to authority is based on the management dictum that authority and responsibility must be coextensive. Should possess adequate authority to enforce the budget. The second element of operational automony relates to the opportunity that a manager has to act in his own way without too much interference and domination. This view is epposite to the conventional belief that subordinates' behaviour, like a mechanical device, can be wholly programmed and predetermined by someone elec. This mechanistic belief has its rect in the managerial philosophy expounded by F.W. Taylor. This view of management has been designated by McGregor as 'Theory X'. This philosophy has become obserted and a new philosophy of management known as 'Theory Y'. Base come to replace it.

The third and fourth elements of operational automony, the opportunity for participation in goal-setting and the opportunity for determination of methods and procedures connected with their management position, are also the fundamental elements of participative management. In the budget context, the role of participation and its impact on managers' acceptance and use of budgets have been discussed in Chapter-VI.

^{85.} L.W. Porter, "Job Attitudes in Management, I. Perceived Deficiencies in Need Fulfilment as a Function of Job Level", <u>Journal of Applied Psychology</u>, Vol. 46, No. 6, December, 1967, p. 376.

^{86.} W.H. Newman, The Administrative Action, London, Sir Isaac Pitman & Sons Ltd., 1963, p. 171.

^{87.} Douglas McGregor, op.cit., pp. 33-35.

^{88.} Ibid. pp. 47-48.

Managers' need for autonomy can be satisfied by providing them adequate authority to enforce the budget and by giving them opportunity for independent thought and action while working for the achievement of budget targets.

In this connection managers of enterprises under B.J.M.C. were asked the following questions:

- (a) "To what extent you enjoy the authority to enforce the budget."
- (b) "To what extent you can act independently while working for the achievement of budget targets."

Replies of the managers to the query regarding the extent of authority to inforce the budget were as under:

Table No. 8.5

The extent of authority enjoyed by the managers.

Extent of authority	High	Low	Total
ype of sanagers			
Enterprise Head	9 (47)	10 (53)	19 (100)
Production Head	6 (32)	13 (68)	19 (100)
Sales Head	5 (26)	14 (74)	19 (100)
Total:	20 (35)	37 (65)	57 (100)

(Figures in brackets are rew-percentages)

Thirty five per cent of the managers interviewed felt that they enjoyed a high level of authority to enforce the budget while 65% of them felt that they had a lew level of authority to enforce the budget. Forty seven per cent of the enterprise heads, 32% of the production heads and 26% of the sales heads felt that they had a high level of authority while 53% of the enterprise heads, 68% of the production heads and 74% of the sales heads felt that they enjoyed a lew level of authority.

Replies of the managers to the question relating to independence of action were as follows:

Table No. 8.6

The extent of independence enjoyed by the managers.

Independence of action Type of managers	High	Low	Total
Enterprise Head	8 (42)	11 (58)	19 (100)
Production Head	6 (32)	13 (68)	19 (100)
Sales Head	5 (26)	14 (74)	19 (100)
Total:	19 (33)	38 (67)	57 (100)

(Figures in brackets are row-percentages)

Thirty three per cent of the managers interviewed felt that they enjoyed a high degree of independence while working for the achievement of budget targets, while 67% of them felt that they enjoyed a low degree of independence. Forty two per cent of the enterprise heads, 32% of the

production heads and 26% of the sales heads felt that they enjoyed a high degree of independence while 58% of the enterprise heads, 68% of the production heads and 74% of the sales heads felt that they had a low degree of independence while working for the achievement of budget targets.

From the above two tables, it may be said that the managers' autonomy need satisfaction was at a low level. Enterprise heads enjoyed the
autonomy need satisfaction most, followed by the production and sales heads.

(G) Budget motivation and self-actualisation need.

Self-actualisation need stands at the top of the need hierarchy in the Maslow's model. Self actualisation need refers to the need for self-fulfilment. This need embraces the opportunity for realising one's own potentiality, for continued self-development and for being creative. Managers' melf-actualisation need can also be satisfied through the budget.

Managers' extent of self actualisation need satisfaction were sought to be measured by asking them the following questions:

- (a) "To what extent the achievement of budget targets gives you an opportunity to demonstrate your technical competence, operational efficiency and organisational loyalty".
- (b) "To what extent you can be creative while working for the achievement of budget targets".

Managers' replies to query regarding self-fulfilment were as follows:

Table No. 8.7

The extent of self-fulfilment as enjoyed by the managers.

Extent of self-fulfilment that is the opportunity to demonstrate technical competence, operational efficiency and orga- nisational loyalty Type of managers	High	Low	Total
Enterprise Head	7 (37)	12 (63)	19 (100)
Production Head	5 (26)	14 (74)	19 (100)
Sales Head	4 (21)	15 (79)	19 (100)
Total :	16 (28)	41 (72)	57 (100)

(Figures in brackets are row-percentages)

Twenty eight per cent of the managers interviewed felt that they had a high degree of opportunity to demonstrate their technical competence, operational efficiency and organisational loyalty that is self-fulfilment through the achievement of budget targets while 72% of them felt that they enjoyed a low level of opportunity. Thirty seven per cent of the enterprise heads, 26% of the production heads and 21% of the sales heads felt a high degree of self-fulfilment while 63% of the enterprise heads, 74% of the production heads and 79% of the sales heads felt a low degree of self-fulfilment.

Managers' replies to the question regarding opportunity to be creative were as follows:

Table No. 8.8

The extent of opportunity to be creative while working for the achievement of budget targets as enjoyed by the managers.

Ty	Opportunity to be creative	Hi gh	Low	Total
ma.	Enterprise Head	7 (37)	12 (63)	19 (100)
	Production Head	7 (37)	12 (63)	19 (100)
	Sales Head	5 (26)	14 (74)	19 (100)
-	Total :	19 (33)	38 (67)	57 (100)

(Figures in brackets are row-percentages)

From the above table it is clear that 3% of the managers interviewed felt that they had a high degree of opportunity to be creative while working for the achievement of budget targets but 6% of them felt that they enjoyed a low level of opportunity to be creative. Thirty seven per cent each of the enterprise and production heads and 26% of the sales heads reported a high level of opportunity to be creative while 6% each of the enterprise heads and production heads and 74% of the sales heads felt that they enjoyed a low level of opportunity to be creative.

From the above tables, it can be concluded that the degree of self actualisation need satisfaction is at a low level. A majority of the managers felt a low level of self-actualisation need satisfaction.

The budget process and its product - the budget can contribute to the motivation of the managers. Budgets can be used to satisfy the basic needs of the managers and thereby can motivate them. A frustration of basic needs can block the forces of motivation within the managers.

Although a majority of the managers reported a low level of motivation, a substantial number (9) of enterprise heads reported high motivation.

Enterprise heads' level of motivation seem to be influenced by the level of authority, status and recognition enjoyed by them.

8.3 Budget Motivation and Acceptance and Use of Budgets.

Budgets by managers. Managers who are highly motivated ase likely to accept and use the budgets more than those whose level of motivation is lower.

The following table shows the relation between budget motivation and acceptance of budgets:

Table No. 8.10

The relationship between budget motivation and the acceptance of budgets by managers.

Budget Notivation Acceptance	High	Low	Total	Level of significance
of budgets				(D4
High	13	5	18	Chi-square = 15
Low	7	32	39	Significant at .001 level.
Total :	20	37	57	

Cn the basis of the extent of basic needs satisfaction of the managers interviewed, they were classified as highly motivated managers and poorly motivated managers. Highly motivated managers were those who perceived high level of basic needs satisfaction while poorly motivated managers were those who perceived a low level of basic needs satisfaction. The position of the managers according to this classification can be shown as under:

Table No. 8.9

The extent of budget motivation of the managers.

Budget Motivation Type of managers	H i gh	Low	Total
Enterprise Head	9 (49)	10 (53)	19 (100)
Production Head	6 (32)	13 (68)	19 (100)
Sales Head	5 (26)	14 (74)	19 (100)
Total:	20 (35)	37 (65)	57 (100)

(Figures in brackets are row-percentages)

Thirty five per cent of the managers interviewed perceived a high budget motivation while 65% of them perceived a low budget motivation.

Forty seven per cent of the enterprise heads, 32% of the production heads and 26% of the sales heads perceived high motivation while 55% of the enterprise heads, 68% of the production heads and 74% of the sales heads reported low motivation.

The budget process and its product - the budget can contribute to the motivation of the managers. Budgets can be used to satisfy the basic needs of the managers and thereby can motivate them. A frustration of basic needs can block the forces of motivation within the managers. Although a majority of the managers reported a low level of motivation, a substantial number (9) of enterprise heads reported high motivation. Enterprise heads level of motivation seem to be influenced by the level of authority, status and recognition enjoyed by them.

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Hi gh	13	5	18	Chi-square = 15
Low	7	32	39	Significant at .001 level.
Total:	20	37	57	

Of the 57 managers interviewed, 13 managers (23%) perceived high budget motivation and high acceptance, while 32 managers (56%) perceived low budget motivation and low acceptance. But seven managers (12%) perceived high budget motivation but they reported low acceptance of budgets and five managers (9%) reported low budget motivation but high acceptance of budgets.

A significant relationship was found to exist between budget motivation of managers and their acceptance of budgets (Chi-square = 15, Significant at .001 level).

Budgets by managers. Highly motivated managers are likely to use budgets more than the managers who perceive low budget motivation. In other words, there is likely to be a close relationship between budget motivation and budget use. The following table shows the relationship between budget motivation and vation and budget use:

Table No. 8.11

The relationship between budget motivation and budget use of managers.

Budget Kotivation Budget Use	Hi gh	Low	Total	Level of significance
High	14	5	19	Chi-square = 18.3
Low	6	52	38	Significant at .001 level.
Totals	20	37	57	

Of the 57 managers interviewed, 14 managers (25%) percelved high budget motivation and reported high use of budgets while 32 managers (56%) perceived low budget motivation and their use of budget was also low. Six managers (1%) perceived high budget motivation but their use of budget was low while five managers (8%) reported low budget motivation but high budget use.

There was a significant relationship between the budget motivation and use of budgets by the managers (Chi-square = 18.3, Significant at .001 level).

The discussions in this chapter suggest that managers can be motivated positively ar negatively by budgets accordingly as they satisfy or frustrate their basic needs. These basic needs include physiological needs, security needs, social needs, ego needs and self actualisation needs. The budget system as practised by B.J.M.C. and the enterprises under it provide little scope for the satisfaction of these needs. As a result, 3% of the managers interviewed perceived high budget motivation while 6% of them perceived low budget motivation.

The data also suggest that managers who percedved high budget motivation were high acceptors and high users of budgets while those perceiving low budget motivation were less acceptors and low users of budgets.

In the next chapter, we take up some personal characteristics of the managers and examine their influence on acceptance and use of budgets.

CHAPTER - IX

PERSONAL CHARACTERISTICS OF MANAGERS

9.1 Personal characteristics.

Personal characteristics, namely, age, experience, educational background and budget training of the managers and their influence on the acceptance and use of budgets are discussed in this chapter.

Personal characteristics such as age, experience, educational background and budget training may influence the acceptance and use of budgets.

Hofstede and, Stedry and Kay found that a budgetee's reaction to a budget
system is determined by his age. Stedry and Kay also found that older
men were more likely to see difficult goals as impossible. As a result

Hofstede found that the older people in the plants studied tended to
report more pressure.

Experience i.e. length of service may be an important factor in the acceptance and use of budgets. Managers having less experience are likely to accept and use budgets more than the experienced ones. The latter is likely to use their past experience as a guide to their actions.

Educational status of managers is likely to have an influence on the acceptance and use of budgets. A.M.A. Rahim⁵ found educational status

^{1.} G.H. Hofstede, op.cit., p. 274.

^{2.} A.C. Stedry and E. Kay, The Effects of Goal Difficulty on Performance, Publication BRS-19 by Behavioral Research Service, General Electric Company, Crotonvile, N.Y., 1964.

A Field Experiment, publication of Sloan School of Management, HIT, Cambridge, Mass, 1964.

^{3.} Ibid.

^{4.} G.H. Hofstede, op.cit., p. 275.

^{5.} A.M.A. Rahim, ep.cit., p. 392.

of the managers as one of the factors contributing to the use of budgetary information. Hofstede also found that educational and hierarchical level of budgetees is correlated to budget relevance and to budget attitude.

Frank Collins⁷ reported that increased age, tenure and status of organization members did not correlate with increased budgetary responsiveness. Thus evidences both for and against these variables are found. The relationship of these variables with the acceptance and use of budgets by managers of enterprises under B.J.M.C.is explored in the next section.

9.2 Age.

Managers can be grouped according to their age as under:

Table No. 9.1

The distribution of managers according to their age.

Age Groups	Enterprise Head	Production Head	Sales Head	Total
31 - 45 (Year)	11 (58)	16 (84)	17 (89)	44 (77)
46 - 60	8 (42)	3 (16)	2 (11)	13 (23)
Total :	19 (100)	19 (100)	19 (100)	57 (100)

(Figures in brackets are column percentages)

The above table shows that 77% of the managers interviewed fell in the age group between 31 and 458 years while 23% of them belonged to the age group of 46 years and above. Fifty eight per cent of the enterprise

^{6.} G.H. Hofstede, op.cit., p. 276.

^{7.} Frank Collins, op.cit., p. 330.

^{8.} Grouping with break at age 45 was done so that requisite number of samples fall in each cell for chi-square test.

heads, 84% of the production heads and 89% of the sales heads fell in the age group of 31 - 45 years while 42% of the enterprise heads, 16% of the production heads and 11% of the sales heads were in the age group of 46 years and above.

The relationship between age groups of managers and their acceptance of budgets is as under:

Table No. 9.2

The relationship between the age groups of managers and their acceptance of budgets.

Age Groups Budget		46 years and above	Total	Level of significance
Hi gh	13 (30)	5 (38)	18 (32)	Chi-square = .36
Low	31 (70)	8 (62)	39 (68)	Not significant at
Total:	44 (100)	13 (100)	57 (100)	

(Figures in brackets are column percentages)

From the above table it is clear that 30% of the managers belonging to the age group 31 - 45 were high acceptors of budgets while the rest (70%) belonging to the same age group were low acceptors. Thirty eight per cent of the managers belonging to the age group 46 and above were high acceptors while the rest (62%) belonging to the same age group were low acceptors.

There was no significant relationship between the age groups of managers and their acceptance of budgets (Chi-square = .36, not significant at .05 level).

The following table shows the relationship between the age groups of managers and their use of budgets:

Table No. 9.3

The relationship between the age groups of managers

and their use of budgets.

Age Groups Budget use		46 years and above	Total	Level of Significance
High	14 (32)	5 (38)	19 (33)	Chi-square = .20
Low	30 (68)	8 (62)	38 (67)	Not significant at .05
Total:	44 (100)	13 (100)	57 (100)	

(Figures in brackets are column percentages)

The above table shows that 32% of the managers belonging to the age groups 31 - 45 years were high users while the rest (68%) were lew users. Thirty eight per cent of the managers falling in the age group of 46 years and above were high users while 62% belonging to the same age group were low users.

There was no significant relationship between the age groups of managers and their use of budgets (Chi-square = .20, not significant at .05 level).

9.3 Experience.

Managers' experience that is length of service in the industry was

Table No. 9.4

The experience of the managers.

xperience (years)	Enterprise Head	Production Head	Sales Head	Total
1 - 10	2 (11)	1 (5)	7 (37)	10 (18)
11 - 20	8 (42)	13 (69)	9 (47)	30 (53)
21 - 30	9 (47)	5 (26)	3 (16)	17 (29)
Total :	19 (100)	19 (100)	19 (100)	57 (100)

(Figures in brackets are column percentages)

The above table shows that 18% of the managers interviewed had a length of service ranging between 1 to 10 years, 5% had a length of service ranging between 11 to 20 years and 2% fell in the group of 21 to 30 years.

On an average, managers had a length of service of 16.73 years.

The average length of service of enterprise heads, production heads and sales heads was 19.18 years, 17.61 years and 13.39 years respectively.

Enterprise heads were more emperienced than the production and sales heads.

Barring four enterprise heads, all were promoted to their present positions after the nationalisation of the industry in 1972. Although they had a considerable length of service, their length of service in the present position was 6.21 years on an average. Enterprise, production and sales

heads' average length of service in their present position was 7.14 years, 6.26 years and 5.25 years respectively. It is evident that managers had moved up through promotions from junior positions in the industry.

Experience that is the length of service may have an influence on the acceptance and use of budgets by managers. The following table shows the relationship between the experience of managers and their acceptance of budgets:

Table No. 9.5

The relationship between the experience of managers and their acceptance of budgets.

Budget acceptance	1 - 10	11 - 20	21 - 30	Total	Level of Signifi- cance
Ri gh	5 (50)	7 (23)	6 (35)	18 (32)	Chi-square = 2.63
Low	5 (50)	23 (77)	11 (65)	39 (68)	
Total :	10 (100)	30 (100)	17 (100)	57 (100)	

(Figures in brackets are column percentages)

*

The above table shows that 50% of the managers having experience between 1 to 10 years were high acceptors while the rest (50%) of the same experience group were low acceptors. While 25% of the managers having experience between 11 to 20 years were high acceptors and the rest (77%) of the same experience group were low acceptors. And 35% of the managers having experience ranging between 21 to 30 years were high acceptors and 65% of the same group were low acceptors.

There was no significant relationship between the experience of managers and their acceptance of budgets (Chi-square = 2.63, not significant at .05 level).

The following table shows the relationship between the experience of managers and their use of budgets:

Table No. 9.6

The relationship between the experience of managers and the use of budget.

Experience (years) Budget use	1 - 10	11 - 20	21 - 30	Total	Level of Signifi- cance
High	5 (50)	8 (27)	6 (35)	19 (33)	Chi-square = 1.89
Low	5 (50)	22 (73)	11 (65)	38 (67)	Not significant at .05 level.
Total:	10 (100)	30 (100)	17 (100)	57 (100)	

(Figures in brackets are column percentages)

The above table shows that 50% of the managers having experience ranging Netween 1 to 10 years were high users and the rest (50%) having the same experience were low users. While 27% of the managers having experience ranging between 11 to 20 years were high users and the rest belonging to the same experience group were low users. And 35% of the managers having experience between 21 to 30 years were high users and the rest (65%) having the same experience were low users.

There was no significant relationship between the experience of managers and their use of budgets (Chi-square = 1.89, not significant at .05 level).

From the above tables it is also clear that managers who are less experienced accept and use budgets more than the experienced ones. The managers who is to tackle shew job is likely to use the control tools offered to him. The manager who has been in the job for twenty years or more is likely to feel that the figures cannot tell him much beyond what he already knows.

9.4 Educational qualification.

Educational qualification of managers was as under:

Table No. 9.7
The educational qualification of the managers.

Educational level	Enterprise Head	Production Head	Sales Head	Total
Matriculation/ Secondary	2 (11)	2 (11)	3 (16)	7 (12)
Intermediate/ Higher Secondary	6 (31)	9 (47)	8 (42)	23 (40)
Graduate	9 (47)	7 (37)	7 (37)	23 (40)
Mosters	2 (11)	1 (5)	1 (5)	4 (8)
Total:	19 (100)	19 (100)	19 (100)	57 (100)

Of the managers interviewed, 12% were matriculates or secondary cortificate holders, 40% read upto intermediate or higher secondary level, 40% were graduates and only 8% were masters degree holders.

Of the enterprise heads, 1% read up to matriculation or secondary level, 3% were intermediate or higher secondary level certificate helders, 47% were graduates and 11% were master degree holders.

Of the production heads, 11% read upto matriculation or secondary level, 47% were intermediate or higher secondary certificate holders, 37% were graduates and only 5% obtained masters degree.

Of the sales heads, 16% were matriculation or secondary certificate holders, 42% read upto intermediate or higher secondary level, 37% were graduates and only 5% obtained masters degree.

For facilitating analysis, we can classify the managers as under:

Table No. 9.8

The educational level of the managers.

Educational level	Enterprise Head	Production Head	Sales Head	Total
Undergraduates	8 (42)	11 (58)	11 (58)	30 (53)
Graduates and above	11 (58)	8 (42)	8 (42)	27 (47)
Total :	19 (100)	19 (100)	19 (100)	57 (100)

The above table shows that 53% of the managers interviewed were undergraduates while 47% of them were graduates and master degree holders. Forty two per cent of the enterprise heads and 58% each of the production heads and sales heads were undergraduates. Fifty eight per cent of the enterprise heads and 42% each of the production heads and sales heads were either graduates or master degree holders.

Of the enterprise heads, 12 (63%) had Diploma in Jute Technology while 10 (53%) production heads also had the same diploma.

Educational qualification of managers may affect the acceptance of budgets. The following table shows the relationship between the educational qualification of managers and their acceptance of budgets:

Table No. 9.9

The extent of relationship between the educational qualification of managers and their acceptance of budgets.

Educational qualification Budget acceptance	Under- graduate	Graduats	Total	Level of signifi-
High	7 (23)	11 (41)	18 (32)	Chi-square = 1.98
Low	23 (77)	16 (59)	39 (68)	Not significant at
Total :	30 (100)	27 (100)	57 (100)	

From the above table it is evident that acceptance level of budget of 23% of the undergraduate managers was high while the rest of them (77%) showed a low level of budget acceptance. Of the graduate managers, 44% were high acceptors while the rest (59%) were low acceptors of budget.

There was no significant relationship between the educational qualification of managers and their acceptance of budgets (Chi-square = 1.98, not significant at .05 level).

Educational qualifications of managers may also influence their use of budgets. The following table shows the relationship between the educational qualifications of managers and their use of budgets:

Table No. 9.10

The relationship between the educational qualification of managers and their use of budgets.

Edheat Quali Budget use	donal fication	Under- graduates	Graduates	Total	Level of Signifi- cance
	High	7 (23)	12 (44)	19 (33)	Chi-square = 2.84
	Low	23 (77)	15 (56)	38 (67)	Not significant at .05 level.
	Total:	30 (100)	27 (100)	57 (100)	

From the above table it can be seen that 25% of the undergraduates were high users of budgets while the rest (77%) were low users. While 44% of the graduate managers were high users and 56% of them were low users.

There was no significant relationship between the educational qualification of managers and their use of budgets (Chi-square = 2.84, not significant at .05 level).

From the above discussion, it can be said that managers' age, experience and educational background do not affect their acceptance and use of budgets. This may be due to organisational type and the environmental circumstances in which they operate. The result is in line with the findings of Frank Collins.

9.5 Training in budget.

Managers, except one enterprise head, were generalists as such they were not well conversant with the techniques and benefits of budgeting.

Managers who have training in budget are likely to be aware of the techniques and benefits of budgeting and are likely to accept and use budgets more than those who have no such training.

Eighteen managers (32%) namely, ten enterprise heads, five production heads and three sales heads reported that they had training in budget.

The rest of the managers had no training in budget.

Managers' training in budget is likely to influence their acceptance of budgets. Table 9.11 shows a significant relationship between managers'

^{9.} Frank Colline, op.cit., p. 330.

training in budget and their acceptance of budgets (Chi-aquare = 20.27, significant at .001 level). In other words, managers who had training in budget accepted budgets more than those who had no training in budget.

Table No. 9.11

The relationship between managers' training in budget and their acceptance of budgets.

Training in budget Budget acceptance	Hanagers having training in budget	Managers having no training in budget	Total	Level of aignificance
H4 gh	13	5	18	Chi-square = 20.27
Low	5	34	39	Significant at .00
Total:	18	39	57	

Similarly, there was a significant relationship between the managers' training in budget and their use of budgets. Table No. 9.12 shows a significant relationship between managers' training in budget and their use of budgets (Chi-square = 17.89, significant at .001 level). In other words, managers having training in budget were mostly high users while these without training were mostly low users.

Table No. 9.12

The relationship between managers' training in budget and their use of budgets.

Training in budget Budget	Managers having training in budget	Managers having no training in budget	Total	Level of significance
High	13	6	19	Chi-square = 17.89
Low	5	33	38	Significant at .001
Total:	18	39	57	

From the above discussions, it can be concluded that managers' training in budget does have a significant influence on their acceptance and use of budgets.

From the discussions in this chapter and on the basis of the analysis of the data it can be said that the managers' acceptance and use of budgets were not influenced by such personal characteristics as age, experience and educational background. But the personal characteristic, namely, training in budget influenced their acceptance and use of budgets dignificantly. This supports the finding of Rahim.

In the concluding chapter we present the summary and conclusions of this research.

^{10.} A.M.A. Rahim, ep.cit., p. 392.

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CHAPTER - X

SUMMARY AND CONCLUSIONS

10.1 Summary.

Badget owes its origin to Government initiative. Its original use
was to serve as a plan of receipts and payments of a government for a
particular period, usually a year. Subsequently it turned out to be an
instrument of economic planning. The use of budgets in business enterprises is a twentieth century phenomenon. Budgets now occupy a key
position in the planning and control system of the enterprises. Private
firms took the initiative in the use of budgets as an aid to management.
Public sector undertakings are increasingly adepting the technique as an
edd to efficiency in their operations. Budgets now play a vital role in
the management of public sector and private sector undertakings. There
has been extensive writings on the subject in the context of private
sector undertakings. But there has so far been little study of the different aspects of budgeting in public sector unterprises outside the United
States of America and the United Kingdom.

Budgets are the important management tools. They aid management not only in planning but also in control, coordination, communication, evaluation of performance and motivation. Contemporary literature deals with these aspects of budgets. Budgets are inanimate things and are brought to life through managerial acceptance and use. The effective existence of budgets as a tool of management is dependent on managers and other ofganisation participants. Budgets affect and are effected by human behaviour. Managers' budget acceptance and use may be viewed as the two dimensions of such behaviour. The problem of budget acceptance and use is rendered difficult by such behavioural implications.

The Government of the People's Republic of Bangladesh nationalised the major industries and formed a number of corporations to control and manage them. The industries are beset with nagging problems of capacity underutilisation, low productivity, high coat of production, wastage and liquidity. These have led to poor performance of the nationalised industries. Budget as a tool of management has caught the attention of management practitioners, academic scholars and researchers. The government also realised the importance of budget and introduced the same through statutory provisions. It appears that the value of budget as a tool of management has not been properly understood by the managers of the nationalised industries. They seem to have little psychological commitment to budgets and as such do not accept them as their own. Lack of acceptance has as a natural corollary affected the managerial use of budgets.

as a tool of management and attempted to identify the patterns of managerial acceptance and use of budgets. It sought to explore the relationship
between the acceptance and use of budgets on the one hand and the relationchip between these and the variables like budget characteristics, participation, budget motivation, knowledge regarding the purposes of preparing
the budget and personal characteristics like age, experience, educational
background and budget training of the managers on the other.

Budget characteristics included in the study were flexibility, attainability, timeliness and follow-up. Flexibility refers to the extent to which the budgets are amenable to changes in business conditions as reported by the managers. Flexibility increases the effectiveness of budgets as a

tool of management. Flexible budgets can meet the requirements of dynamic business conditions. Fixed budgets, on the other hand act as streitjackets.

Attainability denotes the extent to which the budget goals are attainable as perceived by the managers. Budget goals may range from very loose and samily attainable to very tight and unattainable. Easily attainable goals present no challenge to managers and therefore, have no motivational effect. Very tight and unattainable goals, on the other hand, result in negative feelings. "Tight but attainable" goals seem to represent the ideal position.

Timeliness is concerned with the observance of a time schedule regarding the preparation and issue of budget guidelines, preparation of budgets, budget discussion and finalisation, approval, preparation of budget reports and review of performance.

Follow-up represents the action phase. This is concerned with the implementation of corrective action on the basis of budget reports.

Participation seeks to bring about not only task-involvement but also ego-involvement. When the ego is thus involved, the fulfilment of task and goals may be regarded by the concerned manager as being important to his self-esteem. Participation in budget refers to the extent of involvement of managers in preparation of budget and setting of budget goals. Participation in the budget process is likely to result in better budget standards and better communication. It is also likely to reduce the probability of dysfunctional behaviour which the managers resort to in case of non-participative budgets and to motivate them to work for the fulfilment of budget standards. The views of Andrew Stedry to the effect that "the

assumption that participation is universally good, although unsupported by hard evidence, has become a cult", is shared by a minority. According to majority opinion there are over riding psychological considerations in favour of budget participation.

Budget motivation refers to the strength of basic needs satisfaction as reported by a manager working under the budget system. It indicates the force within a manager to take actions necessary for the attainment of budget standards. Budgets may motivate managers positively or negatively, by either satisfying or frustrating their basic needs. The basic needs of a budgetes are not different from those of other people. In evaluating the basic needs of the budgetees, Maslow's hierarchy of basic needs has been taken into consideration, wherein physiclegical, social and psychological or ego needs come in ascending order.

Budgets may be prepared for a number of purposes. In the context of the corporation and enterprises under it, a list of possible purposes for which the budgets are prepared has been framed on the basis of relevant statutes, rules, corporation directives and interviews with corporation officials and pilot study conducted at the enterprise level prior to the framing of the questionnaires. Managers' extent of agreement or disagreement with the purposes revealed their knowledgeability or otherwise regarding the purposes.

Personal characteristics like age, experience, educational background and budget training of managers were also taken up and their relationship with acceptance and use of budgets explored.

^{1.} Personal communication to Robert N. Anthony. Quoted by R.N. Anthony in Planning and Control System, Division of Research, Graduate School of Business Administration, Harvard University, Boston, 1965, p.49.

^{2.} G.H. Hefstede, op.cit., p. 73.

The study was conducted in mineteen composite jute mills under the Bangladesh Jute Mills Corporation. These mills had narrow looms producing hessian and sacking, and broad looms producing carpet backing cleth.

These mills are located in different parts of the country and are under the administrative jurisdiction of different zonal offices. We collected the necessary data through personal interviews of the sample managers using questionnaires. Two sets of questionnaire were framed - one set was fised for interviewing the enterprise heads, production heads and sales heads, and the other was used to interview the accounts heads. The measurement of the variables was done on the basis of previous research studies and current literatures. The parts relating to participation and budget motivation were used and validated in the previous research studies. Responses of managers were recorded on a five-point likert Scale.

The enterprises are to work within the directives issued by the Ministries and the corporation. The enterprises are the productive units and are responsible for the production of finished goods according to the target set by the corporation. They follow integrated accounting system (I.A.S.) which integrate financial accounting and cost accounting. They practise neither process costing nor standard costing.

The enterprises initiate the preparation of budgets on the receipt of budget guidelines from the corporation. Budget guidelines contain particulars regarding production volume, budgeted looms, number of working days and shifts to be operated, efficiency per loom per hour, batch composition for different types of products, sale price of finished goods, consumption rate of raw jute and other materials, overtime, festival expenses and wastage percentage. Enterprises are not consulted in preparing budget

guidelines. The accounts departments of the enterprises prepare budgets on the basis of budget guidelines, past cost records and information supplied to them by the heads of the departments.

The budgets thus prepared at the enterprise level are discussed and finalised at a meeting of the Budget Committee constituted by the corporation. The Committee is usually headed by a Director of the corporation and semior officials of the corporation act as members. The Semior Deputy Chief Accountant/Deputy Chief Accountant (Cost and Budget) acts as member-secretary. Senior officials of the zonal offices are also included in the committee. Discussion and finalisation meetings are held at different somes according to a pre-circulated time schedule. Enterprises are represented by the enterprise heads and the accounts heads at such meetings. The committee does not have enough time to go through the details and concentrates on the salient aspects of the budgets. The opinions of the enterprise management are not given due importance at such meetings. After discussion and finalisation, the budgets are placed before the Board of Directors of the corporation for final approval. The approved budgets are then sent to the enterprises for implementation. The process of approval takes time and approved budgets reach the enterprises three or four months after the commencement of the budget period.

The absence of adequate involvement of enterprise management in the budget process seem to hinder the effective use of budgets. The absence of reward for the achievement of budget targets or punishment for non-achievement thereof also affects the motivation of managers. The absence of a budget manual specifying the time-table and procedure to be followed in the budget process hinders effective budgeting. Budget reports prepared for corporation and sonal offices do not analyse variances. Budget

reports for internal use are rarely prepared. Thus the budget procedure seems to be at fault.

The first hypothesis in this study was that the acceptance and use of budgets by managers of the enterprises are at a low level. The data collected supported this hypothesis. Of the 57 managers interviewed, only 18 managers reported high acceptance and 19 managers reported high use of budgets, the remainder reported low acceptance and low use of budgets. Acceptance and use patterns did not vary significantly from one category of managers to another. This is due to the prevalence of an unfavourable organisational climate and low dependence on budget as a management tool. This can also be explained in terms of organisational socialisation process which requires the organisation members to abide by the values, norms and expected behaviour prevalent within the organisation.

The second hypothesis that managers' attitudes towards budget characteristics of flexibility, attainability, timeliness and follow-up influence the acceptance and use of budgets was supported by the data. The finding supports the results of study conducted by Simon et al. As to the individual characteristics, the findings of the study were as follows:

- (a) Managers who perceived the budgets as flexible accepted and used them more than those who viewed them as inflexible. This is in line with the current thought in management control.
- (b) Managers who felt that timeliness is observed in the budget process were high acceptors and high users. Managers who felt that timeliness is

^{3.} Simon et al, ep.cit., p. 24.

^{4.} H. Koontz, Management Control - A Suggested Formulation of Principles in Robert J. Mockler (ed.), Readings in Management Control, New York, Appleton-Century-Grofts, 1970, p. 56.

not observed in the budget process on the other hand were low acceptors and low users.

- (c) Managers who perceived follow-up to be regular belonged to the group of high acceptors and high users, while the managers who perceived the follow-up to be irregular were low acceptors and low users. This supports the findings of Rahim.
- (d) Managers who viewed the budget goals as attainable accepted and used budgets more than those who viewed them as unattainable. This finding corroborates the earlier findings of Dunbar, 6 Hofstede, 7 and Kemis.

The third hypethesis that managers' perceived budget participation influence their acceptance and use of budgets was supported by the data. This windicates the findings of Ken Milami, Hofstede, O Searfose and Moncaka, I Iszetin Kenis 2 and Frank Collins. The findings also supported the view that managers who perceive high participation in the budget process are high acceptors and high users and these who perceive low participation are low acceptors and low users. It was also found that managers with semior ranks perceived high participation.

The fourth hypothesis in this study was: "managers' knowledge regarding the purposes of preparing the budgets tends to affect the acceptance and use of budgets." The data supported the hypothesis that managers' knowledge regarding the purposes of preparing budgets affect the acceptance

^{5.} A.M.A. Rahim, op.cit.

^{6.} R.I.M. Dunbar, op. cit.

^{7.} G.H. Hofstede, op.clt.

^{8.} Izsetin Kemis. op. cit.

^{9.} Ken Milani, op. cit.

^{10.} G. H. Hofstede, op. cit.

^{11.} D.G. Searfoss and R.M. Monczka, ep.cit.

^{12.} Issetin Kemis, op. cit.

^{13.} Frank Collins, op.cit.

and use of budgets. In other words, managers who had knowledge regarding the purposes of preparing the budgets were high acceptors and high users. While the managers having no knowledge regarding the purposes were lew acceptors and low users.

The fifth hypothesis was: "motivation in the budget system tends to influence the acceptance and use of budgets. Managers who are highly motivated are likely to rank high in respect of acceptance and use of budgets. Managers whose level of motivation is low tend to be lew acceptors and low users of budget." The data supported the hypothesis. Managers who had high budget motivation gave proof of high acceptance and high use of budgets, while managers who had low budget motivation were low acceptors and low users of budgets.

The last hypothesis in this study was that managers' personal characteristics like age, experience, educational background and budget training affect the acceptance and use of budgets. The data showed no significant relationship between the personal characteristics like age, experience and educational background of managers and their acceptance and use of budgets. In other words, acceptance and use of budgets were not affected by age, experience and educational qualifications of managers. It was because adherence to budgets will not increase with increased age, experience and educational background, as most people tend either to accede to organisational norms, values and expected behaviour during initial encounters or leave the organisation. Our eample managers seem to have adjusted themselves with the prevailing organisational conditions as scope of their leaving the organisation is limited. But budget training was found

^{14.} Frank Collins, ep.cit., p. 327.

managere were non-commerce graduates, as such they were not initiated into budgeting - its purpose and significance and therefore, did not realise its importance. This affected their acceptance and use of budgets. On the other hand, managers who underwent training in budget realised its importance and were high acceptors and high users of budgets. This supports the findings of Rahis. 15

With this brief recapitulation of the findings let us now proceed to discuss some implications and directions for future research in the concluding section of this thesis.

10.2 Implications.

The findings of this study suggest that the acceptance and use of budgete by managers are not the result of any one factor or two factors, but the combined product of the interaction of many factors. All these factors should be attended to for increasing the acceptance and use of budgete by managers.

High acceptance and high use of budgets can be induced by ensuring budget floribility, attainability, timeliness, follow-up, budget participation, budget motivation and by providing knowledge regarding the purposes of budgets through formal and informal budget training. Low acceptance and low use takes place in the absence of these variables. By identifying the reasons behind high acceptance and high use of budgets, the study facilitates the design of the budget system.

^{15.} A.M.A. Rahim, op.cit.

Budgets should be made flexible by the adoption of variable budgets, supplemental budgets, supplemental forecasts and through review and revision. Flexible budgets rather than fixed budgets promote better acceptance and use of budgets. They work well in the dynamic business conditions of the enterprises.

Budget goals should be made attainable. As already mentioned, easily attainable goals have no motivational effects. Unattainable goals, on the other hand, result in negative feelings. So, the budget goals should be tight but attainable keeping in view the aspiration level and past performance of managers. Managers' involvement in setting budget goals will increase their identification with them. In order to be attainable, the budget goals should be set in the light of apprepriate market survey, available production facilities, machinery conditions, workers' efficiency and availability of working capital. Attainability of budget goals contribute to the acceptance and use of budgets by managers.

The observance of timeliness in the budget process affects the acceptance and use of budgets. Timeliness should be observed in the preparation and issue of budget suidelines, preparation of budget, budget approval, budget review, and in preparation of budget reports. Delay in budget approval adversely affects the effectiveness of the budget system. The preparation of a budget manual is likely to be of great help in this respect.

Follow-up is one of the important variables which affects the acceptance and use of budgets. Managers have a tendency to concentrate on the operation they are likely to be followed-up. Follow-up necessitates the preparation of budget reports at frequent intervals throughout the whele

year. Every level of management should receive a report of its own performance and summaries of the reports of the level immediately below it.

Thus adequate mechanisms are to be provided to ensure budget flexibility, attainability, timeliness and follow-up. This calls for top management's involvement and total support for the budget programme. In a centralised management system it becomes all the more important, because it is the top management who has the authority to ensure all these budget characteristics.

An important implication of the study is that imposed budgets do not receive the whole hearted acceptance of managers and are not consequently used for discharging managerial functions. Participative budgets, on the other hand, are well-accepted and used by management. This further implies that participation contributes to the motivation to use budgets. The findings of the behavioural accentists regarding the benefits of participative budgets hold good in Bangladeshi cultural and organisational settings. Budget procedures are to be amended to ensure adequate involvement of managers.

The budget process has motivational impact on managers. The budget process can positively or negatively motivate managers by either satisfying or frustrating their basic needs. Budgets can be used to motivate the managers to accept and use them. Apart from extrinsic rewards, the budget process should provide for intrinsic reward by satisfying the higher level needs of managers. This will motivate them to commit themselves to the achievement of budget goals.

The fact that knowledge regarding the purposes affects the acceptance and use of budgets calls for budget training. The need for budget

training is underscored by its effect also on acceptance and use of budgets, which are little influenced by other personal characteristics like age, experience and educational background.

Hanagers who enjoy greater authority by virtue of their being senior in Fank have high acceptance and high use of budgets. This calls for decentralisation of authority to enterprise management.

Further directions for future research.

There is a need for conducting research at other management levels of the enterprises to find out the acceptance and use of budgets by them.

A replication of the study in the context of the managers of the onterprises under other corporations keeping in view their technology and market-orientation is likely to throw more light on the acceptance and use pattern of budgete in these corporations.

It is necessary to find out the effect of personality traits and to explore the impact of organisation structure and leadership behaviour on the acceptance and use of budgets.

There is also a need to replicate the study in private sector enterprises to find out the managers' acceptance and use patterns of budget in these enterprises. But it is very difficult to obtain data from the private sector enterprises. **Dhaka University Institutional Repository**



ACCEPTANCE AND USE OF BUDGET BY MANAGERS OF NATIONALISED INDUSTRIAL ENTERPRISES IN BANGLADESH.

Dear Sir.

We have the pleasure to introduce to you Mr. Md. Abdul Hye,
Assistant Professor of Accounting, University of Chittagong (now on
study leave) who is conducting research in the above field under
our supervision on a scholarship from Bangladesh University Grants
Commission. This is an academic research leading to higher degree.
Apart from academic value, the study is likely to have far reaching
implications for the management of nationalised industrial enterprises.

We are approaching you for your valued opinion. Necessary permission has been obtained from your Corporation for this purpose. We are aware that you are a busy man. Yet we are requesting you to spare one hour of your valuable time to the researcher to make the study a success. We further request you to give us, to the best of your ability, your swn opinion and attitudes.

We assure you that the information supplied by you will be kept strictly secret and used only for the purpose of the study. Under no circumstances will any individual manager or enterprise be identified in reporting the results of this study.

Thanking you for your co-eperation.

Yours sincerely,

Dr. M. Habibullah Professor of Accounting University of Daeca

and

Dr. Mawdudur Rahman
Director
Inatitute of Business Administration
University of Dacca.

ACCEPTANCE AND USE OF BUDGET BY MANAGERS OF NATIONALISED INDUSTRIAL ENTERPRISES IN BANGLADESH.

Questienzaire for Enterprise Managera

(A) Personal Information

		The state of the s
1.	Name of the enterprise:	
2.	Size of the enterprise/Depa	rtment: No. of Employees
3.	Please indicate total number	or of years of your work experience
4.	Please indicate number of y	The state of the s
5.	Please indicate number of y in the present position.	years you have been
6.	Your age in years.	
7.	Educational Attainments: (P	lease tick)
	S.S.C./Matric	<i>C7</i>
	H. S. C./Intermediate	
	Degree Pass	
	Degree Honours	
	Haster Degree (local)	
	Master Degree (Foreign)	127
	Ph.D.	
	Othera (please specify)	
8.	(a) Have you any training in	the field of budgeting ? Yes/No
	(b) If yes, please state the of the Institute.	period of training and the name
	Period	Institute

Pl.	the general education)	rofessional	qualifi.	cation (in	addi tio	a
	1. Engineering					
:	Accounting					
- 3	5. Management	0				
4	Banking & Finance	0				
9	o. Others (please specify)					
6	. None					
fol	(B) Purposes of preparing ase record the degree of you lowing purposes of preparing tick on the appropriate point	r agreement	or disa	agreement wittenents by p	ith the outting	
(a)	Budget is prepared to comply with corporation, directives & statutes.	Strongly	Agree	Neither Agree nor Disagree	Dis- Agree	Str
		5	4	3	2	1
(b)	Budget is prepared to facilitate the formulation of corporation budget.					
(0)	Budget is prepared to authorise capital and revenue expenditure.					
(d)	Budget is prepared to plan the activities of the enterprise.					
(e)	Budget is prepared to facilitate control of eperations of the enterprises by the corporation.					
(2)	Budget is prepared to					
	enable the enterprise to control its operations.					

the various enterprises.

(h)	Budget is prepared to	Strongly		Neither		
	coordinate the activi- ties of the enterprise.	Agree	Agree	Agree nor Disagree	Dis-	Strongly
		5	4	3	2	1
(1)	Budget is prepared to aid in evaluating the perfor- mance of the enterprise.					
(3)	Budget is prepared to aid in self-avaluation and evaluation of subordinates					
(k)	Budget is prepared for use and as a managerial tool.					
(1)	Budget is prepared to reduce tost and keep them under control.					
(m)	Budget is prepared to nehieve targeted volume of production.					
(n)	Budget is prepared to schieve target profit.					
(0)	Budget is prepared to obtain funds from the Government (ADP & Foreign Exchange)					
(p)	Budget is prepared to met desired standards of per- formance.					
(q)	Budget is prepared to provide a means of communication throughout the organisation.					
(r)	Budget is prepared to motivate people to work harder.					
(s)	Budget is prepared to bring about overall econogy and efficiency.					
(t)	Budget is prepared to put pressure for raising production.					

(C) Budget Characteristics.

1. Please consider the following characteristics relating to the budget of your Enterprise/Department and indicate your epinion about them by putting a tick on the appropriate points of scales given below:

(a) Timeliness:

(1)	Budget guidelines are issued in time	Very	Often	Some- times	Seldom	Never
		5	4	3	2	1
(11)	Budget is prepared and submitted in	Very		Some-		
	time.	often	Often	times	Seldom	Never
		5	4	3	2	1
(111)	Budget is approved	Very		Some-		
	in time.	often	Often	times	Seldom	Never
		5	4	3	2	1
(1 v)	Monthly reports are					
	prepared and submi-	Very		Some-		
	tted in time.	often	Often	times	Seldom	Never
		5	4	3	2	1
(v)	Performance is	Very		Some-		
1977	reviewed in time	often	Often	times	Seldom	Never
	4 - 14 - 17 - 18 - 18 - 18 - 18 - 18 - 18 - 18	5	-	3	2	1

(b) Please give reasons for your answer.

(c) Budget is flexible.	Very much flexible	Flexi- ble	Neither flexible nor in-	Infle- zible	Very much inflexible
	5	4	3	2	1

(d) Please give reasons for your answer:

(e) Budget targets are attainable.

Very much attainable	Attai- nable	Not so much attain-	Unattai- nable	Very much unattai- nable
5	4	3	2	1

(f) Please give reasons for your answer:

(g) Follow-up/budget:

- (i) Budget is followed Very Some-up at department often Often times Seldom Never
 level. 5 4 3 2 1
- (11) Budget is followed Very Some-up at Enterprise often Often times Seldom Never
 level.
- (h) Please give reasons for your answer:

(D) Participation

1.	Do you start preparing the budget for your enterprise/	Vory	Often	Some-	Seldom	Never
	department before you are asked to ?	5		3	2	1
2.	Do you work with your super- ior in preparing the budget for your enterprise/depart- ment?					
3•	Do you work with your subor- dinates in preparing the budget for your enterprise/ department?					
4.	Do you work with accounts department people in preparing the budget for your enterprise/department?					
5.	Are you congulted by the corporation in developing budget guidelines for the enterprise/department?					
6.	Are you consulted about special fectors you would like to have included in the budget being prepared?					

7.	7. Are your suggestions given due consideration in the development of budget ?	Very	Often	Some-	Seldom	Never
		5	4	3	2	1
8.	Do you take preparation for meeting queries in budget approval meeting?					
9.	Do you personally investi- gate budget variances in your enterprise/department?					
10.	Do you offer suggestions for the improvement of budget system?					
11	Are budget matters mentioned in informal conversations between boss and suberdinates?					

(E) Budget Procedures

1.	What	targets are set in the bu	dget ? (Please	id ok)
	a)	Production volume		
	b)	Sales	(2)	
	c)	Cash		
	d)	Profit		
	e)	Production cost		
	f)	Others (please specify)		
2.		type of reward was given	to one who achie	wed or exceeded
	the	target ?	Last year	Year before last
	(1) Accelerated Promotion	C7	
	(11) Special increment		
	(111) Cash reward		
	(11) Certificate of honour	(7)	

				Last	year	Year befor	e last
(1	7)	Mention in the Month Yearly Bulletins.	hly/		7		
(vd	.)	Medal		_	Sec. 136	<i>(</i> 7	
(111	1		()		1.3050		
	Sec.		-13/		Table 1		
V11 i	1	None of these					
Wh	at	actions were taken	for n	on-achi	evement	of budget	target
		rijani i	4,017	Last	Year	Year befo	re last
(a)	Demotion		6	7		7
(t)	Stoppage of Incremen	nt	4.	7		
(0	:)	Dismissal		4	フ	[7	
(a	1)	Hild warning		0			
(.)	Stoppage of promotic	n			0	
(1)	Others (please speci	lfy)	[7			
(g)	None of these		1	7	_	7
		problems do you enco			e imple	mentation	of budg
		se state the extent on the appropriate the state on the approximation of the state					
(1)		Very much	Much	Not so	To some extent	Not at
			5	4	3	2	1
(1	1)						
(11	1)						
(1	(¥)						
_	-1						

5. (a) For effective budget performance do you consider the present budget procedures and practice as:

Very Satis- factory	Satis- factory	Not so satis- factory	Unsatie- factory	Very un- satisfactory
5	4	3	2	1

- (b) Please given reasons for your enswer:
- 6. (a) Do you think the Accounts Department of the enterprise is handling the budget programme satisfactorily ?

Very Satis- factory	Satis- factory	Not so satis- factory	Unsatie- factory	Very unsatis- factory
5	4	3	2	1

- (b) Please give reasons for your answers
- 7. If unsatisfactory, what improvements do you suggest in its working ?
- 6. (a) Hew would you rate the importance of budgeting in use in your corporation/enterprise in terms of the contribution to the accomplishment of the objectives of the corporation/enterprise.

Very	Impor-	Not so	Unimpor-	Very un-
Important		Important	tant	important
5	4	3	2	1

- (b) Please give reasons for your answer:
- - (b) Please give beasons for your answer:
- 10. Do you believe that the budget system in use in your corporation/
 enterprise sometimes encourage people to take actions which they
 perceive to be in their best interest but which are not in the
 best interest of the corporation/enterprise, for example -
 - (a) the tendency to defer repairs in order to remain within the budgets, or (b) the tendency to spend the allocated amount at the end of the year?

 Yes / 7 No / 7

(F) Acceptance of Budget

1. Please comment on the following

	(a)	To what extent managers in the organisation accept budget as their own.	Wery much	Huch	Not so much	To some extent	Not at
	(ъ)	To what extent managers in the organisation accept budget as a tool of management.				2	
	(0)	To what extent managers in the organisation commit themsalves to the achiev- ement of targets set in the budget.					
1	Plea	se comment on the following:					
•	(a)	To what extent you think people here have involved themselves in setting budget targets.					
-	(b)	To what extent you think people here have participation in preparation of budget.					
((c)	To what extent you think people here have proper recognition for achievement of budget targets.					
•	(a)	To what extent you think budget estimates are accurate.					
((•)	To what extent you think there are clear-cut lines of authority and responsibility.					
	(2)	To what extent you think you can control expenditure and use of items for which you have budgetary accountability.					

(G) Budget Use

1. Please comment on the followings

(a)	To what extent people here	Very	1	! Not so	To some	Not at
	use budget for planning the activities of the	much 5	Much	much 3	emtent 2	all
	enterprise/department.			9	-	
(b)	To what extent people here use budget for controlling the operations of the enterprise/department.					
(c)	To what extent people here use budget for evaluating the performance of the enterprise/department.					
(d)	To what extent people here use budget for self-evaluation.					
(0)	To what extent people here use budget for evaluation of subordinates.					
(2)	To what extent people here use budget for co-ordination of the activities of the enterprise/department.					
(g)	To what extent people here use budget for reducing cost.					
(h)	To what extent people here use budget for economy and efficiency.					
(1)	To what extent people here use budget for increasing the profitability of the enterprise.					
(1)	To what extent people here use budget for motivating the employees to mohieve the budget targets.					
(k)	To what extent people here use budget for facilitating communication throughout the organisation.					

2. Reportedly the following factors hinder the use of budget as an effective tool in your area of operation, please indicate the extent of your agreement or disagreement by putting a tick on the appropriate points of scales given below.

(a)	Budget use is hindered due to lack of flexi-	Strongly Agree	Agree	Indiffe- rent	Dis-	Strongly Magree
578	bility.	5	4	3	2	1
(b)	Budget use is hindered due to the absence of budget education and training.					
(e)	Budget use is hindered due to the absence of reward for achievement of budget.					
(a)	Budget use is hindered due to the absence of proper follow-up.					
(e)	Budget use is kindered due to the absence of top management support.					
(£)	Budget use is hampered due to the absence of proper feedback.					
(g)	Budget use is hindered due to the non-provision of interpretation ser- vices by the accountant.					

3. Please state the type of budget dependent decisions taken by you:

a)

b)

c)

d)

	Have you investigated the department and taken corr			your ente	rprise/
	Investigation:	Yes Z	7 No	C7	
	Corrective Action:	Yes (7 No	C7	
5.	What was the degree of bu variance in your departmenentemprise.				
	Very big Big	Neither big nor	Small	Very small	
	5 4	3	3	1	
6.	To what extent are these within the control of the management?	Very	Not so	To some extent	Not at
	Charles and the same of the same of	5 4	3	2	1
	but are outside the contr	ol of mana	gement.		
	(a) (b) (c) (d) (a)	OL OF Mara	gement.		
8.	(a) (b) (c) (d) (e)	that cont	dbute to	budget var	ianse
8.	(a) (b) (c) (d) (e) Please state five factors	that cont	dbute to	budget var	ianse
8.	(a) (b) (c) (d) (e) Please state five factors but are within the control	that cont	dbute to	budget var	iance
8.	(a) (b) (c) (d) (e) Please state five factors but are within the control (a)	that cont	dbute to	budget var	ianse
8.	(a) (b) (c) (d) (e) Please state five factors but are within the control (a) (b)	that cont	dbute to	budget var	ianse

(H) Budget Motivation

Please put your comment oh the following:

1.	To what extent the achievement of budget target enables you to earn higher remuneration for meeting physical needs	Very	Much	Not so much	To some extent	Not at
	e.g. food, clothing, shelter, etc.	5	4	3	2	1
2.	To shat extent the achievement of budget target gives you chances of accelerated promotion and unearned increment.					
3.	To what extent the achievement of budget target results in recommendation of names for Presidential Award and certificates.					
4.	To what extent the achievement of budget targets gives you an opportunity to demonstrate your technical competence, operational efficiency and organisational loyalty.					
5.	To what extent your present pay and other fringe benefits provide incentive to work for the achievement of budget targets.					
6.	To what extent the non-achievement of budget target threatens your accuraty of employment.					
7.	To what extent the achievement of budget target le recog-					
8.	To what extent you enjoy authority to enforce the budget.					

9.	To what extent you can not independently while working for the achievement of budget	Very much	Much		To some extent	Not at
	targets.	5	4	3	2	1
10.	To what extent you are satis- fied with the knowledge of your success in achieving budget target.					
11.	To what extent you can be creative while working for the achievement of budget targets.					
12.	To what extent your social needs are fulfilled while working under the budget system.					

CONFIDENTIAL

ACCEPTANCE AND USE OF BUDGET BY HANAGERS OF NATIONALISED INDUSTRIAL ENTERPRISES IN BANGLADESH.

Questionnaire for Accountants

Budget Procedures

1.	When do	you	сошпелее	preparation	of	budget	for	the	enterprise
	(Exact	date;							

- 2. Who are the persons responsible for preparing and co-ordinating the enterprise budget ?
- 3. (a) Is there any budget Committee in your enterprise ? Yes/Ne
 - (b) If yee, please state the composition and function of the budget committee.

Composition	Functions
(No. of members with designation)	
1.	(a)
2.	(P)
3.	(c)
4.	(a)

- 4. Who are the persone responsible for onward transmission of budget to corporation for approval?
- 5. Who attended the last budget approval meeting held at the corporation level?
- 6. How was the last budget approved ?

(T)	Approved as it was	Please tick.
(11)	Approved with minor changes	
(444)	Approved with major changes	
(1v)	Repurned for re-drafting	

7. When was the last budget approved ?

8.	Who are	the	authorities	respo	nsi bl	e for	doing	the	following
	function	is ir	connection	with	the en	aterp	rise b	udget	?

		Corr	oratio	n		Enterprise		
		Beard of Directors	Dept	Dept	Dept	Dept	Dept	Budget Committee
a)	Development of guidelines							
b)	Co-ordination							
0)	Preparation	i Constant						
d)	Budget Planming		/ .					
e)	Implementation							
2)	Approval							
g)	Review							

9. Please state which of the following budget reports are prepared, who uses them and the frequency of their preparation.

	Budget Reposts	Who uses	Frequency of preparation
a) b) o)			
d) e) f)			
f) g)			

and the frequen	what budget reponency of their preparation	rts are sent to the ration.	corporation
Budget R	ports	Frequency of	Preparation
a) b) c) d) e) f)			

11. Please list the actions that follow from such reports:

	a) b) c)	in the second			
	d) e)				
12.	(a) Are budget estimates	revised ?	Yes C	7 No	7
	(b) If yes, at what post	tion are they	revised ?		
	(c) Please state the fre	equency of suc	h revision	•	
13.	What problems do you en of your eaterprise/deps		e implemen	tation of	budget
	Please state the serious on the appropriate point				a tick
	(1)	Very	Not so	To some	Not at
		5 4	3	2	1
43	(11)				
	(111)				
	(1v)				
	(4)				
14.	What targets are set in	the budget ?	(Please ti	ck)	
14.	What targets are set in (a) Production volume	the budget ?	(Please ti	ck)	
14.			(Please ti	ck)	
14.	(a) Production volume	<i>C</i> 7	(Please ti	ck)	
14.	(a) Production volume (b) Sales		(Please ti	ck)	

15.	What	type	of	reward	WAS	given	to	one	who	achieved	or	exceeded
	the f	targe	t ?									

				Last year	Previous	Years
	(1)	Accelerated promo	tion	C 7	0	
	(11)	Special increment		<u></u>	17	
(4	L11)	Cash reward		17	0	
	(1 _v)	Certificate of ho	nour	<i>[7</i>	<i>[7</i>	
	(♥)	Mention in the Mor Yearly Bulletins	nthly/		47	
((41)	Hedal				
(1	vii)	Others (please sp	edfy)	47		
(v)	(41)	Noze		[7		
16. W	hat	actions were taken	far non-acl	devement of	budget tar	gets ?
				Last year	Previou	s years
(a)	Demotion		[]	L7	
(1	b)	Stoppage of Increme	nt			
(c)	Diamissal	les chique	47	<i>[]</i>	
(d)	Hild warning		47		
(•)	Stoppage of Promoti	on	7		
(:	f)	Others (please spec	ify)	<u></u>		
(g)	None				
17. (or effective budget oudget procedures an			sider the p	resent
						ry un-

(b) Please give reasons for your answer:

			Not so satisfactory		Very un- satisfactor
	5	4	3	2	1
(b)) Please give rea	sons for y	our suswer!	er scarce	
19. If	unsatisfactory,	what impro	vements do you	suggest in	its working
20. (a	How would you recomporation/ent accomplishment	erprise in	terms of the	contributio	m to the
	Very importa	nt Import	Not so ant important		Very un- important
	5	4	3	2	1
(b) Please give rea	sons for y	our answer!		
21. (a) Do you believe off if it disco and procedures.	that the entinued th	nterprise/corp	nt budgetar	ild be better by practices
) Please give rea	sons for y			
(6					p. 17
22. Do	you believe that terprise sometime rceive to be in t st interest of th	s encourag	e people to ta interest but w	ke actions hich are no	which they

1st Sept. 1980.

To
The Chairman
Bangladesh Jute Mills Corporation
Dacca.

Dear Mr.

This is to bring to your mind notice that Mr. Md. Abdul Hye,
Assistant Professor, Department of Accounting, University of Chittagong
(now on study leave) and a Junior Research Fellow of University Grants
Commission is conducting research in the field of "Acceptance and Use
of Budget by Managers of Nationalised Industrial Enterprises in Bangladesh" under our supervision. This is an academic research leading to
higher degree. Apart from academic value, the study is likely to have
far reaching implications for the Management of nationalised industrial
enterprises.

For the purpose of the study he is now required to interview the managers of the composite jute mills under your corporation. We assure you that information supplied by them will be kept secret and used only for the purpose of the research.

We shall be highly glad if you kindly accord necessary permission for the purpose and issue necessary instructions to the mill authorities to extend co-operation to him.

Thanking you,

Yours sincerely,

Dr. M. Habibuliah Professor of Accounting University of Dacca and

Dr. M. Rahman Associate Professor & Director, Institute of Business Administration University of Dacca.

BANGLADESH JUTE MILLS CORPORATION ADAMJEE COURT, MOTIJHEEL G/A. DACCA

No. BJMC/P&T-38(M.T.)/73-80/661

Dated: 23.9.80

Dr. M. Habibullah Professor of Accounting University of Dacca.

Dr. M. Rahman Director Institute of Business Administration University of Dacca Dacca

> Sub: Acceptance and Use of Budget by Managers of Nationalised Industrial enterprises in Bangladesh.

Dear Sir.

with reference to your letter dated 1st September, 1980 on the above subject, the Authority has been pleased to allow Mr. Md. Abdul Hye, Asstt. Prefessor, Department of Accounting, University of Chittagong and a Jr. Research Fellow of the Bangladesh University Grants Commission to conduct research in the above field in 19 (Nineteen) Jute Mills as per list attached with immediate effect.

No TA/DA is admissible in this respect.

Thanking you.

Yours faithfully,

SHAMSUDDIN AHMED
Dy. Secretary P.Cell & P&T)
for Secretary

copy to:

- 1. Mr. Md. Abdul Hye, Asstt. Professor, Dept. of Accounting University of Chittagong.
- 2. The General Manager/Dy.General Manager/Manager......

 -- He is requested to please extend
 Mr. Hye all possible co-operation in his research work.

BJMC (Enterprise Board)

Regulation, 1977 Powers of the Board

Regulation-14. The management of the business of the enterprise shall be vested in the Board of Directors subject to supervision and co-ordination by the Corporation. The following powers may be exercised by the Directors:

- (a) To pay costs, charges, expenses, in the course of the day-to-day business of the enterprise including costs, charges and expenses that may be required in promoting and establishing an enterprise within the Corporation approved budget.
- (b) With corporation approval to pay the purchase value of any leasehold, building, plant, machineries, accessories, etc.
- (c) To secure the fulfilment of any contract, agreement, engagement entered into by the enterprise.
- (d) To institute, conduct, defend, compound and abandon any legal proceedings by or against the enterprise or its afficers.
- (e) To make and give receipts, peleases, and other discharges for money payable to the enterprise and for claims and demands of the enterprise.
- (f) To take draw, endorse, sign, negotiate and give all cheques, bills of lading, drafts, orders, bills of exchange etc. required in the normal course of business of the enterprise.
- (g) To insure and keep insured, against loss or damage by fire or otherwise, all or any part of the properties of the enterprise, including building, machinery, goods, stores, produce, vehicles and ather movable and immovable assets.
- (h) To determine from time to time who shall be entitled to sign on enterprise's behalf bills, notes, receipts, cheques, acceptances, endorsements, contracts and documents.
- (i) To provide welfare measures to workers/employees within the prescribed budget and policy framed by the corporation from time to time.
- (j) To negotiate and settle with the lawful representatives of the workers any labour dispute/demands strictly within the words of any law/instruction/order of the Govt./corporation only after the party in dispute has exhausted the normal channel in settling the dispute with the local management.

- (k) To refer any matter to the corporation which the board deems expedient to be important enough for such reference.
- (1) To prepare future development plan/scheme and submit to the corporation for approval and further processing and for that matter to expeditiously execute any such approved scheme.
- (m) To delegate all or any of the powers hereby conferred upon them to the Head or any other Senior Officer of the enterprise as they may consider necessary and expedient in the smooth conduct of the affairs of the enterprise.
- (n) To appoint any person by way of Power of Attorney to be Attorney of the enterprise for such purpose including for Customs and Excise purpose and with such powers, authorities and discretions for such time and subject to such condition as the Directors may from time to time think fit.
- (c) To review from time to time performance of the enterprise with a view to improving it further by proper production planning, earning more foreign exchange at minimum cost and earning additional revenue for the government.
- 15. The following specific powers may be exercised by Directors in addition to those mentioned at Regulation 14 above.
 - Administrative: (a) Save the officers in the grade of BJMC Grade-B-1 equivalent and above and Head of the enterprise and Read of Accounts of the enterprise irrespective of grade and scale or any other class of officers specifically reserved by the corporation, to appoint, engage, recruit and hire any officer, staff, worker or servant of the enterprise on such terms and conditions as specified in the corporation Service Rules in that behalf and at their discretion to take disciplinary action against them including suspension or removal from the service according to the above rules and law of the land. The review against disciplinary action taken by them will lie with the corporation.
 - Financial: (B) To open account/accounts with bank or banks and to pay money into or draw money from such account/accounts for the purpose of the business of the enterprise and such account/accounts shall be operated jointly by any two persons authorised by the Beard.

Provided that Cash Credit Accounts of the enterprise shall be operated jointly by any two persons including a nominee of the corporation from its H.O./Zonal office/Branch office.

(c) To borrow with prior approval of the corporation and secure the payment of any sum or sums of money for the purpose of the enterprise.

Provided that decuments/agreements for such loan/borrowings shall be signed by the project Head and a nominee of the Corporation from its H.O./Z.O./B.O.

- (d) Subject to the concurrence of the corporation to invest any of the moneys of the enterprise, not immediately required for the purpose thereof, in such manner and on such terms as they may think fit, from time to time, to vary or realise such investments.
- (e) To cause, prepare and implement, with prior approval of and as directed by the corporation, the annual budget to be prepared in accordance with the prevision of Rules 16 of the B.J.M.C. Rules, 1977 and in the forms set out in Schedule II under the said rule.
- (f) To prepare and finalise with the approval of the corporation the annual audited accounts of the enterprise in the appropriate manner and to appoint External Auditors after prior consultation with the corporation.
- (g) To undertake subject to normal supervision by the corporation all annual repairs and maintenance works conting up to Tk. 2.50 lacs and all capital works and special repairs such as, complete reconstruction of building damaged due to fire, flood, cyclone etc. costing up to Tk.2.50 lacs within the corporation approved budget, and in case where the enterprise has qualified graduate engineer to undertake such works as mentioned above costing up to Tk. 7.50 lacs within the corporation approved budget.

Provided all capital works and special repairs as mentioned above costing more than Tk. 2.50 lacs, and where the enterprise has qualified graduate engineer, such works costing more than Tk. 7.50 lacs within the corporation approved budget may be executed by the enterprise after the technical approval is accorded by the corporation.

No subsequent approval from the corporation will be required once the enterprise capital budget has been approved by the former.

Purchases (h) To undertake all foreign purchase of stores and spares within the guidelines and framework given by the corporation with the assistance of respective Z.O. as will be decided by the corporation from time to time except bulk purchase of common use items which will be continued to be looked after by the corporation as before.

Provided that all local purchases may be undertaken by the enterprise within the guidelines and framework given by the corporation.

(i) To undertake opening of jute purchase centre/Agency, and/or contract purchase of raw jute subject to supervision and co-ordination of and the guidelines given by the corporation from time to time.

- (j) To ensure proper maintenance of stock of raw jute, stores and spares and finished goods subject to periodical audit/inspection by the corporation.
- Solo: (k) To undertake sale of finished goods subject to supervision, guidelines and co-ordination by the corporation consistent with objective of competing effectively in international market and retaining shape of jute.

FORM FOR THE CASH BUDGET OF THE UNITS/ENTERPRISES IN THE PRODUCTIVE SECTOR

RECEIPTS

(Taka in thousand)

Particulars	Actuals for 1975-76	Budget for 1976-77	Actuals for 1st 6 months of 1976-77	Revised Budget for 1976-77	Budget Estimates for 1977-78
1815	2	3		5	6
	Tk.	Tk.	Tk.	Tk.	Tk.

- A. Cash Budget. Receipts
- 1. Opening Balances
 - (a) Cash in hand
 - (b) Cash in bank
- 2. Receipts on account of revenue income.
- 3. Grant/Loan from Government.
- 4. Realisation of share oabital.
- 5. Recovery of loan and advances.
- 6. Collection of book debts.
- 7. Other receipts (items to be specified).

Total 1 to 7 ...

303

PAYMENTS

(Taka in thousand)

Particulars	Actuals for 1975-76	Budget for 1976-77	Actuals for 1st 6 months of 1976-77	Revised Budget for 1976-77	Budget Estimates for 1977-78
	2	3	4	5	6
	Tk.	Tk.	Tk.	Tk.	Tk.

(a) Revenye payments.

- 1. Actual payments on account of revenue expenditure excluding expenditure on depreciation.
- 2. Income Tax ...
- 5. Share of overhead charges of the Corporation
- 4. Payments to outstanding creditors.

Total 1 to 4 ..

PAYMENTS

(Taka in thousand)

Particulars	for 1975-76	Budget for 1976-77	for 1st 6 months of 1976-77	Revised Budget for 1976-77	Budget Estimates for 1977-78
1	2	3	4	5	6
	Tk.	Tk.	Tk.	Tr.	Tk.

(b) Payments on Capital Account.

(Non-development)

- 1. Building
- 2. Machinery
- 3. Vehicles
- 4. Office equipment..
- 5. Loans and Advances
- 6. Repayment of annual loan instalment:
 - (1) to Government
 - (11) to Others ..
- 7. Other payments to capital nature (items to be specified)

Total 1 to 7

FORM FOR THE REVENUE BUDGET OF THE UNITS/ENTERPRISES IN THE PRODUCTIVE SECTOR.

REVENUE BUDGET

(Taka in thousand)

Particulars	Actuals for 1975-76	Budget for 1976-77	Actuals for 1st 6 months of 1976-77	for	Budget Estimates for 1977-78
1	2	3	4	5	6
	Tk.	Tk.	Tk.	Tk.	Tk.

- A. Income.
- 1. Sale of merchandise products.
- 2. Interest on deposits/ securities.
- 3. Other income, if any

Total 1 to 3 ..

(Taka in thousand)

Tk. Tk. Tk. Tk. Tk. Tk. Tk. Tk. Tk.		Particulars	for 1975-76	Budget for 1976-77	for 1st 6 months of 1976-77	Budget for 1976-77	Budget Estimates for 1977-78
1. Cost of Materials 2. Wages of workers 3. Pay of Officers 4. Pay of Staff 5. Allowances and other benefits: (a) Workers (b) Officers (c) Staff 6. Repairs and Maintenance. 7. Cost of power and Fuel.		1	2	3	4	5	6
2. Wages of workers 3. Pay of Officers 4. Pay of Staff 5. Allowances and other benefits: (a) Workers (b) Officers (c) Staff 6. Repairs and Maintenance. 7. Cost of power and Fuel.			Tk.	Tk.	Tk.	Tk.	Tk.
Pay of Officers Allowances and other benefits: (a) Workers (b) Officers (c) Staff Repeirs and Maintenance. 7. Cost of power and Fuel.	. 1	Cost of Materials			PARKS !		
A. Pay of Staff 5. Allowances and other benefits: (a) Workers (b) Officers (c) Staff 6. Repairs and Maintenance. 7. Cost of power and Fuel.	•	Wages of workers					
5. Allowances and other benefits: (a) Workers (b) Officers (c) Staff 6. Repairs and Maintennance. 7. Cost of power and Fuel.	. 1	Pay of Officers					
benefits: (a) Workers (b) Officers (c) Staff 6. Repairs and Maintennance. 7. Cost of power and Fuel.	. 1	Pay of Staff					
(b) Officers (c) Staff 6. Repairs and Maintennance. 7. Cost of power and Fuel.							
(c) Staff 6. Repairs and Maintennance. 7. Cost of power and Fuel.		(a) Workers					
Repairs and Maintennance. 7. Cost of power and Fuel.	3	(b) Officers					
nance. 7. Cost of power and Fuel.	1	(c) Staff	69				
Fuel.		A STATE OF THE PARTY OF THE PAR	5				
8. Depreciation							
	•	Depreciation					
. Insurance		Ingurance					

10. Total 1 to 9

(Taka in thougand)

Particulars	for 1975-76	Budget for 1976-77	for 1st 6 months of 1976-77	Revised Budget for 1976-77	Budget Estimates for 1977-78
- District Indianalis	2	3		5	6
	Tk.	Tk.	Tk.	Tk.	Tk.

- 11. Add Opening stocks
 (to be valued
 at market or
 at cost whichever is lower).
- 12. hear Closing stock (Ditto)
- 13. Cost of Sales (10 + 11 - 12)
- 14. Interest on loan ..
- 15. General expenditure/ Administrative overhead.
- 16. Other operative/ Trading expenses.

Total 13 to 16 ..

Total of "A - Total of B = Pre-tax operating Profit/loss.

Appropriation of Profit.

- (a) Income Tax
- (b) Reserve fund
- (c) Contribution to share holders/Government.
- (d) Others, if any

SUMMARISED CAPITAL BUDGET FOR 197 -19. (Taka in Thousand)

															世ものできれている		expired ;	for for months unexpired	197 -
	E. OTHER ASSEES (Specify):	SUB-TOTAL: D :	·	OFFICE EQUIPMENTS:	SUB-TOTAL : C :	11)	C. VEHICLISS:	SUB-TOTAL : B:	111)	11)	B. MACHINERY & EQUIPMENTS:	SUB-TOTAL : A	(AT	(11)		A. LAND, BUILDING AND OTHER CONSTRUCTIONS		Total PARTICULARS	
155 11 10 11 10 11 11 11 11 11 11 11 11 11 11 11 11 11																	Source ADP	Carried over	Budget -
性畸形 电顺序 打转 拉拉的 网络马马拉马马拉																	Source ADP	Fresh Proposal of 197 - 197	197 - 197
																		Total	

BANGLADESH JUTE MILLS CORPORATION ADAMJEE COURT, MOTIJHEEL, DAGGA.

Nef No. 56.51/412

Date: 31.1.77

BJMC Circular No. 25

Sub: Jute Milla Annual Budget for the year 1977-78 revised Budget for 1976-77 and actual for 1975-76.

Annual Budgets for the year 1977-78, revised budget for 1976-77 and actual for 1975-76 of all Jute Mills are to be submitted to the Ministry of Finance by the 30th April, 1977 after finalisation and approval of the Corporation. Heads of all mills are therefore, requested to send their Budget to this Office on or before 18th February 1977 in the prescribed proforms furnished to them along with our Circular No. 182 dated 31.12.76.

The following bands are to be taken for preparation of Budget for 1977-78.

- 1) Number of working days: 300 days.
- 2) Average working hours per days
 - (a) For 2 shifts = 16 hours
 - (b) For 3 shifts = 23% hours.
- 3) Wastage percentage including other materials: The overall wastage percentage for Narrow Looms and Broad Looms will not exceed 6.5% and 5.5% respectively as per directives wide No. BJMC/CH/76 dated 4.10.76.
- 4) Jute absorbtion per ton:
 - (a) Hessian = 28 mds.
 - (b) Sacking = 28.5 mds.
 - (c) Carpet Backing = 28.0 mds.
 - (d) Other (Yarn &

Twine) = 28.0 mds.

For the products mills are advised to obtain the basis from Director-in-Charge through Zonal General Managers.

- 5) Heads per leom: Standard as per approved det up of the mills.
- 6) Overtime of workers (% of actual wages)

Hessian - 46 Sacking - 46 C.B.C. - 36

Others - 42

7) Staff Overtime (% of Staff Salary) 35

8)	Production Lbs. per loom/spindle per hour in installed
	loom/Spindles.

- (a) Hessian 7.00 lbs. per loom hour in installed loom (Net of sealed loom if any)
- (b) Sacking 19.00 lbs. per loom hour on installed leom (Net of sealed looms if any)
- (c) C.Backing 15.00 lbs. per loom hour on installed loom (Net of sealed looms if any)
- (d) Twine .65 lbs. per spindle hour in installed spindles.
- (e) Yarn .85 lbs. per spindle hour on installed spindles.
- (f) Ordinary Yarn
- (g) Special Yarn
- (h) Carpet
- (1) Tape
- (j) Hat
- (k) Cotton Bagging
 (1) Presier Lamination

Mills should take the target from Director-in-Charges

through Zonal General Managers.

The above target is a guide line and if there is any deviation from the target fixed above that should be done through Zonal Office after obtaining concurrence from the Director-in-Charges and the mills Hanager should explain the reasons of such deviation.

- 9) Batch Price of Jute per md. (at minimum jute price of Take 105/- per md.)
 - (1) Hessian Tk. 108
 - (2) Sacking Tk. 83
 - (3) Carpet Backing- Tk. 124
 - (4) Twine/Yarn Tk. 83

For other products mills should work out the batch and get the same approved by the Director-in-Charges through Zonal General Managers.

10) Sales price per ton:

To be intimated later on receipt of the same from our Marketing Division.

11) Walfare expenses on Festival Holidays:

The Budgeted welfare expenses of festival holidays are as under:

Feetival Holidays:	250 Looms:	500 leons	750 looms & above:
Idd-e-MilladunnaM	Tk. 450	Tk. 650	Tk. 850
Shab-e-Barat	Tk. 300	Tk. 500	Tk. 750
Shab-e-Quadar	Tk. 300	Tk. 500	Tk. 750
National Day	Tk. 500	Tk. 750	Tk. 1000
Independence Day	Tk. 500	Tk. 750	Tk. 1000
Revolution Day	Tk. 300	Tk. 550	Tk. 750
Games, Sports & Drama	Tk. 4000	Tk. 6500	Tk. 9500
School & Mosque	Tk. Act	ual impact.	Terror Malabara (197)
General Sanitation			
(Res. & Offices)	Tk. 5000	Tk. 10000	Tk. 15000
Canteen/Ration Shop	Tk.6000	Tk. 12000	Tk. 18000

(For Salary of Staff if run by the Co. or subsidy to contractor if on contract basis).

12) Capital Budget:

In view of acute financial position of the mills, capital expenditure should be discouraged but expenditure of essential nature which will improve the production efficiency of the mills may be provided for in the Budget and the mills will take up the work when fund could be generated from own resources.

The basis given above has the approval of the Directors, BJMC. In case of any clarification required that may referred to the undersigned immediately.

Please acknowledge receipt.

S.I. Khan Chief Accountant.

DISTRIBUTION:

- 1. Heade of all Jute Mills.
- 2. Heads of Accounts of All Jute Mills.
- 3. Manager (Finance), Adamjee Jute Hills Ltd.
- 4. General Manager, Dacca Zone-I, Dacca Zone-II, Chittagong Zone, Khulma Zone & Adamjee Jute Mills.
- 5. DCA/Sr. Accountant, DZ-I, DZ-II, CZ & KZ.

Copy to:

- 1. P.S. to Chairman, BJHC, Dacca.
- 2. P.S. to Directors, BJMC, Dacca.
- 3. P.S. to Director(Sales), BJMC, Dacca. He is requested to arrange furnishing estimated sales price per ton for 1977-78 for enward transmission to mills.
- 4. P.A. to Secretary, BJMC, Dacca.

Comparative picture of the items contained in the budget guidelines.

		W		°	-	
Batch price of Jute (per maund):	(b) Jute to Jute wastage percentage.	Overall wastage percentage:	For three shifts	Average working hours per day:	Number of working days:	
Hessian 108/00 Sacking 83/00 C.B.C. 124/00 Twine/Yarn 83/00	Not mentioned in the budget guidelines.	Maximum 7% overall	16 hours 23.5 hours		300 days	1976-77
Hessian 108/00 Sacking 83/00 C. B. C. 124/00 Twine/Yarn 83/00	Not mentioned in the budget guideling	Broad Loom 5.36	16 hours 23-5 hours		300 days	1977-78
Heastlan 124.00 Sacking 96.00 C. B. C. 139.00	Hessian & 1.75 Sacking 1.75 C.B.C. 1.50	Hessian & Sacking 6.36 C.B.C. 4.36	16 hours		300 days	1978-79
(A) Mills nearest to Primary/secondary markets: Hessian Tk. 146.00 Sacking Tk. 118.00 C.B.C. Tk. 162.00 per maund. (B) Mills under Dacca Zone I, Zone II Adamjee & Khulna Zone (other than A' above): Hessian Tk. 151.00 Sacking Tk. 123.00 C.B.C. Tk. 167.00 C.BaggingTk. 80.00 (per maund)	Headan & 1.75 Sacking 1.75 C.B.C. 1.50	Hessian & 6.50 Sacking 6.50 C.B.C. 4.56	16 hours 23-5 hours		300 days	1979-80

00			'n		
8. Overtime of Staff:	7. Overtime of workers:	Standard consump- tion of other direct materials except jute:	Standard Batch: Composition:		
	rs Hessian was a sactual was a Sacking 46 of actual wages C. B. C. 30 of actual was a sactual was a	Do	To be obtained from the Director-in- Charges through Zonal General Manager.		1976-77
2% of staff salary 26 of staff salary	Hessian Wor actual Wages Sacking Wages H O.B.C. Wages H Others W H	D e	To be obtained from the Director-in-charges through Zonal General Manager.		1977-78
2% on basic salary	(1) Hessian Average (11) Sacing 4% on total (basic wages (11) C.B.C. % on total (basic wages (basic wages (basic wages (basic wages (basic wages	Do	the Director-in- Charges through Zonal General	(0)	1978-79
25 on basic salary.	Hessian (Avorage M Sacking on total (basic was C.B.G. (36 on total Others (basic was	Do	Enclosed with the guidelines.	(C) Mills under Ctg. Zon Hessian Tk. 156 per Sacking Tk. 128 " C.B.C. Tk. 172 " C.Bagging 85 "	1979-80

1977-78

1978-79

1979-80

The

per

ton

10. Sales Price Welfare exp. for Festival Jute gara Hegeran 6,400 Tuine G. Bagging G.B.C Sadding 5,000 specified in the Amount to be spent 1976-77 TE. 7, 500 4 2000 per = 3 3 2 8 budget guidelines specified in the Amount to

Jute garm 5,000 Twine 4,200 C. Bagging 2, 500 C. B. C. Sacking Z 3 77 =

Hessian 7,500 Per ton

N.

C.B.C.

Sacking Heest an 8,000 9 900 .

2

Tald a

402

Hessian

at Carpet C. Bagging 4, 500 C.B.C. Sacking 6 800 16 700 40 000 10,600

> 2 3 3 3

specified in the of looms in the mills. the basis of number

The capital budget of Fund from own resourcess

improve the produc-

tion efficiency of

nature and which can

very such eggential

and the mills may takebbility position of the juke mills may be profided in the budget production and profitepature and which can very much essential must ensure that this and the mills managemen of the mills. the liquidity post tion directly improve the The capital budget of dli ba no way affect

Funds from ADP/BMB

Holidays etc. budget guidelines the mills number of looms in depending on the

depending on the

depending on the

budget guidelines specified in

number of looms in

the Alls.

8

spent

Amount to

the

mumber of looms in

the mills.

11. Capital budget: In view of the acuts improve the production be generated from work when fund could mile will take up the budget and the may be provided for in efficiency of the mills nature which will diture of essential discouraged but expenexpenditure should be the mills, capital financial position of discouraged but expenexpenditure should be the mills, capital financial position of In view of the acute

improve the production-efficiency of own resources. work when fund could provided for in the the mills may be nature which will diture of essential be generated from will take up the budget and the mills

or from the approved

from own resources fund can be generated

ADP Fund.

up the works when the

provided in the budge

the mills may be

own resources.

receded from ADP & capital budget for the fund expected to be The mile can provide

per bour(1bs) per loom Production 1976-77 installed loom(Net) per Loom hour on Hesadan - 7 lbs. leon hour on install-Hessian - 7 lbs. per 1977-78

any) of sealed loom if loom if any)

2

ed loom (net of sealed

sealed loom if any) 11ed loom (Net of loom hour on insta-C.B.C. 15 lbs. per leon (Net of sealed loom hour on installed C.B.C. 15 lbs. per loom if any)

> budgwted leone. C.B.C. 14 lbs. en

sealed loom if any) Med loom (Net of Sacking 19 lbs. per

loom if any)

loom (Net of sealed

per apindle hour on installed Twine - .65 lbs. spindles. installed spindles. spindle hour on Twine - .65 lbs. per

Sacking 19 lbs. per Loos hour on installed

on budgeted leoms. Sacking - 19 1bs.

on budgeted lobus. Headan 6.75 1bs.

Hessian - 6 lbs. - 7 lbs. on budgeted looms. separate columns.

BIR should be shown under from own resource ADP & The capital budget

on budgeted leons. Sacking: 17 lbs. -19 1bs

on budgeted looms. C.B.C. 13 lbs - 14 lbs.

Yarn - .85 lbs.

on installed per spindle hour spindles.

Director-in-Charge. Mills advised to ob-For other products, tein targets from

		PERMIT
	4	7
	13. Amount of production	14. Jute absorp- (a) Hessian=28 maunds (a) Hessian=28 mds. (a) Hessian = 28 mds. tion per ton.(b) Sacking=28.5 " (b) Sacking=28.5 " (b) Sacking = 28.5 " (c) G.B.G. = 28.0 " (c) G.B.G. = 28.0 " (d) Other (d) Other (Twine) Twine) Twine) Twine
	amount of production:	e t
	Top of	4 M
		0000
1976	the l	5025
1976-77	Annual Production Annual production to be computed on to be computed on the basis of budget the basis of budget guidelines.	Haerdan=28 mand Sacking\$28.5 " GB.G. =28.0 " Other (Yern/ =28.0 "
	rodu g oj	THE THE
	bu ott	N N N N
	e e	0 0 0 0
	a state	0
19	della	5955
1977-78	Annual prod to be compu the bands o guidelines.	Hessia Sackin C.B.C Other (Yara)
00	. o a da	O H O H
	Annual production to be computed on the buds of budg	Hessian=28 mds. Sacking=28.5 " G.B.C. =28.0 " Other (Yarm/ =28.0 " Tulme)
		2 2 2 2 2
1	A CO	2000
	Annual be comp basis o looms a per leo for the mills.	HACO CHE
19	Annual production to be computed on the backs of budgeted looms and production per loom hour as fixed for the individual mills.	Hessian Sacking C.B.C. Other (Yarn/ Twine)
1978-79	die produce	0.5
29	production to uted on the of budgeted and production in hour as fix a individual	28.55 mds
	1 XIX	0 058
	for for keep keep leem lays	As per bate enclosed wi guidelines.
	the ing	er t
19	indi indi in i	es.
1979-80	mon mon	58
10	Honthly production end for the individual mil keeping in view the he looms, the no. of work days in the month and production per loom he for the mill concerned	As per batch composition of the budger of th
	north mil	and the

Appendix - 9

Table showing the budgeted production, actual production and percentage of shortfall in production of the sample mills during 1976-1977, 1977-1978 and 1978-1979.

Sample	E-SWEEKS	1976-197	7		1977-1978		1978-1979			
No.	Budgeted production (Ton)	Actual preduction (Ton)	Percentage of shortfall in production	Budgeted production (Ton)	Actual production (Ton)	Percentage of shortfall in production	Budgeted production (Ton)	Actual production (Ton)	Percentage of shortfall in production	
1.	66466	61416	8	72604	68886	5	72990	58558	20	
2.	6764	3927	42	9592	5481	43	9592	5401	44	
3.	10546	6207	41	10782	7705	29	11054	8020	27	
4.	9475	5876	38	9540	6318	34	9840	7049	28	
5.	9554	6997	31	9966	7104	29	9978	6457	36	
6.							9325	6167	34(a)	
7.	11401	8460	26	11820	8618	27	12798	9100	29	
8.	22924	17916	22	25380	22522	11	26444	18709	29	
9.	24324	15045	38	26197	17484	33	26444	16208	39	
10.	9697	6289	36	9970	6868	31	9970	6891	31	
11.	27411	17807	35	28029	18938	32	28144	18309	35	
12.	9821	6155	37	9921	6501	34	9942	7213	27	
13.	33564	26096	22	33953	26197	23	33953	24389	28	
14.	9660	8367	13	9680	7928	18	9690	6345	35	
15.	12734	10244	20	12938	10661	18	12988	9829	25	
16.	5004	3208	36	5103	3406	34	5302	3673	31	
17.	20670	16017	23	20685	16039	22	20685	14980	28	
18.	23000	17142	25	23601	19400	18	23601	15844	33	
19.	14869	9583	36	16992	11089	35	17197	11500	34	

Source: Budgets of the enterprises and their performance reports.

⁽a) The sample mill (No. 6) started production as a composite mill from 1978-1979.

Previously it was a marrow leon mill.

Confidential

BANGLADESH JUTE MILLS CORPORATION

Form of	Annual	Confidential Report

Annual Con	nfidential Repo	rt from	. 19 to	 19
		Part - A		
4 Name				

- 3. Place of employment
- 4. Date of appointment/Date of promotion

Part - B

Please grade by putting your initials in the appropriate boxes.

'A' Very good, 'B' Good, 'C' Ordinary, 'D' Worse than ordinary, 'E' Bad.

	1 A	IB	C	1 D	E	Remarks
1. Intelligence and mental alertness						
2. Judgement & sense of preportion						
3. Initiative and drive.						
4. Power of expression.						
5. Ability to plan, organise and supervise work.						
6. Quality and output of work.						
7. Perseverance and devotion to duty.						
8. Capacity to guide and train suberdinates.						
Go-operation and tact.						
10. Integrity: a) Intellectual b) Moral						
11. Sense of responsibility: a) General b) In financial matter.						
12. Personality						

Please comment

Part - III

Please state your opinion about him in comparison with officers of his rank by putting your initial in the appropriate column given below.

Very good	Good B	Ordinary	Worse than ordinary D	Bad E	Comments about special qualifications

Promo tability

(Please put your initial in the appr	repriate box)
Deserves recommendation for accelerated	promotion.
Promotable.	
Recently promoted: It is too early to be recommended for second promotion.	oa Caranta de la caranta de
Not yet mature for being promoted, but be promotable in course of time.	ma.y
Unsuitable for further promotion: Has reached eciling of advancement.	
Datalle	d Remarks.
Date 19	Signature of the reporting Officer.
	Designation

Type of Managers	No. of managers	Pay scale
Enterprise Head		
Executive Director	119 19 19 19 19 19 19 19 19 19 19 19 19	Tk. 4850/- (Fixed)
General Manager	5	Tk. 2350/ Tk. 2750/-
Deputy General Manager	10	Tk. 2100/ Tk. 2600/-
Manager	3	Tk. 1850/ Tk.2375/-
Production Head		
General Manager (Production)	1	Tk. 2350/ Tk.2750/-
Production Manager	9	Tk. 1850/ Tk. 2375/-
Assistant Hanager	2	Tk. 1400/ Tk. 2225/-
Semior Assistant	7	Tk. 1400/ Tk. 2225/-
Sales Head		
Deputy General Manager (Marketing)	1	Tk. 2100/ Tk. 2600/-
Semior Sales & Export Officer	5	Tk. 1400/ Tk. 2275/-
Assistant Manager (Sales & Export)	1	Tk. 750/ Tk. 1470/-
Sales & Export Officer	12	Tk. 750/ Tk. 1470/-

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