

# **THE APPLICABILITY OF BEYOND BUDGETING IN STATE UNIVERSITIES IN ZIMBABWE**

## **A CASE OF LUPANE STATE UNIVERSITY**

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### **Abstract**

*The budgeting processes and budgetary controls have been rendered useless especially during the long decade of economic decline and instability in Zimbabwe. With the global competitive environment, organisations need to adopt various strategies for survival and competitiveness. This study examines the applicability of the Beyond Budgeting philosophy in State Universities in Zimbabwe, using Lupane State University, Zimbabwe as a case in point. The study concludes that Lupane State University has a strong case to move towards Beyond Budgeting due to the fact that the match between its vision for alternative model and the Empowered and Adaptive model is good at 90%. This study adds to the discourse on the usefulness of traditional budgeting in the current competitive global environment, and the applicability of Beyond Budgeting in the African context.*

*Key words: Budgeting, Beyond Budgeting, Lupane State University, competitive success factors*

### **INTRODUCTION**

Most organisations are involved in the budgetary processes in which most cases the budgets are not fully functional (Morlidge and Player, 2010). The budgeting process at Lupane State University (LSU) is premised under the principles of Zero Based Budgeting, and participatory budgeting principles. Participative budgeting allows subordinate managers' considerable say in how the budgets are established (Guan et al, 2009) departments and sections are expected to annually prepare their financial and human capital plans for the following year, which is set for approval by the relevant finance committee of the organisation.

Due to the current economic environment, the government is not able to fully fund the activities of the state universities hence the Universities have to utilise the revenue they generate from academic fees and other projects to undertake most of their activities. This calls for the universities to adopt a different strategy, especially with regards to the budgetary process and the allocation of the meagre resources.

This study focuses on LSU, one of the ten state universities in Zimbabwe, currently operating from Bulawayo. The university is in a competitive environment with other state universities and private universities hence the need for the university to adopt and adapt in this environment to be able to survive, grow and stand the competition. Utilising the Beyond Budgeting Round Table (BBRT) Diagnostics template and evaluation of what needs to be improved, the extent of the change and how ready the universities are and whether change is necessary (BBRT , 2014).

## LITERATURE REVIEW

'Beyond Budgeting' means beyond command- and- control but towards a management model that is more empowered and adaptive (BBRT, 2014; Wallander, 1999). Beyond Budgeting is about rethinking how we manage organisations in a post industrial world where innovative management model represent the only sustainable competitive advantage. It is also about releasing people from burdens of stifling bureaucracy and suffocating control systems, trusting them with information and giving them time to think, reflect, share learn and improve. Above all it is about learning how to change from the many leaders who have built and managed 'beyond budgeting' organisations (BBRT, 2014; Libby and Lindsay, 2003).

According to the Beyond Budgeting Round Table , some of the organisations which have become empowered and adaptive include organisations that cut across various sectors i.e. American Express(Financial Services, USA), Coloplast (Medical Products, Denmark), Google(Internet, USA), Handelsbanken(Universal Bank, Sweden), HCL Technologies(IT Services, India), John Lewis partnership(Retail, UK), Statoil (Oil and Gas, Norway), Sydney Water(Water Utility, Australia), Telekom Malaysia(Telecommunications, Malaysia), Toyota(Car Manufacturer, Japan) and Whole Foods Market(Natural Foods Retailer, USA).From the list it can be noted that no company that originates from Africa has gone beyond budgeting.

### **Beyond Budgeting principles**

According to BBRT (2011) organisations which have abandoned the command and control model have adopted common principles. The first six principles are the leadership principles, have to do with leadership. These provide a framework for the devolution of responsibility to

front line teams thus enabling them to respond quickly to emerging events and relative performance. These include principles that have to do with values, governance, transparency, teams, trust and accountability.

The second six principles are the process principles, which support a more adaptive set of performance management systems that enable front line teams to be more responsive to the competitive environment and to customer needs. These principles include goals, rewards, planning, coordination, resources and controls.

### **Benefits of Beyond Budgeting**

Beyond Budgeting organisations operate with speed and simplicity. Simplicity comes from reducing complexity in the management process. This can best be achieved by giving front line people the scope to act immediately and decisively within clear principles, values and strategic boundaries (BBRT, 2014; Sandalgaard et al, 2014).

In Beyond Budgeting organisations, people work within open and self-managed environment clear governance principles set the right climate and build the mutual trust needed to share knowledge and best practices(Wallander, 1999).

Only by seeing process as supplier-customer relationship will people respond to demands for improvement in quality and cost. Only by eradicating the mentality surrounding traditional budgets will people be motivated to question fixed costs and seek sustainable long term cost reduction (BBRT,2014).

Beyond Budgeting organisations place customer value needs at the centre of their strategy and adopt their processes to satisfying and even delighting them. Fast response to customer requests is vital (Hope and Fraser,2003).

### **Criticisms of traditional budgeting methods**

Hope and Fraser (2003) focus on the costs associated with preparing and negotiating budgets, and the costs of following up on those budgets. Along these lines Player (2003) argues that all of the member companies in BBRT joined because they recognised that the budgeting process was too long and expensive. Likewise Bogsnes (2009) mentions the cost of making budgets as an argument for going Beyond Budgeting.

The argument made by Hope and Fraser (2003) is that traditional budgets tend to become fixed performance contract in which goal achievement is the success criterion, therefore subordinates will try to obtain the easiest budget goals possible. Furthermore, when a budget goal is set there is a risk that subordinates will engage in gaming and other dysfunctional behaviour to reach the target. Bogsnes (2009) also highlights that a budget may motivate

gaming and thereby affect the quality of the budget. Hope and Fraser (2003) argue that traditional budgeting was developed at a time when the business environment was more stable and less competitive than it is today. As a result, a more adaptive way of managing is now needed. Bogsnes (2009) criticises budgets as being unsuitable for the business environment that companies currently face.

## METHODOLOGY

This study is based on a case study utilising Lupane State University due to availability of data and respondents on the survey instruments. The population consists of state universities in Zimbabwe, and purposive sampling was used in selecting Lupane State University to represent the population. This study adopted the Beyond Budgeting Leadership Self- Assessment Questionnaire to find out if the management model LSU is using will assist in coping with the challenges of budgeting. The diagnostics has been developed by the Beyond Budgeting Round Table (BBRT).

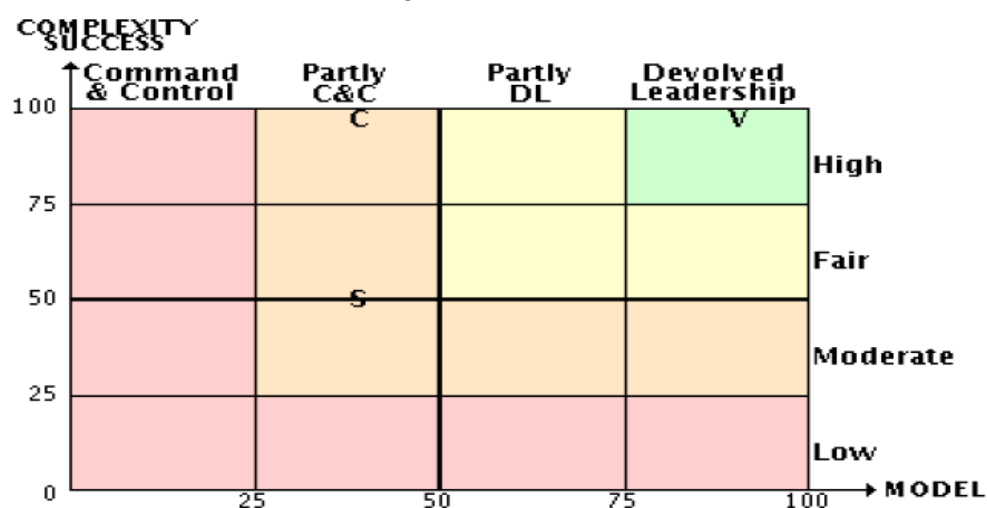
The hypothesis on which the survey instrument is based on is that in a complex dynamic competitive environment, an organisation that adopts a “Empowered and Adaptive” model (one that distribute knowledge and decision making power to the ‘frontline’ close to customers) should achieve sustained superior performance relative to its peers.

## EMPIRICAL FINDINGS

### Overview of the model

The overview of the model that Lupane State University is shown in Figure 1 below.

Figure 1: Overview



Source: BBRT leadership diagnostics, 2014

Figure 1 above plots the complexity(C) of the business environment that LSU operates in and its competitive success(S) against the nature of the current model. The table also plots the complexity(and anticipated success) against the organisation’s vision for alternative model(V). If the organisation is operating in a dynamic environment, its vision should be in the top right hand box (green). The extent of the change required to get there is the horizontal gap between ‘C’ and ‘V’ results. In Figure 1, ‘complexity’ is measured by the average importance that was given to the six competitive success factors in the questionnaire (CSF), and ‘success’ is based on the assessment of the relative competitive success of the organisation today. These are compared with average scores given to the management model and the vision of the alternative model.

**Complexity, competitive success and the current model**

The complexity of the environment in which LSU operates in is ‘HIGH’ at 97%, and the competitive success is ‘FAIR’ at 50%, and the current model is about 39% of the way towards ‘EMPOWERED AND ADAPTIVE’

**Vision**

LSU’s vision is about 90% of the way towards ‘EMPOWERED AND ADAPTIVE’. This means LSU should consider with some urgency, changing its model to increase competitive success.

**Summary scorecard**

Table 1. Summary scorecard for the BBRT questionnaire

Ref.	Topics (See conclusions on page 5)	Your score %	Red BAD 0% – 25%	Amber POOR 25% – 50%	Yellow FAIR 50% – 75%	Green GOOD 75% – 100%
1	Symptoms	25		X		
2	Alignment with CSFs	24	X			
3	Human nature assumptions	40		X		
1-3	<b>Problems</b> (average C-E)	<b>30</b>		X		
4	Importance of CSFs	97				X
5	Vision of alternative model	83				X
4-5	<b>Vision</b> (average F-G)	<b>90</b>				X
6	Leadership	34		X		
6	Processes	34		X		
6	Systems	50			X	
6-7	<b>Practice</b> (average H-J)	<b>39</b>		X		
8	Readiness to change	83				X
9	<b>Case for change</b>		<b>'STRONG'</b>			

Source: BBRT leadership diagnostic, 2014

The Table above indicates that the problems with the current management model are ‘SEVERE’ at 30% and the match between the vision of an alternative model and the ‘Empowered and Adaptive’ model is ‘GOOD’ at 90% and the current management model is ‘POOR’ at 39%. Overall the case for change at LSU is ‘STRONG’.

### **Symptoms**

The management model at LSU is a ‘COMMAND AND CONTROL’ model. The problems experienced with the planning process may be symptoms of misalignment of the model with the CSFs. This means that LSU should consider changing its model and not merely improving on its planning process.

### **Alignment with CSFs**

The overall score for the alignment between the management model and the CSFs is ‘BAD’ AT 24%. This means that LSU should consider changing or improving its management model to align it better with its CSFs and thus improve its competitive performance relative to its competitors.

### **Assumptions about human nature**

The scores show that the assumptions about human nature on which the management model is based are ‘POOR’ at 40%, tending towards Theory X in McGregor’s motivation theories. The organisation should consider changing its model so that it can attract and retain the best people; increase the productivity of its ‘knowledge assets’, and at the same time enable its people individually to grow and develop.

### **Importance of today’s CSFs**

The overall score for the importance of today’s CSFs is ‘HIGH’ at 97%. The organisation should therefore consider adopting an EMPOWERED AND ADAPTIVE model, which is designed to cope with a complex dynamic environment. The actual performance of LSU relative to its peers on the CSFs is ‘FAIR’ at 50%.

### **Vision**

The overall match between LSU’s vision of an alternative model and the Devolved Leadership model is ‘GOOD’ at 83%.

## **Practice**

Compared with the 'Empowered and Adaptive' model, the overall score for the current leadership practice is 'POOR' at 34%; the score for the management processes is 'POOR' at 34%; and the score for the information systems and tools is 'FAIR' at 50%. Overall LSU's model is 'POOR' at 39%.

## **Readiness to change**

An Empowered and Adaptive model should enable LSU to achieve and sustain superior competitive performance, but it usually requires a transformation of the traditional model, which represents some significant challenges. Before embarking on such a change the organisation needs to be ready. The overall score for readiness for LSU is 'GOOD' at 83%.

## **Case for change**

The case for change reflects the various pressures for changing the management model. Six of these have been evaluated, and averaged to determine the overall case for change, which is 'STRONG', the organisation should proceed to the next stage of implementation.

## **What must change?**

To build a coherent Empowered and Adaptive model requires all its steering mechanisms to work together to support. Not conflict with the CSFs. The changes required are evaluated and ranked in descending order of the extent to change required. There are 16 areas shown in which changes are potentially required. All these should be in the GREEN zone i.e. having a gap of less than 25%.

## **CONCLUSION**

This study was based on the Beyond Budgeting Round Table Leadership Self assessment questionnaire, which was applied to Lupane State University to evaluate the applicability of Beyond Budgeting in state universities in Zimbabwe.

The findings show that Lupane State University's current management model, which is the command and control model is severe at 39%, and that the match between the vision of an alternative model and the Beyond Budgeting model is good at 90%, therefore the study concludes that the case for change, which is to move towards an adaptive model (Beyond Budgeting) is strong.

The current study contributes to the field of management accounting, with special emphasis on Africa, where very few companies and organisations have adopted the Beyond

Budgeting philosophy. The study is limited to a case of Lupane State University due to the ease to gather the information required and cost of applying the questionnaire. The study utilised the BBRT questionnaire which was the taster version, and the full version was not updated.

Areas for further research could include, using the fully version of the leadership self assessment questionnaire on LSU, also the peers of this organisation could be utilised, a broader study that involves all the state universities can be conducted, and a comparison with the performance of private universities in Zimbabwe.

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