

## A SURVEY OF BUDGET PLANNING AND CONTROL PRACTICE IN THAILAND

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### INTRODUCTION

Several Pacific Rim countries including Thailand have experienced recent growth in their economies. As a part of this development local business will show a development of their management processes. One particular area where this development should occur is in the use of accounting information for a variety of managerial purposes beyond the exclusive preparation of financial statements. There have been studies made of management accounting practices in some of the developed Pacific Rim economies. Such studies have primarily focused on the United States in the West, and on Japan and Korea in the East. However, in the emerging economies there has been very little study of the development of business management practices. This is particularly true in the area of management accounting. This study used a relatively large sample size to investigate current practices for budget planning in Thailand in terms of managers's use of management accounting information for budget planning and control purposes, and to investigate the state of management accounting development in an emerging Pacific Rim economy. For budget planning the following specific areas were studied : type of budgets used, logistics of budget preparation, managers' participation in the budget process and the ranking of division budget goals. For budget control the specific areas that were studied in Thailand were the use of budget variances, ranking of budget goals for performance evaluation, and the influence of budget performance on managers' financial rewards and promotions. The results showed that in Thailand several budget planning and control practices are well developed.

### THE SURVEY

The survey questionnaire was mailed to the Company Controller or Accounting Manager of the 500 largest Thai industrial companies listed by **Million Baht Business**

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**Information Thailand 1989** using the International Standard Industrial Classification (ISIC). The questionnaire was sent on January 24, 1990 with a request to be returned by February 9, 1990. Completed questionnaires were returned by 98 companies which was a response rate of almost 20%. This response rate is comparable to the response rate of similar surveys of management accounting practices in other countries.

Table 1 shows descriptive information about the average annual sales, total assets, and number of employees for the Thai companies that responded to the survey.

**TABLE 1**  
**Average Size for Respondent Companies**

Annual sales	1,635.4 Million Baht
Total assets	926.7 Million Baht
Number of employees	1,125

The details of the survey size, response number and response rate by 15 industrial classifications are presented in Table 2.

**TABLE 2**  
**Composition of Survey and Response**

Industry Classification	Responses	Survey Size	Response Rate
Mining	0	6	0.0%
Food	24	133	18.0%
Textile	7	53	13.2%
Paper/Pulp	10	42	23.8%
Chemical	13	67	19.4%
Oil/Coal Products	4	8	50.0%
Rubber	2	8	25.0%
Glass/Ceramics	8	25	32.0%
Steel/non – ferrous Metals	4	21	19.0%
Metal Products	2	16	12.5%
Machinery	4	13	30.8%
Electronics	13	45	28.9%
Transportation Equipment	4	26	15.4%
Precision Machinery	0	1	0.0%
Other	3	36	8.3%
Totals	98	500	19.6%

## I. BUDGET PLANNING

This study was interested in the use of management accounting information in the budget planning process in five major areas: (a) type of budgets used, (b) logistics of budget preparation, (c) managers' participation in the budget planning process, and (d) ranking of division budget goals.

### a. Type of Budgets Used

About two thirds of respondents used complete master budgets (see Table 3). These results suggested that budget planning has been moderately well accepted in the

largest Thai companies. However, in the developed Pacific Rim countries, such as the U.S. and Japan, over 90% of the largest companies have complete master budgets and less than 1% do not have a budget. Further development of the business sector in Thailand should lead to further growth in the usage of budgets.

**TABLE 3**  
**Type of Budgets**

Complete Master Budget	66.3%
Expense Budget Only	24.5%
No Budget	9.2%
	100%
Number of Companies	98

**b. Logistics of Budget Preparation**

For Thai companies, the average number of days spent in preparing the annual budget was 49, the average number of meetings of a formal budget committee was 4.44. The results are presented in Table 4. The amount of time spent in the budgeting process is an indication of the resources committed to formal financial planning. This seems to be recognized as an important activity in Thai companies.

**TABLE 4**  
**Logistics of Budget Preparation**

Budgeting Activity	Mean	S.D.	No. of Companies
Number of Days Preparing the Budget	49	56.47	85
Number of Meetings of Formal Budget Committee	4.44	2.963	82

**c. Managers' Participation in Budget Planning Process**

A series of questions that used a seven – point Likert scale (presented in Tables 5 to 7) addressed the respondents' assessment of division managers' participation in the budget planning process. Table 5 reveals that Thai division managers were able to participate in the formal discussions with the budget committee more than 50% of the time with the mean response of 4.747.

**TABLE 5**  
**Division Manager Participation in Budget Committee Discussions**

1	2	3	4	5	6	7
<b>None</b>		<b>50% of the time</b>			<b>Always</b>	
Mean Response			4.747			
Standard Deviation			1.424			
Number of Companies			87			

With respect to the degree of influence that division managers had on the budget committee, the results indicated that division managers had more than "moderate" influence on the budget committee, as shown in Table 6. The mean response was 4.977. Managers' participation in the budgeting process is desirable to increase the relevance of the budget as well as to enhance budget motivation. Current practices in developed countries emphasize participation in budgeting. This is also the case in Thailand.

**TABLE 6**  
**Division Manager Influence on the Budget Committee**

1	2	3	4	5	6	7
<b>None</b>		<b>Moderate</b>			<b>Very Strong</b>	
Mean Response			4.977			
Standard Deviation			1.439			
Number of Companies			86			

The results from a series of questions asking division managers to assess their participation in the budget process are presented in Table 7. In Thai companies the targets of top management were used extensively in division budget planning, but after that top management seemed to provide more autonomy to the divisions. The Thai results reflected a top-down approach. The results also indicated that participation was extended to operating managers and significant emphasis put on coordinating divisions.

**TABLE 7**  
**Participation in the Budget Process**

1	2	3	4	5	6	7
Never		50% of the time			Always	
		Mean Response			S.D.	
How often are the initial targets of top management not used in budget planning?		1.610			1.260	
How often does top management require modifications to the division's initial budget proposals?		4.140			1.414	
How often are divisions required to coordinate their budget preparation?		4.919			2.056	
How often do operating managers within a division participate in preparing the division budget?		5.313			1.647	

**d. Ranking of Division Budget Goals**

The results of the rankings of the top three budget goals for a division manager are presented in Tables 8 to 10. The percentage of divisionalized companies of each country that ranked specific budget goals first, second, and third is shown in Table 8. Table 9 summarizes the results from Table 8 showing budget goals for division managers most commonly ranked first, second, and third. Table 10 presents the percentage of time the most important budget goals were ranked within the top three budget goals for division managers.

**TABLE 8**  
**Percentage of Divisionalized Companies Ranking the First, Second and Third Budget Goals for Division Managers**

Sales Volume	52.6%	15.5%	5.2%
Sales Growth	5.3%	6.9%	20.7%
Market Share	5.3%	6.9%	6.9%
Asset Turnover Rate	0.0%	0.0%	1.8%
Profit Margin on Sales	1.8%	10.3%	13.8%
Return on Investment	1.8%	5.2%	8.6%
Residual Income	1.7%	0.0%	1.7%
Controllable Profit	0.0%	10.3%	6.9%
Net Profit After Allocated Corporate Overhead	14.0%	5.2%	17.2%
Production Cost	17.5%	39.7%	17.2%
Other	0.0%	0.0%	0.0%
Total	100%	100%	100%
Number of Companies	57	58	58

For Thai companies sales volume was the most frequently ranked as the first budget goal. This was the case for over half of the respondents. Production cost was the budget goal that was next most frequently ranked as first. Although production cost was only one third as likely to be the first budget goal, it was the most frequent budget goal ranked within the top three goals as shown in Table 10. Sales volume was nearly equal to production cost in this regard. Other goals most frequently ranked in the top three included net profit and sales growth. It should be noted that return on investment showed a very low priority as a budget goal.

**TABLE 9**  
**Budget Goals for Division Managers**  
**Most Commonly Ranked First, Second and Third**

<b>% of Time Ranked First :</b>	
Sales Volume	52.6%
Production Cost	17.5%
Net Profit After Allocated Corporate Overhead	14.0%
<b>% of Time Ranked Second :</b>	
Production Cost	39.7%
Sales Volume	15.5%
Controllable Profit	10.3%
Profit Margin on Sales	10.3%
<b>% of Time Ranked Third :</b>	
Sales Growth	20.7%
Net Profit After Allocated Corporate Overhead	17.2%
Production Cost	17.2%
Profit Margin on Sales	13.8%



**TABLE 10**  
**Percentage of Time Ranked in**  
**Top Three Budget Goals for Division Managers**

Rank	1	Production Cost	74.4%
	2	Sales Volume	73.3%
	3	Net Profit After Allocated Corporate Overhead	36.4%
	4	Sales Growth	32.9%
	5	Profit Margin on Sales	25.9%
	6	Market Share	19.1%
	7	Controllable Profit	17.2%
	8	Return on Investment	15.6%

## II. BUDGET CONTROL

In order to investigate current practices in the use of management accounting information for budget control in Thailand, the following four areas were studied: (a) the use of budget variances, (b) ranking of budget goals for performance evaluation, (c) the influence of budget performance on managers' financial rewards and (d) the influence of budget performance on managers' promotion.

### a. Use of Budget Variances

The respondents were asked to assess the use of division budget variances by a series of questions using a seven-point Likert scale. The results are presented in Table 11.

**TABLE 11**  
**Use of Division Budget Variances**

1	2	3	4	5	6	7
<b>Not used for this purpose</b>		<b>Used somewhat for this purpose</b>			<b>Used extensively for this purpose</b>	
		Mean Response	S.D.	No. of Co.		
Timely recognition of problems		4.962	1.564	79		
To evaluate management ability of division manager		4.63	1.365	80		
To evaluate forecasting ability of division management		3.25	1.630	80		
To improve next period's budget		4.154	1.375	82		
To control direct costs		5.150	1.465	80		
To control overhead costs		5.470	1.443	83		
To provide control information to division manager		5.637	1.480	82		

Based on mean scores, Thai companies rated cost control as the most frequent use for division budget variances. Thai companies also put specific emphasis on control of direct costs and overhead costs. This was consistent with the concern for production cost shown in the ranking of budget goals. Thai companies also reported substantial use of division budget variances for timely recognition of problems, to improve next period's budget and to some extent to evaluate the management ability of division managers.

### b. Ranking of Budget Goals for Performance Evaluation

With respect to measures of budget goals used to evaluate a division manager's performance, the results are shown in Tables 12 to 14. This study compared the ranking of budget goals for planning purposes to the ranking of budget goals used to evaluate the division manager's performance. To accomplish this Tables 12 to 14 can be compared to Tables 8 to 10 in Part I. Comparing Table 12 to Table 8 shows that sales volume and production cost are the two most important budget goals for both budget planning and budget control.

**TABLE 12**  
Percentage of Divisionalized Companies Ranking the First, Second  
and Third Budget Goals for Performance Evaluation

Budget Goals	Ranking		
	First	Second	Third
Sales Volume	39.6%	14.0%	1.8%
Sales Growth	8.6%	8.8%	15.8%
Market Share	5.2%	15.8%	12.3%
Asset Turnover Rate	0.0%	1.7%	0.0%
Profit Margin on Sales	0.0%	12.3%	14.0%
Return on Investment	5.2%	0.0%	12.3%
Residual Income	1.7%	1.8%	0.0%
Controllable Profit	6.9%	14.0%	7.0%
Net Profit After Allocated Corporate Overhead	5.2%	7.0%	17.5%
Production Cost	27.6%	24.6%	15.8%
Other	0.0%	0.0%	3.5%
Total	100%	100%	100%
Number of Companies	58	57	57

The relationship between the ranking of budget goals for planning versus the ranking for performance evaluation can best be seen by comparing Table 14 to Table 10. The budget control rankings matched the budget planning rankings very closely. The most significant difference was that market share moved from the sixth most important top three planning goal to the third most important top three control goal. However, in the frequency for the first ranked goal market share showed the same percentages for both planning and control.

**TABLE 13**  
**Budget Goals for Performance Evaluation**  
**Most Commonly Ranked First, Second and Third**

% of Time Ranked First		% of Time Ranked Second		% of Time Ranked Third	
Sales Volume	39.6%	Production Cost	24.6%	Net Profit After Allocated Corporate Overhead	17.5%
Production Cost	27.6%	Market Share	15.8%	Production Cost	15.8%
Sales Growth	8.6%	Sales Volume	14.0%	Sales Growth	15.8%
		Controllable Profit	14.0%	Profit Margin on Sales	14.0%

**TABLE 14**  
**Percentage of Time Ranked in**  
**Top Three Budget Goals for Performance Evaluation**

Rank 1	Production Cost	68.0%
2	Sales Volume	55.4%
3	Market Share	33.3%
4	Sales Growth	33.2%
5	Net Profit After Allocated Corporate Overhead	29.7%
6	Controllable Profit	27.9%
7	Profit Margin on Sales	26.3%
8	Return on Investment	17.5%
9	Residual Income	3.5%
10	Other	3.5%
11	Asset Turnover Rate	1.7%

Although the budget planning and budget control ranking were highly consistent there were some significant changes in the ranking percentages. In the area of sales as presented in Table 15, managers' goal performance responsibility compared to planning goals declined for sales volume while it increased for market share. That is, while sales volume was ranked higher than market share for both planning and performance evaluation it appeared to be relatively more important for planning than for performance evaluation. In the area of profitability, managers' goal performance responsibility compared to budget planning declined for net profit and increased for controllable profit (see Table 15). It is likely that this reflected a justified concern for fully allocated profit for the entity, and a recognition that managers' performance should only be evaluated based on controllable factors.

As a final note the use of return on investment as a performance evaluation goal was ranked as low as it was for a planning goal.

**TABLE 15**  
**Selected Comparative Percentage of Time Ranked in Top Three Budget Goals**  
**for Planning Purposes and Performance Evaluation**

<b>From Table 10</b>		<b>From Table 14</b>	
Percentage of Time Ranked in Top Three Budget Goals for Division Managers		Percentage of Time Ranked in Top Three Budget Goals for Performance Evaluation	
2. Sales Volume	73.3%	2. Sales Volume	55.4%
6. Market Share	19.1%	3. Market Share	33.3%
3. Net Profit After Allocated Corporate Overhead	36.4%	5. Net Profit After Allocated Corporate Overhead	29.7%
7. Controllable Profit	17.2%	6. Controllable Profit	27.9%

**c. Influence of Budget Performance on Managers' Financial Rewards**

The influence of budget performance on managers' financial rewards in terms of bonus and salary is shown in Table 16.

**TABLE 16**  
**Influence of Budget Performance on Division Manager's Bonus and Salary**

1	2	3	4	5	6	7
<b>No influence at all</b>		<b>Moderate influence</b>			<b>Very significant influence</b>	
			<b>Mean Response</b>	<b>S.D.</b>	<b>No. of Co.</b>	
To what extent does a division's budget performance influence the bonus for the division manager?			2.898	1.377	88	
To what extent does a division's budget performance influence the salary for the division manager?			3.954	1.563	87	

For Thai companies division budget performance had more influence on a manager's salary than it had on the manager's bonus. However, budget performance had only a moderate influence on the salary for the division manager with a mean response of 3.954. Its influence on the division manager's bonus was even lower with a mean response of 2.898. These results indicated that budget performance did not have significant influence in terms of either bonus or salary for Thai division managers.

**d. Influence of Budget Performance on Managers' Promotion**

Respondents were asked to rate the importance of division profit and sales growth for evaluating division managers' promotion or new assignment. The findings are presented in Table 17.

**TABLE 17**  
**Importance of Division Profit and Sales Growth for Division**  
**Manager Promotion or New Assignment**

1	2	3	4	5	6	7
<b>Not at all important</b>			<b>Moderately important</b>			<b>Very important</b>
			Mean Response	S.D.	No. of Co.	
Importance of division profit performance for evaluating division manager for promotion or new assignment			3.910	1.770	89	
Importance of sales growth for evaluating division manager for promotion or new assignment			4.424	1.636	89	

Thai respondents placed more importance on sales growth than division profit in evaluating division managers' promotion and new assignment with the mean values of 4.424 and 3.910 respectively. This is consistent with relative ranking shown in Table 14 where sales growth was ranked higher as a goal for performance evaluation than net profit.

When Table 17 is compared with Table 16, it appears that Thai companies placed greater emphasis on financial performance measures in the long-run evaluation for promotion decisions than in the case of short-run performance evaluation for salary or bonus. This result occurred even though the specific measures that were used for this question were not the highest ranked goals for performance evaluation. Had the question asked about the influence of sales growth or production cost the results may have shown a greater difference.

## **SUMMARY**

A survey of large industrial companies in Thailand looked at the budget planning and control practices currently in use. It was found that most of the respondents did utilize several contemporary management accounting practices with regard to budget planning and control. A majority of the companies used a master budget for planning and over 90% used some type of budget. The average company committed a significant amount of time to the budgeting process. The process tended to be a top down approach, but participation was common for division and operating managers. Budget goals

emphasized sales volume and production cost.

On the budget control side variance analysis was well established. The primary use for variances was to provide managers with cost control information particularly for overhead costs. The ranking of budget goals for performance evaluation was quite consistent with the ranking of goals for budget planning. Performance in achieving budget goals was not a very important factor in determining a manager's bonus or salary. Performance with respect to selected budget goals had a little more influence on long run evaluations such as a manager's promotion.