



THE RELATIONSHIP BETWEEN USING PREDICTIVE BUDGETS AND FINANCIAL PLANNING EFFECTIVENESS IN JORDANIAN MANUFACTURING COMPANIES



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SULTAN IDRIS EDUCATION UNIVERSITY

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FINANCIAL PLANNING EFFECTIVENESS IN JORDANIAN
MANUFACTURING COMPANIES

FARIS DHAMIN AL KHALAFAT

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ABSTRACT

This objective of this study is to investigate the relationship between using predictive budgets and the effectiveness of financial planning effectiveness in Jordanian Manufacturing Companies (JMCs). A standardized random sampling method was adopted in this research. The questionnaire has six parts and 61 items were used to measure the relationship between predictive budgets' enablers and financial planning effectiveness. The research population is consisting of Jordanian manufacturing companies with registered capital of Jordanian Dinar 50,000 or above (approx. US\$ 70,000). The total population of the study found is 399 companies, and the sample size was 196 companies. The questionnaires were directed to the highest financial officer in each company. Valid questionnaires for the study were 191, and 5 questionnaires were incomplete. Pearson correlation results proved that there is a significant positive relationship between enablers of using predictive budgets, namely, desire of using predictive budgets, commitment to use system outputs of predictive budgets, determinants of using predictive budgets, using scientific approach in preparing predictive budgets, and the availability of knowledge and skills, and financial planning effectiveness in JMCs. This study contributes to the addition of predictive role of budgeting to theoretical framework according to the best managerial practices. The practical contribution of this study is that it will assist JMCs to increase its financial planning effectiveness and competitiveness abilities.





HUBUNGAN ANTARA PENGGUNAAN BELANJAWAN ANGGARAN DAN KEBERKESANAN PERANCANGAN KEWANGAN DALAM KALANGAN SYARIKAT PENGELUARAN DI JORDAN

ABSTRAK

Objektif penyelidikan ini adalah untuk mengkaji hubungan antara pemangkin penggunaan belanjawan anggaran dan keberkesanan perancangan kewangan dalam kalangan syarikat pengeluaran di Jordan. Pensampelan rawak digunakan dalam kajian ini. Soal selidik mempunyai enam bahagian dan mempunyai 61 items. Populasi kajian terdiri daripada 399 syarikat pengeluaran di Jordan yang mempunyai modal berbayar 50000 dinar (lebih kurang USD 70000). Sampel kajian yang dikenalpasti adalah 196 syarikat. Pegawai tertinggi kewangan syarikat merupakan wakil yang akan menjawab borang soal selidik. 191 soalselidik telah dianalisis manakala lima soalselidik tidak diproses kerana tidak lengkap. Ujian korelasi pearson menunjukkan terdapat hubungan yang signifikan antara pemangkin penggunaan belanjawan anggaran iaitu minat menggunakan belanjawan anggaran, komitmen untuk output sistem belanjawan anggaran, ketersediaan pengetahuan dan kemahiran dengan keberkesanan perancangan kewangan. Kajian ini menyumbang kepada kerangka teori penggunaan belanjawan anggaran dalam aktiviti pengurusan. Dari aspek praktikal, penggunaan belanjawan anggaran akan meningkatkan keberkesanan perancangan kewangan dan kemampuan bersaing.



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4.40 Registered capital and FPE correlation

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LIST OF ABBREVIATIONS

BSC	Balanced Scorecard
FPE	Financial Planning Effectiveness
GDP	Gross Domestic Product
IRR	Internal Rate of Return
JMC	Jordanian Manufacturing Companies
PB	Predictive Budgets
PESTEL	Political, Economic, Social, Technical, Environmental, and legal
PRA	Petra Region Authority
SMART	Specific, Measurable, Achievable, Realistic, and Time-bound
SPSS	Statistical Package for Social Studies
SWOT	Strengths, Weaknesses, Opportunities, and Threats



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- A Registered Capital – Variable correlation
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CHAPTER 1

INTRODUCTION

Manufacturing sector is considered the second economic sector in Jordan where services sector occupied the first rank. The main contribution of manufacturing sector in supporting Jordanian economy are the exports. Main products of manufacturing sector are, minerals, pharmaceutical products, and textiles and garments. Manufacturing sector occupied the 86th place of largest export economy in the world in 2015. The manufacturing sector plays a major role in contributing to the consolidation of the pillars of economic and social development in Jordan. It is considered as one of the main pillars in economic growth, in addition to its vital role in employment, attracting quality investments, accessing global markets and showing the image and identity of Jordanian products. The manufacturing sector portion is about a quarter of the national economy (25% of the gross domestic product). This contribution could be raised up to reach 40%



according to its direct contribution to the various economic sectors. The manufacturing sector also employs about 251 thousand people, most of whom are Jordanians, working in approximately 18 thousand industrial facilities distributed over all governorates of the Jordan, approximately constituting about 21% of the total Jordanian workforce. This percentage increases to reach about 28% of the total volume of employment in the sector. Wages and compensation they receive estimated to be more than one and a half billion dinars, through which they are sponsoring about one-fifth of Jordan's population (Jordan Chamber of Industry, 2021).

Manufacturing sector also contributes to strengthening and stabilizing the Jordanian dinar exchange rate, by supplementing Jordanian official foreign exchange reserves with more than 9 billion USD annually. The result of its acquisition of more than 90% of the total national exports, which achieved a growth of nearly 10% during the year.

2019 and reached about 140 countries around the world. The exported products confirming the quality and international specifications of industrial products, in addition to the industry's acquisition of more than 70 % of the investments flowing into Jordan during the past decade. Therefore, it is considered one of the attractive sectors for investment (Companies Controller Directorate, 2019; Jordan Chamber of Industry, 2021). Manufacturing sector is consisting of the following manufacturing sectors:

- Wood and furniture
- Plastic and rubber



- Engineering, electrical and information technology
- Chemical and cosmetic
- Therapeutic industries and medical supplies
- Leather and knitting
- Food, catering, and agricultural
- Packaging, paper, cardboard and office supplies
- Construction
- Mining

Manufacturing sector as a part of Jordanian economy has been affected by surrounded political crises occurred in its neighbor countries, namely, Syria, Iraq, and Egypt. Which have a deep impact on Jordanian economic growth including industries. This encourages the Jordanian manufacturing companies to apply the bet-in-class financial management models including financial planning.

Most of Jordanian manufacturing companies suffer from misuse of its available resources in an optimal manner. This is requiring solutions to guide them to utilize its resources to optimize the usage of it and to reduce the waste in an effective manner (Al-Afzal & Abdel-Nasser, 2002). Hence, the idea of Predictive Budgets (PB) as a future financial planning tool is to guide planning and performance, control, and evaluation in



directing company's resources towards optimal utilization, the predictive budgets is considered as a crucial tool to help companies in reflecting its strategies in quantitative way, and to manage their resources in an efficient way (Nguyen et al., 2018). To fulfil the concept of control component accurately, organizations have to compare the actual costs to the estimated costs as a part of monitoring process, in order to determine the differences between actual and estimated performance. In other meaning, to analyze the gaps and digging behind the causes of inefficiency in estimating operation levels and revenues deviations resulting from unpredictability. The circumstances affecting the future revenue changes and production costs (Agarwal et al., 2015). Octariani et al. (2017) argue that the predictive budgeting has a positive impact on budget quality and planning process in general, which will enrich the organizational experience and practices in preparing and managing their budgets (Octariani et al., 2017). In view of the importance of applying predictive role of budgeting in Jordanian manufacturing companies, this research come to illustrate the importance of using predictive budgeting to increase the effectiveness of financial planning in Jordanian Manufacturing companies (JMCs). On the other hand, the research is trying to answer the question that, if contemporary accounting thinking and practices are demonstrating in lack of using this tool. Also to know the extent to which the outputs of the financial systems are used to achieve the objectives of budgets planning process, and increasing its effectiveness to control the deviations extracted, and evaluate the performance of the operation in order to preserve the resources of the enterprise and ensure its continuity towards sustainability and growth (Olayan, 2009).





1.2 Problem Statement

Budgets known as one of the best control tools in managerial theories since 1920, and considered to be the key element in managerial performance evaluation, as well as planning and monitoring (Ngumi & Njogo, 2017). Furthermore, the budgets can support the control of executive management and stakeholder abilities. Nevertheless, traditional budgets become unable to meet modern business environment, which increased the criticism toward it. Opponents to traditional budgets argue that, it became invalid to meet modern business environment, and prevent the management from adapting with market changes and requirements (Réka et al., 2014). One of the most challenges organizations suffering from the beginning of known management history is distributing the limited resources they have to achieve the desired business results in an effective and efficient manner (Siyanbola, 2013). Financial planning is one of the most crucial factors those participate in the organization's sustainability, and it can predict the future of business performance. Moreover, it helps the company to drive tactical decisions and employ its resources in an efficient way (Blumentritt, 2006). More than 390,000 businesses were failed in United States during the year 2014 as a result of lack of planning, planning budgeting and budget control (Foster, 2017). Misuse of predictive role of budgeting is the most significant factor that can negatively affect the financial performance among other factors, in addition, missing planning budgeting can decrease the health of organizations. When predictive budgets are not adopted, this will lead to increase unemployment rate as a result of bad financial performance and downsizing (Foster, 2017). Many studies and researches showing that there is a lack of using the budgets as planning and performance evaluating tool in developing countries





(Al- Afandi, 2003; Al-Alaween, 2000; Al-Najjar, 2006; Kwarteng, 2018; Siyanbola, 2013; Tarawneh, 2005; Zamil, 2000).

Financial strategic plan as a part of corporate strategic plan should be the anchor that help organization to navigate in the business ocean. This will enable the decision makers from making the right decisions at the right time at the right cost. Kwarteng, conducted a survey to examine the usage of budgetary planning in Ghana and he found that most of companies in Ghana using the budgetary principles to allocate resources. Moreover, he found the performance management is playing a moderate role between predictive budgeting and recourses allocation (Kwarteng, 2018).

Most of researches in Jordan, there is very limited researches spot the light on the roles of budgets. These studies discussed the budgets from control and audit perspectives (Al-Afzal & Abdel-Nasser, 2002; Al-Alaween, 2000; Al-Ramahi & Mahmoud, 2017; Gouda & Al-Attar, 2019; Hanan & Kahala, 1997; Hanini & Badran, 2013; A. Judah & Al- Attar, 1997; Olayan, 2009; Rahahleh & Ashour, 2019; Rashid & Mahdi, 1993; Shaqour et al., 2018; Tarawneh, 2005). The results of these researches evident that, the predictive role of budgeting is not adopted. Most of Jordanian manufacturing companies are suffering from difficulty of formulating its strategies and its future financial forecasting because they do not realize the importance of using predictive budgets (Tarawneh, 2005). Jordanian manufacturing companies still adopt the traditional budgets concept, where it is concern about its costs and expected cash flows for the next planning periods, and budgets still used for accounting and auditing purposes only (Olayan, 2009). The principle of estimating the accurate recourses to be allocated to product cost, products improvement, investing in new entities or new





product lines is not applied. Thus, most of these companies are not comply with adopting a systematic approach to apply predictive budgeting as well as correcting deviations through the use of system outputs as an indicator of future avoidance.

Availability of required information is very vital factor to prepare solid and accurate predictive budget (Al-Najjar, 2006). Jordanian manufacturing companies have weakness in providing adequate information which is necessary to be used as inputs to prepare predictive budgets which at the end, used as an input for financial planning. Furthermore, there is a weak awareness about the importance of predictive budgets impact on the productivity, minimizing waste, and employing organization's resources towards optimal utilization (Judah, 2015). The researcher assumes that, there is a significant relationship between the capabilities of financial staff and preparing budgets on predictive basis. The research will examine the relationship between staff skills and knowledge and using the PB (Al-Najjar, 2006).

The importance of this research stems from the fact that, most of Jordanian manufacturing companies are not aware of the importance of using predictive budgets as an efficient tool in financial planning effectiveness. This research tries to explore the relationship between predictive budgets and effectiveness of financial planning. Financial planning helps companies to make feasible investments and set clear quantified objectives and monitor their performance. In addition, it provides the companies with accurate information regarding deviations or the gaps between planned objectives and actual progress and take the corrective actions on the right time. In other meaning, it will work as a tracker for key performance indicators for both core and supportive units. Furthermore, it enables the company to overcome the gaps it faces,





namely, the utilization and efficient usage of available resources and minimizing waste, and comparing actual costs with estimated costs and rectification errors and increased effectiveness of the financial performance.

After reviewing of many literatures in the field of predictive budgets and financial planning in Jordan (Al-Afzal & Abdel-Nasser, 2002; Al-Alaween, 2000; Hanan & Kahala, 1997; Hanini & Badran, 2013; A. Judah & Al-Attar, 1997; Olayan, 2009; Rahahleh & Ashour, 2019; Rashid & Mahdi, 1993; Tarawneh, 2005) the researcher found that most of these studies concentrate on using the budgets for control proposes, but none of them discussed in depth the importance of internal enablers those may support the application of predictive budgets. The significance of this research is to spot the light on these enablers as stated in research questions and hypothesis. Study will conduct further investigation and concentration of each of them including the willing of top management to use PB, as well as its commitment to use PB's outputs in financial planning process. Existence of determinants will be examined in addition to explore to how extent companies adopt scientific approach in preparing their PB. Lastly, the study will explore the readiness (capabilities) of financial staff and their abilities to prepare proper PB. This research is trying to fill the gaps where not covered by the previous studies because it tries to detect the relationship between its five independent variables (UPB, CPB, DPB, USA, and ASK) and the dependent variable (FPE) in Jordanian manufacturing companies. This distinguishes the present study from previous studies since it is studying the relationship between enablers of adopting PB and FPE in Jordanian manufacturing companies. Previous studies have presented results in different circumstances in developed and developing countries and in different industries; however, the present study focused on the manufacturing sector in Jordan.





The study also studied a set of factors those affect adopting PB and its effect on FPE, when most of the previous researches hit one or two factors only, for example, see (Al-Najjar, 2006; R. M. Judah, 2015; Rahahleh & Ashour, 2019; Tarawneh, 2005). Most of these studies concentrate on the monitoring and controlling role of budgeting.

1.3 Significance of the Study

The importance of this research stems from the fact that, most of Jordanian manufacturing companies are not the predictive role of budgets as an effective tool to enhance financial planning effectiveness. Hence the importance of this research is to explain the predictive role of budgeting as a vital tool in financial planning process to help Jordanian manufacturing companies to make feasible investments and set clear quantified objectives and monitor the performance toward targets. In addition, to provide Jordanian manufacturing companies with accurate information regarding deviations or the gaps between planned objectives and actual progress and take the corrective actions on the right time. Since most of related studies in Jordan are lacking of discussion the predictive role of budgets, this research will spot the light on this particular role. More particularly, this research will contribute to improve Jordanian manufacturing companies' performance in Jordan which helps in national economy development. Also, it is helping Jordanian manufacturing companies to utilize the usage of its available resources and minimizing waste. In the meantime, it will enhance the predictive role of budgeting in the manufacturing sector in general. Not to forget that, this research is increasing knowledge and enriching Jordanian and regional libraries with new knowledge on this subject because the studies on this topic are very



little. Lastly, it will explore the relationship between predictive budgets and effectiveness of financial planning.

1.4 Research Questions

Mainly it could be recognized that, the problem of this research is limited to answer the following questions:

1. What is the relationship between desire of using predictive budgets (UPB) and financial planning effectiveness (FPE) in Jordanian manufacturing companies?
2. What is the relationship between commitment to use system outputs of predictive budgets (CPB) and financial planning effectiveness (FPE) in Jordanian manufacturing companies?
3. What is the relationship between determinants of using predictive budgets (DPB) and financial planning effectiveness (FPE) in Jordanian Manufacturing Companies?
4. What is the relationship between using scientific approach in preparing predictive budgets (USA) and financial planning effectiveness (FPE) in Jordanian Manufacturing Companies?
5. What is the relationship between the availability of knowledge and skills (AKS) of the financial staff to prepare predictive budgets and financial planning effectiveness (FPE) in Jordanian manufacturing companies?

1.5 Research Objectives

This research aims to demonstrate the importance of using predictive budgeting in the planning and control process and evaluation of performance in the Jordanian manufacturing companies. As well as the extent of commitment of these companies to use this approach and the importance of participation of all business units in the preparation of predictive budgets. In general, this research aims to achieve the following objectives:

1. To examine the relationship between desire of using predictive budgets (UPB) and financial planning effectiveness (FPE) in Jordanian manufacturing companies.
2. To examine the relationship between commitment to use system outputs of predictive budgets (CPB) and financial planning effectiveness (FPE) in Jordanian manufacturing companies.
3. To examine the relationship between determinants of using predictive budgets (DPB) and financial planning effectiveness (FPE) in Jordanian Manufacturing Companies.
4. To examine the relationship between using scientific approach in preparing predictive budgets (USA) and financial planning effectiveness (FPE) in Jordanian Manufacturing Companies.
5. To examine the relationship between the availability of knowledge and skills (AKS) of the financial staff to prepare predictive budgets and financial planning effectiveness (FPE) in Jordanian manufacturing companies.

1.6 Research variables

The research variables are determined as in the figure below:

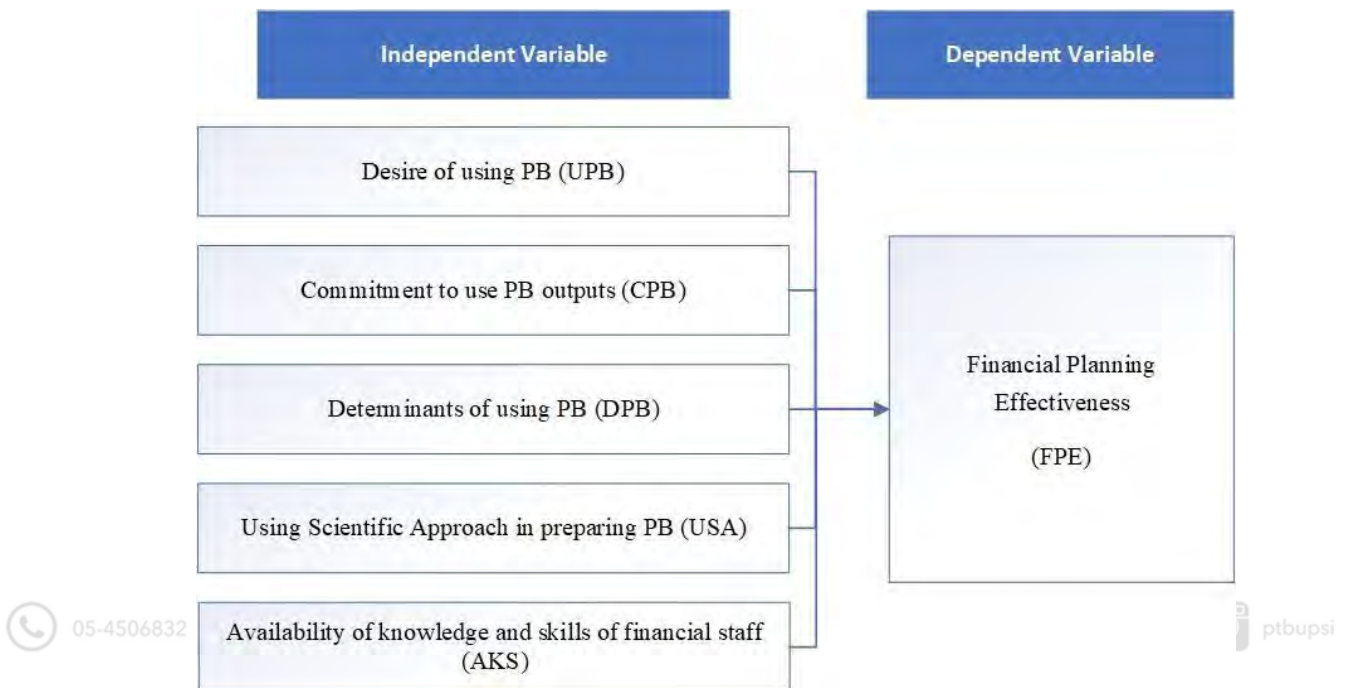


Figure 1.1. Research variables

1.7 Operational Definitions

Table 1.1

Operational Definition

Desire of using PB	Means the willing and discipline of top management to reliance on predictive budgets as a planning tool ((Hanan & Kahala, 1997). Desire in this research means the willing of Jordanian manufacturing companies to us predictive budgets in financial planning.
Determinants of using PB	Determinants in this study means all factors and obstacles those may limiting or preventing the usage of PB as a planning tool in JMC.

(continue)

Table 1.1 (*continued*)

Effectiveness	The ability of Jordanian manufacturing companies to achieve financial goals. It represents the relationship between the achieved performance against planned objectives in JMCs.
Financial performance	The evaluation of financial performance means measuring the performance of the activities of the economic unit and studying the results achieved by the process at the end of the financial period, which is usually one calendar year (Karim et al., 2020)
Jordanian Manufacturing Companies	Jordanian manufacturing companies according to the companies' controller means the manufacturing entities either with more than 50 employees or more than JOD 30,000 registered capital. Entity less than these parameters considered as a workshop.
Knowledge	It refers to an individual's learning of concepts, principles, and information related to a particular topic through books, media, encyclopedias, academic institutions and other sources (Rahahleh & Ashour, 2019). In this research it refers to the knowledge of preparing PB of the financial staff in Jordanian manufacturing companies.
Skills:	The ability to use that information and apply it to the field. In other words, it refers to successfully applying the theory in practice and obtaining the expected results (Rahahleh & Ashour, 2019). In this study this term means the specific required skills to prepare PB including analytical skills, computer skills, reporting skills, and planning skills.
Predictive Budgets:	A financial quantitative description for the organization strategic plan (Horngren, 2006). This term used in this study to describe the predictive role of budgeting by Jordanian manufacturing companies.
Financial Planning	Means the planning that is implemented on the long-term in order to achieve financial objectives by obtaining returns greater than the value of assets, with an increase in the growth of companies' market share (Crowther, 2018). In this research, it is referring to the long-term financial objectives (3 – 5) years in Jordanian manufacturing companies.
Scientific Approach	Means approach should be soundness, integrated, and measurable (Nenadál, 2020). This term in this study means using the systematic approach used in preparing PB in JMC.

