

# The Range of Benefits from the Application of Corporate Planning Budgets in the Mining and Extractive Industries in Jordan

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## Abstract

This study aims to recognize planning budgets, determining the range of benefits of applying them within public Shareholding mining and extractive industries, determining how management utilize budgets in management decision making and the importance of having them prepared by different managerial levels. The study population consists of mining and extractive public shareholding companies that are listed in the Amman stock exchange, consisting of 12 companies according to the monthly statistical bulletin produced by the Amman stock exchange for November of 2011. The study sample 10 randomly chosen companies, were the proportion of the population of the study sample was 83.4% as each company filled out 4 questioners. A set of hypotheses were formulated to achieve the objectives of the study. A questionnaire was designed and it was addressed to managers and heads of departments in mining and extractive public shareholding companies in Jordan. A total of 40 questioners were distributed, 36 were turned back in for statistical analysis resulting in a 90% of the study sample. The study relied on two sources of data collection; primary sources were obtained through a field study by distributing questioners, and secondary resources were obtained by examining books, other studies, and theses that considers similar topics. The results of the study has shown that Jordanian mining and extractive public shareholding companies greatly benefit from the application of planning budgets in several areas that include: Planning, coordination, communication, motivation stimulation, allocation of resources and reduction of waste, predicting the occurrence of problems, auditing and performance evaluation. The study also found that managements rely on planning budgets in their decision-making, which is very important to improving the efficiency of management in making sound managerial decisions in a timely manner. In addition the study pointed to the companies' increasing interest of having planning budgets prepared by all administrative levels which can lead to increasing the proficiency of the preparation of budgets, create greater motivation for the implementation for workers.

The study concludes with a set of recommendations, including:

1. Constant attention to increase the efficiency and cost of the accounting systems already in place in companies to elevate the efficiency of budget plans prepared.
2. Determining the relative importance of deviation shown by the outputs of budget plans. With taking into account separating the deviation of non-realistic plans.
3. Not exceeding the period covered by the budget planning for the extent of questionable predictions to a large extent.
4. Not using budget plans as an instrument of pressure and coercion because the literal adherence of the plan's numbers when evaluating the performance creates great pressure on individuals in the facility In order to achieve budget numbers, which adversely affects the facility and its goals.

## 1-1. Introduction:

Any superior management in any institute is interested in using needed methods that enables an institute to achieve its goals; these goals include planning, coordinating and decision-making, policy-making, audit and performance evaluation. The budget planning system is considered one of the significant accounting tools that are used by various institutions in public and private sectors for its important in helping management achieving its above goals (Alalaween, 2000)

The economic progress of any society requires the need for optimum usage of all human and material resources and the efficiency supervising these resources, in order to achieve the goals set by companies which in turn are also considered societal goals as well, and there is no doubt that achieving goals requires proper planning by management. (Hassan, 1994)

Budgets are the basis of planning and considering the future in advance, if properly prepared they will help avoid future problems. This preparation should be done with the belief of planning for the future which in turn leads to an action plan in the number language referred to as "budgeting" (Aledani, 1989)

Budget plans must be efficient as it shouldn't just represent an added expense without having any real benefits; therefore a new important phase should be introduced and that is the implementation phase with constant

monitoring by demonstrating and recording results of all of the companies activates, comparing the results with the values in the budget plan, and identifying both positive and negative deviations, which can help reduce negative deviations and reinforce positive deviations in the future, it also can determine the capability of the administration in carrying out tasks, in addition to helping administrations in with correct decision making according to the outputs of the budget plan which should be the back bone of these decisions. (Batayneh, 2005) Considering the importance of having budget plans implemented in industrial companies, this study came to evaluate current budget planning systems in mining and extractive public shareholding companies in Jordan, knowing how well are they benefited from, what they add to the audit process, in addition to making companies realize the importance of utilizing them and making them better and advanced which will in turn lead companies to better performance and growth.

#### **1-2. The significance of the study:**

As a result of the evolution experienced by the industrial sector in Jordan the importance of having methods to best use resource and limit wasting them have occurred, in addition to increasing the ability of factories to compete with international franchises. There is no doubt that the optimum method for doing the above is budget planning.

The significance of the study comes to evaluate the current budgeting systems in mining and extractive public shareholding companies in Jordan, the importance of implementing them and to recognize the tools it requires for a successful implementation which will also improve them overtime, therefore an improved performance in mining and extractive public shareholding companies in Jordan will occur and that will improve the overall Jordanian economy.

The significance of the study also is that it is one of the few field studies that apply to companies extractive and mining industries in Jordan.

#### **1-3. Objectives of the study:**

This study comes to achieve the following primary objectives:

- 1- Identifying the extent of benefit from applying budgeting in public shareholding extractive and mining companies in Jordan.
- 2- Identifying how much do public shareholding extractive and mining companies in Jordan rely on budgeting in making decisions
- 3- Identifying the extent to which different administrative levels participate in the budget planning process
- 4- To reach conclusions and recommendations to help increase the efficiency of budget plans in public shareholding extractive and mining companies in

#### **1-4. The Background theory:**

The background theory aims to cover the following:

- 1- Are currently applied budget plans benefited from in public shareholding extractive and mining companies in Jordan?
- 2- Are managements in public shareholding extractive and mining companies in Jordan relying on budgeting in making administrative decisions?
- 3- Are all administrative levels involved in the preparation of budget plans?

#### **1-5. Hypotheses of the study:**

The following hypotheses were formulated to be tested in order to achieve the objectives of the study:

First hypothesis (H0): Currently applied budget plans are not benefited from in public shareholding extractive and mining companies in Jordan.

Second hypothesis (H0): Managements in public shareholding extractive and mining companies in Jordan are not relying on budgeting in making administrative decisions.

Third hypothesis (H0): All administrative levels are not involved in the preparation of budget plans.

#### **1-6. Previous Studies:**

##### **1) Amjad Alalaween's Study (2000) Titled "Evaluating budgeting systems in public shareholding industrial companies in Jordan"**

The study aimed to evaluate the budgeting systems applied in Jordanian industrial companies, determining their range of usage, In addition to assessing the effectiveness of these systems in achieving the goals of monitoring and performance evaluation and to identify the obstacles that limit the effectiveness of these systems. To achieve the objectives of the study a questionnaire was designed to examine various aspects of the budgeting system.

The study concluded to a set of conclusions and recommendations, including:

- That the majority of public shareholding industrial companies that apply budgeting systems do not meet the expectations of a successful budgeting system according to accounting standards.
- The need for an integrated structure in reports, for dealing with estimated figures in budget plans and actual figures, the differences between them and, the cause of the difference.

## **2) Shadi Batyineh's study (2005) titled "Evaluating the benefit from the applying budget plans."**

This study aims to assess the extent to which Jordanian public shareholding industrial companies benefit from the application of budget plans. The study's preliminary data were collected by a questionnaire.

The results of this study showed that 50.6% of Jordanian public shareholding industrial companies applied a budget planning. And that these systems enjoy a great degree of effectiveness if utilized in: planning, coordination, control, performance evaluation, and, decision-making.

The study recommended the following:

- Training the staff in charge of budgeting and budget plan estimates
- The importance of moving away from budget planning restrictions in addition to a greater focus on the opportunity for all levels in the preparation of the budget plan to benefit from their experiences and give them a sense of confidence

### **1-7. Methodology of the study:**

The study relied on a descriptive analytical method and field study to give an accurate and detailed picture of budget plans, and to assess the benefit of using them in Jordanian public shareholding industrial according to their managements

#### **Population of the Study:**

The population of the study consists of public shareholding extractive and mining companies in Jordan that were listed in the Amman Stock Exchange for 2011 with a number of 12 companies according to the ASE's November newsletter. 10 companies were randomly selected for the study. (Amman Stock Exchange, 2011)

#### **Statistical methods used in the study:**

Results of the study were analyzed using the statistical software statistical package for Social Sciences (SPSS), were the following methods were used:

**A. Descriptive statistics:** Some statistical methods that relate to standards of central tendency and descriptive methods were used to display questions of the study, they are listed below:

- 1) Arithmetic averages
- 2) Standard deviation
- 3) Coefficient of variation.

**B. Inferential statistics:**

(One sample T test) was used for hypothesis testing, Cronbach's alpha coefficient was also used to determine the stability of the study sample.

## **2. Theoretical framework:**

### **2-1. The concept of budget planning:**

Budgeting can be referred to in various ways (Budget plans, Control Budgeting, estimated budgets) with every reference reflecting a specific propriety. There are a lot of definitions for budgeting in accounting some of these are explained below:

- "A budget is the quantitative expression of a plan in the form of cash flow where it is prepared and approved prior to its application; usually the planned budget shows income and expenses endured by the business during a specific period of time, as well as the capital, which will be used to achieve the desired goal, therefore a budget reflects a detailed commitment to the work scheme" (Matar, 1980)
- "Budgeting is the digital translation of a plan established by a business which aims to using the resources available to the unit in a specified period in the future efficiently and effectively". (Lotfi, 1998)
- "Budgeting is designed to coordinate the economics of a particular unit, Within the limits of human and material resources available so that they can achieve the best results in terms of achieving the desired objectives" (Mari' and Mari, 2000)

From the above definitions budget plans can be defined as financial plans that describe future activities of an enterprise, to enable the best use of available resources, they are prepared by different administrative levels and they cover a specified futuristic period of time.

### **2-2. Benefits of budget plans:**

#### **1. Optimum usage of available resources:**

Budgets can help by guiding financial investments between departments and divisions in a proper manor, as using budgets allows managements to know which departments need different amounts of resources (AIRajbi, 2007)

#### **2. A coordination tool and a communication tool:**

Budget plans are considered to be good coordinating tools as it allows different administrative levels to work together in achieving a common goal in a specific time frame. And a good communication method as it eases the follow of information between departments

### **3. A motivation tool:**

Budget plans are considered to be a tool of motivation as they are prepared to by different levels in a company, which would motivate these levels to work harder to achieve the plan that they set.

### **4. Predicting problems before they occur:**

Having a budget plan before determining the final budget may help in predicting problems before they occur. For example budget plans can detect a financial deficit in a specific month which would require further processing by management to bypass this deficit.

### **5. A tool for monitoring and performance evaluation:**

Monitoring is a process designed to ensure that the targets set, policies, plans, orders and instructions are achieved (Almogradi, 2000)

Budget figures are used to compare the results of the actual implementation which can identify negative deviations in an effort to replacing them with positive deviations.

Budgeting is also considered a tool for evaluating employees and different administrative levels as it determines the ability of management in performing their tasks, with it also being a tool for motivating employees into doing better and more efficient jobs. (Abu Nassar, 2010)

### **2-3. The responsibilities of budgeting:**

Budgets are prepared by the efforts of different departments in a company, where each department prepares its own budget because every official - at any administrative level – is aware to the circumstances surrounding their department therefore is able to plan and budget accordingly

All department budgets are then collected and presented to a “Budget Committee”, this committee usually consists of the CFO and department managers, such as sales managers and production managers.

This committee plays a vital role in setting the final budget; its most important tasks can be summarized as follows:

- Setting public policies for the preparation of sub-budgets.
- Receiving budgets from sub-department managers and reviewing them according to the company’s objectives and circumstances.
- Preparation of the finalized budget and submitting it to higher authorities for approval
- Maintaining the implemented budget

### **2-4. Factors of applying a successful budget:**

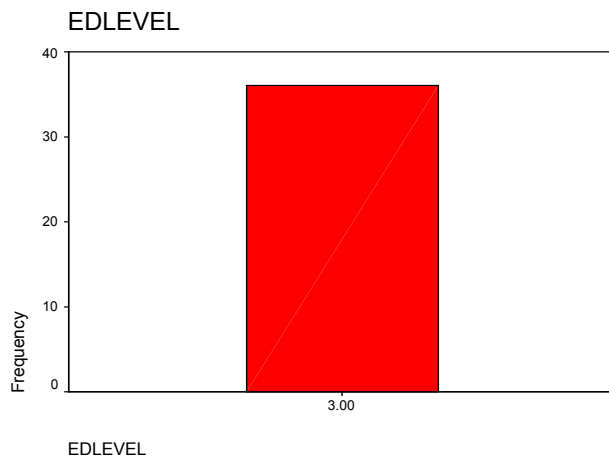
- The availability of proper accounting systems that reveals the results of past operations to predict possible future outcomes (Al Adam and Alriziq, 2006)
- Budget estimates should not be set until a comprehensive study of all internal and external factors that are expected to prevail during the period of the budget, and that is to ensure an effective and realistic budget. As it shouldn’t include highly ambitious figures that are impossible to implement or very modest ones that’ll make a budget useless
- The budget should give a complete picture of the establishment’s activities, to clear up the reciprocal effects of each of these activities on the other which requires full coordination between the partial sub-budgets for different departments.
- Paying attention to the principle of flexibility, which means the ability of the system to adapt to the budgets of future events. (Ibrahim,1993)
- Providing full opportunities for various administrative levels to positively contribute to the budget preparation process, to move away from imposed budgets which will motivate them to an effort to achieve the objectives of the budget prepared jointly by them
- Develop training programs for the various administrative levels to carefully study budgets before and after approval

### **Data analysis and hypothesis testing:**

#### **Characteristics of the study sample:**

##### **1- Educational Qualification:**

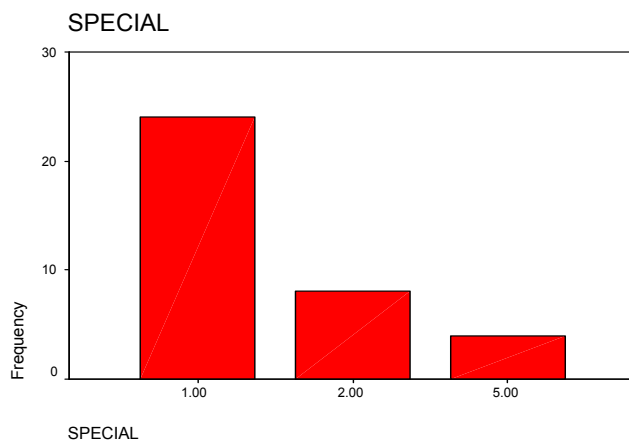
All participants hold bachelor’s degrees



**2- Academic Major:**

Academic Major	Percentage	Frequency
Accounting	%66.7	24
Business Management	%22.2	8
Banking and Financial Sciences	—	—
Economics	—	—
Other	%11.1	4
Total	%100	36

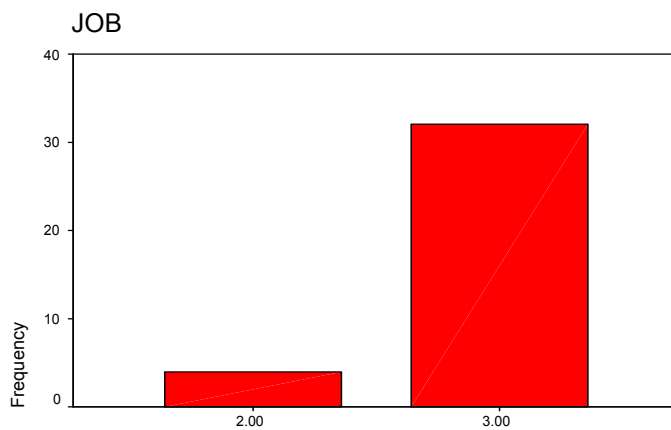
It's noted that 66.7% of the study sample are accounting majors, 22.2% are business management, and 11.1% represent other majors.



**3- Job Title:**

Job Title	Percentage	Frequency
General Manager	—	—
Department Director	%11.1	4
Head of Department	%88.9	32
Total	%100	36

It's noted that 88.9% of the study sample are heads of departments, and 11.1% of are department directors

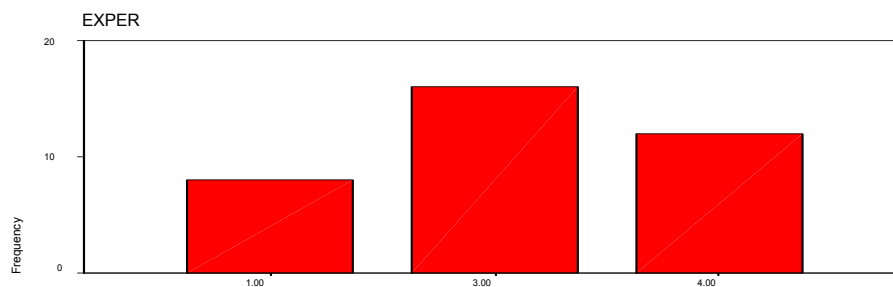


JOB

**4- Professional Experience:**

Professional Experience	Percentage	Frequency
Less Than 3 Years	%22.2	8
3-6 Years	—	—
7-10 Years	%44.4	16
More Than 10 Years	%33.3	12
Total	%100	36

It's noted that the largest percentage of the study sample 44.4% have a professional experience of 7 to 10 years, 33.3% have more than 10 years of experience and the rest have an experience of 3 years or less.

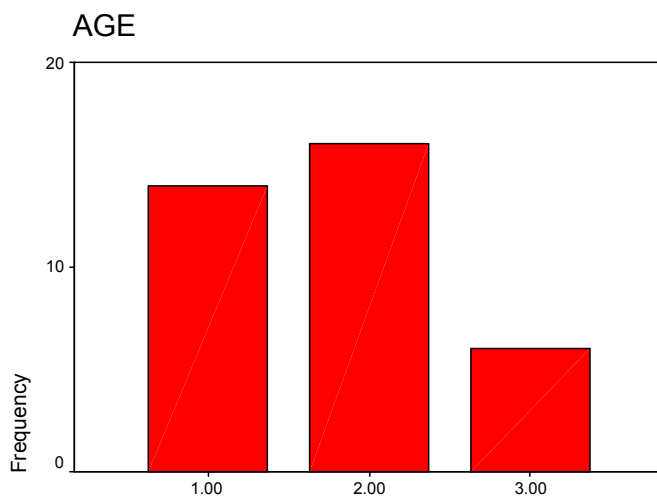


EXPER

**5- Age:**

Age	Percentage	Frequency
Less than 30	%38.9	14
30 to 39	%44.4	16
40 to 49	%16.7	6
50 or more	—	—
Total	%100	36

It's noted that 83.3% of the study sample are under the age of 40 years old, suggesting that they are young people.



AGE

**A display of the results of the study:**

Question Number	Arithmetic Mean	Standard Deviation
Q1	4.4444	.50395
Q2	4.4444	.69465
Q3	4.4444	.50395
Q4	4.2222	.63746
Q5	4.2222	.63746
Q6	4.3333	.82808
Q7	4.3333	.67612
Q8	4.2222	.63746
Q9	4.1111	.57459
Q10	3.7778	1.04502
Q11	4.2222	1.14919
Q12	3.8889	1.00791
Q13	4.0000	.67612
Q14	3.7778	.63746
Q15	3.0000	.82808
Q16	3.8889	.74748
Q17	3.8889	.88730
Q18	3.8889	1.00791
Q19	3.6111	.68776
Q20	3.8333	1.02817
Q21	3.7222	.88192
Q22	3.9444	.62994
Q23	3.8333	.84515
Q24	4.0000	.82808
Q25	3.8333	.97101
Q26	3.7778	1.33333
Q27	3.8889	.57459
Q28	4.3333	.67612
Q29	4.2222	.42164
Q30	4.1111	.88730
Q31	4.4444	.50395

**Stability test of measurements:**

(Cronbach's alpha) test was used to measure the stability of the measuring tool, where A=91.81% which is considered to be an excellent result compared to the acceptable result of 60%

**Normal distribution test:**

The (KS) test was used to test if the data follow the normal distribution; the (Sig) value was larger than 0.05

which indicates that the data follows the normal distribution.

First hypothesis	Second hypothesis	Third hypothesis
0.369	0.359	0.196

**Hypotheses testing:**

First hypothesis:

H0: Currently applied budget plans are not benefited from in public shareholding extractive and mining companies in Jordan.

Ha: Currently applied budget plans are benefited from in public shareholding extractive and mining companies in Jordan.

T calculated	Original T value	T SIG	Result of nihilism hypothesis	Arithmetic mean	Standard Deviation
15.079	2.0301	0.000	Rejected	4.22	0.486

(One Sample T-Test) was used. The value of T (15.079) is larger than the original value, and since the decision rule is accepting the nihilistic hypothesis (HO) if the calculated value was less than the original value, and not accepting the nihilistic hypothesis (HO) if the calculated value was larger than the original value the alternative hypothesis (Ha) is accepted, which means that Currently applied budget plans are benefited from in public shareholding extractive and mining companies in Jordan.

Second hypothesis:

(H0): Managements in public shareholding extractive and mining companies in Jordan are not relying on budgeting in making administrative decisions.

(Ha): Managements in public shareholding extractive and mining companies in Jordan are relying on budgeting in making administrative decisions.

T calculated	Original T value	T SIG	Result of nihilism hypothesis	Arithmetic mean	Standard Deviation
8.344	2.0301	0.000	Rejected	3.7361	0.529

(One Sample T-Test) was used. The value of T (8.344) is larger than the original value, and since the decision rule is accepting the nihilistic hypothesis (HO) if the calculated value was less than the original value, and not accepting the nihilistic hypothesis (HO) if the calculated value was larger than the original value the alternative hypothesis (Ha) is accepted, which means that Managements in public shareholding extractive and mining companies in Jordan are relying on budgeting in making administrative decisions.

Third hypothesis:

(H0): All administrative levels are not involved in the preparation of budget plans.

(Ha): All administrative levels are involved in the preparation of budget plans.

T calculated	Original T value	T SIG	Result of nihilism hypothesis	Arithmetic mean	Standard Deviation
14.503	2.0301	0.000	Rejected	4.0101	0.418

(One Sample T-Test) was used. The value of T (14.503) is larger than the original value, and since the decision rule is accepting the nihilistic hypothesis (HO) if the calculated value was less than the original value, and not accepting the nihilistic hypothesis (HO) if the calculated value was larger than the original value the alternative hypothesis (Ha) is accepted, which means that, All administrative levels are involved in the preparation of budget plans.

**Results:**

1) The study has shown that public shareholding extractive and mining companies in Jordan benefit significantly from the application of budgets in several areas: Planning, coordination, communication, motivation, optimum usage of resources, performance evaluation and predicting possible problems which indicates the importance of utilizing budgets

2) The study has shown that Managements in public shareholding extractive and mining companies in Jordan are relying on budgeting in making along and short term administrative decisions, which shows the importance of analyzing the data in budgets and using it correctly in making decision.

3) The third hypothesis showed that all administrative levels are involved in the preparation of budget plans. Participation in the preparation process creates a motivation for workers because it creates a feeling of greater commitment towards fulfilling its objectives.

**Recommendations:**

1) The importance of having an accurate integrated information system in every company to use when preparing budgets.

2) The period covered by the budget should not exceed the limits to questionable predictions.



- 3) It is important that managements are convinced by the importance and usefulness of budgets, and to use them successfully.
- 4) The need for corporations' interest in monitoring the funds necessary for the development and support of the budgeting system
- 5) Constant attention to increasing the efficiency and cost of accounting systems in place in companies to effectively elevate the quality of budgets prepared.
- 6) The need to determine the relative importance of deviations shown by the outputs of the budget, and taking into account the separation of deviations that result from non-realistic plans.

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