



NEW MANAGEMENT ACCOUNTING TECHNIQUES FOR BUDGETING PRACTICES

The case of Vietnam Bank for Agriculture and Rural Development (Agribank)

Linh Luong Thi Thuy

Bachelor's thesis
May 2014
Degree in International
Business
Major in Financial Management

ABSTRACT

Tampereen ammattikorkeakoulu
Tampere University of Applied Sciences
Degree in International Business
Major in Financial Management

Linh Luong Thi Thuy

New management accounting techniques for budgeting practices, the case of Vietnam Bank for Agriculture and Rural Development

Bachelor's thesis 61 pages, appendices 3 pages
May 2014

The commissioner of this thesis is Vietnam Bank for Agriculture and Rural Development (Agribank) – Uong Bi branch. With the advantage of being located in one of the biggest economic zones in the North of Vietnam, it has a huge business potential. However, as there are more than 10 other commercial banks operating in the same area, the market competition is high and it is crucial for Agribank to search for methods to improve their competitive advantages in all fields.

One of the fields is internal management which is assisted closely by different management accounting techniques. Budgeting is known as one of the most important tools of management accountants - one of the techniques that all companies could not survive without. It takes part in a company's business from the forecasting stage until the post-production which is performance evaluation. Hence, a good budget could contribute significantly to a company to achieve its desired results.

However, there has been decades that practitioners and researchers raising criticisms that instead of benefits, budgeting actually brings barriers and instead of supporting, it actually prevents companies from developing. The main aim of this thesis was to determine potential areas for improvement in budgeting process at Agribank- Uong Bi branch and based on that, combine with author's academic knowledge to suggest guidelines for some possible applications. Data was collected from a various sources such as internal documents, different literature resources, staff interviews or the author's personal observation. Qualitative research was the main method used in this project. After considerations, theories of Rolling Budgeting, Activity- Based Budgeting and Beyond Budgeting have been chosen to be the theoretical base for the guideline. However, due to the specific nature of banking industry in Vietnam generally and Agribank- Uong Bi branch particularly, some selected parts of those theories have been modified and tailored to be more practical and suitable to the case.

This work serves as a guideline for improvement and renovation in budgeting practices in the commissioner' case. This guideline is just a starting point. After a trial time of application, if those techniques appear to be beneficial for the company, further research should be conducted to increase the details and complexity of the system. Hence, those budgeting approaches could be utilized to the fullest.

Key words: Management accounting Budgeting Rolling Budgeting
Activity-Based Budgeting Beyond Budgeting

CONTENTS

1	BACKGROUND	5
1.1.	Necessity of the thesis.....	5
1.2.	Thesis objectives	6
1.3.	Research methods	6
1.4.	Thesis structure	9
2	THE CASE STUDY AT AGRIBANK – UONG BI BRANCH	11
2.1.	Introduction of Agribank	11
2.1.1	Establishment and operations.....	11
2.1.2	Business lines and services offered.....	13
2.1.3	Structures and function of each department.....	17
2.2.	Budgeting practices at Agribank.....	19
2.2.1	Types of budgets planned in the branch.....	21
2.2.2	Challenges acknowledged in budgeting process at Agribank – Uong Bi branch.....	22
3	THEORETICAL FRAMEWORK	24
3.1.	Budgeting and its main functions	24
3.2	Problems of budgeting	26
3.3	Framework for improvement	28
4	THE FORECASTING FUNCTION	29
4.1.	Research and result	29
4.2.	Potential areas for improvement	32
4.3.	Suggested solution	32
4.4	Further suggestions	35
4.5	Advantages of new changes.....	36
4.6	Disadvantages of new changes	36
4.7	Brief conclusion	37
5	THE PLANNING FUNCTION.....	38
5.1	Potential areas for improvement	38
5.2	Suggestions for improvement	39
5.3	Advantages of new changes.....	43
5.4	Disadvantages of new changes	44
5.5	Brief conclusion	45
6	THE PERFORMANCE EVALUATION FUNCTION	46
6.1	Existing challenges	46
6.2	Possible suggestions of improvement.....	48
6.3	Advantages of new changes.....	52

6.4 Issues of new technique	53
6.5 Brief conclusion	53
7 CONCLUSION	55
REFERENCES.....	60
APPENDICES	62
Appendix 1. Comparisons between budgeted and actual values in the last three year, from 2011 to 2013.....	62
Appendix 2. Results of the interview with Chief Accountant of Agribank- Uong Bi branch.....	64

1 BACKGROUND

1.1. Necessity of the thesis

Nowadays, business environment is becoming more and more competitive, dynamic and unpredictable. In order to be able to compete in the current market, enterprises are required to continuously seek for improvement and development in management quality and optimising budgeting process is one of the most important elements in the management process. Any organization, in spite of the magnitude of its size, even in the family or individual scope has to plan their budgeting. However, creating an accurate budget to balance market demand and capacities of enterprises is not an easy work.

Budgeting process relates to three main functions, which are: forecasting, planning and performance evaluation (Hansen 2011, 289). As can be acknowledged, budgeting affects company's operations since the planning phase to the post- production phase. A well-prepared budget could contribute significantly to a company's final result. For example, good forecasting ensures the sufficient amount of resources available for using so that company will be able to fulfil total market demand or bear with any adverse change in the business environment. After that, a well-done operational plan helps to keep everything on track during the business period and supports companies to work towards their goals according to the plans set in advance. Last but not least, a good performance evaluation shall give a company valuable lessons from what it has done to improve in the next business period or make decision whether to keep going with the current process or to apply some changes to improve the business performance. That is the reason why it is crucial for companies to pay attention to budgeting process.

For a long time, companies have been using traditional budgeting. It has received a lot of criticisms about the disadvantages it might bring. Researchers and practitioners have been seeking and suggesting many new techniques and alternatives to improve the drawbacks of the budgeting process.

Applying modern management accounting techniques into budgeting process shall help enterprises not only to increase the effectiveness of budgets specifically but also the whole financial management generally to assist managers in decision making. It also

ensures the preparation of sufficient resources for enterprises to utilise optimally to respond for opportunities or challenges in the business environment in the future.

During the author's study time at Tampere University of Applied Sciences, she has developed a special interest in management accounting especially the budgeting field. After that, the period of being intern at Vietnam Bank for Agriculture and Rural Development (Agribank) – Uong Bi branch helped her realize the importance of budgets to the entire financial process and updating the budgeting might be a potential development to optimize and increase company's competitive advantages in the current business context. Hence, the topic: *“New management accounting techniques for budgeting practices, the case of Agribank- Uong Bi branch”* was chosen to be the author's final thesis for graduation.

1.2. Thesis objectives

The thesis concentrates on the process of preparing and using short-term budgets at Vietnam Bank for Agriculture and Rural Development (Agribank) – branch in Uong Bi city, Quang Ninh, Vietnam. There are three main objectives aimed to be achieved in this final thesis.

Firstly, the author intends to analyse Agribank's current budgeting practices and define areas which are potential for further improvement and development. Budgets shall be investigated based on each of its main function in order to point out existing challenges in each stage. After that, in case of challenges, based on her academic knowledge, the author shall search for suitable and possible applications of modern management accounting techniques to upgrade the financial management process in the bank. A basic guideline of how to apply will be proposed after considering the specific nature of Vietnamese economy generally and banking industry particularly. Afterwards, modification and adjustments shall be implemented if necessary. Last but not least, the thesis will evaluate and compare advantages and disadvantages of each technique. Based on that, suggestion of the best solution for the commissioner's choices shall be introduced.

1.3. Research methods

a) Methods

There are two main different types of research methods, namely quantitative and qualitative methods. Quantitative research is usually used when there are a large number of respondents involved. It is considered to be more objective compared to qualitative method and often refers to counts, measures or statistics. Measurements used in this type of research must be objective, computable and usually numerate and could be transformed into usable statistics. The intention of this type of research is usually to generalize data based on a reliable amount of population participated and it is often used to verify or test hypotheses or theories.

On the contrary, qualitative research is more subjective as it refers to collecting, analysing and interpreting data and information. “It mainly deals with meanings, concepts, definitions, characteristics, metaphors, symbols and description of things.” (Anderson 2006, 3). Qualitative research is more exploratory and open-ended than the previous type of research and targets in developing rich, detailed data which could provide an in-depth understanding of the concept. This type of research is usually applied when sample size is small and normally to develop or generate theories. A brief summary of differences between qualitative and quantitative researches is shown in the table below (table 1).

TABLE 1. Comparisons between qualitative and quantitative research

	Qualitative Research	Quantitative Research
Objective / purpose	<ul style="list-style-type: none"> • To gain an understanding of underlying reasons and motivations • To provide insights into the setting of a problem, generating ideas and/or hypotheses for later quantitative research • To uncover prevalent trends in thought and opinion 	<ul style="list-style-type: none"> • To quantify data and generalize results from a sample to the population of interest • To measure the incidence of various views and opinions in a chosen sample • Sometimes followed by qualitative research which is used to explore some findings further
Sample	Usually a small number of non-representative cases. Respondents selected to fulfil a given quota.	Usually a large number of cases representing the population of interest. Randomly selected respondents.
Data collection	Unstructured or semi-structured techniques e.g. individual depth interviews or group discussions.	Structured techniques such as online questionnaires, on-street or telephone interviews.
Data analysis	Non-statistical.	Statistical data is usually in the form of tabulations (tabs). Findings are conclusive and usually descriptive in nature.
Outcome	Exploratory and/or investigative. Findings are not conclusive and cannot be used to make generalizations about the population of interest. Develop an initial understanding and sound base for further decision making.	Used to recommend a final course of action.

However, they do not conflict with each other and could be used together in a combination. According to Proctor (2003, 214), a well carried-out research should be a combination of those two methods. In this thesis case, a combination of the two shall be used with the weight mainly on qualitative research. Firstly, as the nature of this thesis is a case study research, qualitative research has been chosen to research and analyse deeply and closely to the commissioner's specific characteristics. In addition, due to the fact that each enterprise has its own unique characteristics, there could not be a solution which is suitable or works for all. Using qualitative research also ensures that the suggestions are tailored specifically for the case of commissioner based on its own good and bad.

In addition, some small quantitative researches have also been done to evaluate the performance of budgeting inside the branch in the last few years to reveal some challenges and potential areas for further development and improvement.

Moreover, a constructive approach shall also be combined in the thesis process implementation. Constructivism is a theory about the way of people develop new knowledge or acknowledgement both from their prior knowledge and experiences but not passive receptacles. As the writer plans to build up her new solutions or to some extent, modify the theoretical models to apply whenever the pure application is considered too systematic or unsuitable for the business context in Vietnam. She shall use her knowledge and ability to adjust them to suit with the current nature of business. (Cooperstein & Kocevar-Weidinger 2004, 142)

b) Data collection methods

Data for the study were collected from both primary and secondary sources to facilitate the exploration of the budgeting process and practices within the bank in details.

As one of the most important purposes of this thesis is building up the writer's knowledge and to ensure the theoretical base for the result of thesis process, a wide range of literature research have been used by the writer. They range from text books to works and articles from famous and reliable journals about accounting, for instance: Management Accounting Research Review etc. to the works published by big well-known university publishers such as Harvard Business School, etc.

As the writer has done a short-term internship in the branch, data and information have been collected directly by various means. Firstly, several semi-structured interviews have been done with employees from different departments to determine their opinions about the current budgeting practices and how it affects their work as well as their ideas and expectations for its improvement (if any). The purpose of these semi-structured interviews is to address some issues which could help to form the structured interviews with people in Accounting Department. The staff selection was basically done by picking the person responsible for reporting and submitting budget plans to Accounting department.

After that, personal interviews with one accountant and the chief accountant of the branch were conducted to help the writer have a better view on budgeting process in specific and the whole financial management in general. These interviews also gave the author some suggestions about challenges currently existing and acknowledged by the staff of Accounting and Budgeting department who have to deal with them on daily basis. At the same time, personal observation has brought up valuable information to the author.

Thanks to the cooperation of the company, all work-related documents upon the writer's request are accessible. Thus, another method of data collection is company's document analysis. Documents used include: internal documentations and annual financial reports for the last three years, from 2011 to 2013.

1.4. Thesis structure

The thesis is divided into seven main chapters. It begins with a background section to explain the necessity and reason of the thesis as well as some general introduction about objectives and structure of the thesis. Following with the background chapter, the case study of Agribank shall be briefly mentioned in the chapter 2 with general information and specific explanation about budgeting implementation at Agribank – Uong Bi branch.

After that, chapter 3, Theoretical framework, is brought up. As expressed by its name, it introduces the academic base of the work and the frame on which the research was

conducted. Then, three chapters 4, 5, 6 shall discuss more closely into different functions of budgeting and the alternatives suggested by the author. A brief conclusion shall be given in the last chapter to summarize the main results the thesis has completed.

2 THE CASE STUDY AT AGRIBANK – UONG BI BRANCH

2.1. Introduction of Agribank

2.1.1 Establishment and operations

During the recent decades, Quang Ninh province is on its way to develop. As a region with advantages in natural resources, strategic location, fruitful labour forces as well as the convenient transportation connections for both road and marine (it shares borders with China and owns the port for trading with the world), Quang Ninh is one of the three biggest economic zones in the North of Vietnam (including Hanoi- the capital city, Hai Phong and Quang Ninh).

Currently, Quang Ninh is the only province in Vietnam which has four cities, which are Ha Long, Mong Cai, Uong Bi, Cam Pha. In addition to the prosperous natural coal resources which make mining the leading industry in Quang Ninh, the province is also famous for its tourism industry. Nature has generously provided Quang Ninh with many tourist attractions, for example: Ha Long Bay – the Heritage site of UNESCO or Co To – a beautiful island with big potential in tourism, etc. During recent years, Quang Ninh has build up several industrial zones namely: Cai Lan, Viet Hung, Hai Yen, Dong Mai, Hai Ho and loosen the administrative legislation and issued many investment-encouraging policies to attract capitals from not only domestic but also foreign investors. Therefore, Quang Ninh has a huge demand for financial services in general and banking industry in specific.

Vietnam Bank for Agriculture and Rural Development (Agribank) is the largest commercial bank in Vietnam by total assets. Total assets of Agribank was recorded to be almost VND 591 000 billion, which is equal to around USD 28 billion (2013). It is a state-owned corporation under a special status. According to a report of United Nations Development Programme, it is also the largest corporation in Vietnam (Cheshier. S & Penrose. J 2007, 7). Currently, Agribank has more than 2300 branches throughout 65 cities and provinces in Vietnam and employs approximately 35135 employees (2009).

On March 26, 1988, it was founded as Vietnam Bank for Agriculture Development and was built on the agency network of the State Bank of Vietnam. On 14/11/1990, the bank

was renamed to become Vietnam Bank for Agriculture and on 15/09/1996, renamed one more time to the current name: Vietnam Bank for Agriculture and Rural Development.

Agribank headquarters at Ba Dinh District, Hanoi Vietnam. After more than 25 years of operating, currently, it is considered as one of the four biggest Vietnamese banks. Nowadays, Agribank has expanded business to many services lines, far more than at the beginning. Specifically, it provides various types of financial services for its customers such as: deposits, saving accounts, personal and corporate finance, asset-based lending, foreign currency trading, international payments and foreign exchange, etc.

Realizing the development opportunity in Uong Bi city, to pursue the vision of developing and expanding the branch network all over the country, Vietnam Bank for Agriculture and Rural Development has established a branch at Uong Bi city on 22nd March 1995 pursuant to the Decision No 88/QD-NHNo. The branch has the main office located at No 424, Quang Trung Ward, Uong Bi city, Quang Ninh province.

In the region of Uong Bi city, Agribank is one of the ten commercial banks currently operating. Some other commercial banks which also have branches in the city could be named such as: Vietnam Bank of Investment and Development, Vietnam Bank of Industry and Trade, Marine Bank, Saigon-Hanoi Bank, etc. Hence, even when the market demand is high, competition among those commercial banks is still tough.

Although the branch has only been established for 8 years but with the effort of the whole Board of Directors and all the employees, it is on the way to achieve the mission of productive operations for customers' prosperity. The branch continuously and actively keeps on learning and searching improvement to achieve the best performance. Thus, it has significantly contributed to the growth of the whole Vietnam Bank of Agriculture and Rural Development group. Some key financial figures of the branch's performance during the last three years are presented in the table below (table 2).

TABLE 2. Financial results of Agribank- Uong Bi branch in the period from 2011-2013

Currency unit: VND

No	Criteria	2011	2012	2013
1	Total revenue	382.206.583.541	400.294.951.701	425.309.121.409
2	Revenue from interest	368.691.857.992	385.155.966.009	410.584.931.802

3	Revenue from services	10.011.176.919	10.499.100.570	12.247.548.321
4	Revenue from international transactions	50.694.178	56.435.842	61.106.122
5	Revenue from securities trading	111.953.957	136.107.311	144.354.361
6	Other income	3.340.900.494	4.447.341.968	2.271.180.803
7	Earnings before interest and taxes (EBIT)	104.318.483.962	109.255.476.743	116.082.780.023

2.1.2 Business lines and services offered

Similarly to other commercial bank, there are some main functions currently operated in Agribank- Uong Bi branch. The most important function is raising capital or in another words, accepting savings from the public. This function does not directly generate profits but it ensures the availability of funds for the bank to perform other functions. Deposits could come from individuals, organizations or other financial institutions. At the moment, Agribank- Uong Bi branch offers two kinds of savings accounts: current deposits, fixed deposits.

The first type is current deposits. This kind provides flexibility in withdrawing for depositors at anytime upon request at the bank or at automated teller machines (ATM). Interest given for current deposits accounts is usually low and varies according to maturities of the deposits. Annual interest rates range from 1% for non-maturity accounts to 7.5% for 12-month accounts.

The second type is fixed deposits which are deposits with a fixed maturity. Depositors could not withdraw cash before the date that accounts expired. At the moment, there are different lengths of maturity that customers could choose, for example: non-maturity 1, 2, 3, 6, 9, 12 or 18 months. Interests for this type of deposit are normally higher and different between individual and corporate customers. Interest rates for individual customers ranges from 5.5% for one-month savings to 7.5% for 18-month savings. For

corporate customers, annual interest rates are from 1% for non-validity to 7.5% for 12-month savings. 12-month type is the longest maturity offered for corporate customers.

In addition, Agribank – Uong Bi branch also provides service of issuing certificates of deposit, bonds and promissory notes and other valuable documents to raise funds for both domestic and foreign organizations and individuals according to the regulations of Agribank.

Apart from the two main methods above, the branch is implementing other fund-raising methods according to the instructions and guideline of Agribank Vietnam.

Results of capital raising function of Agribank- Uong Bi branch are illustrated in the table below (table 3). As could be seen from the figure, the majority of capital raised at the bank is Vietnamdong with the weight in total amount being around 80%. Foreign currency only accounts for a little below 20% throughout the last three years. In general, the value of capital raised keeps increasing continuously.

TABLE 3. Raising capital function result of the branch in the period from 2011 to 2013

Currency unit: billion VND

Criteria	2011		2012		2013	
	Value	Weighting	Value	Weighting	Value	Weighting
Total capital raised	1590		1594		1756	
Vietnamdong	1286	80,1%	1341	84,1%	1.450	82,6%
Foreign currency	304	19,9%	253	15,9%	296	17,4%

The second function which is also very important is lending to public, for both organizations and individuals. As the mission of the bank is to support agriculture and rural development, plans or projects to invest in agriculture and infrastructure construction are the types that got accepted to borrow the most. However, it also gives loans to organizations and individuals operating in other fields of the economy.

Maturities of loans vary among different projects and interest rates are decided depends on credit levels of customers. Interest rates could be fixed or floating rates.

Some financial figures reflecting performance of the second function are summarized in the table below (table 4). As shown in the table, total amount of loans giving out at Agribank- Uong Bi branch has not changed noticeably during the last three years. There was a slight drop in 2012 but then it recovered in 2013 to the level higher compared to before the drop.

TABLE 4. Amounts of loans made by Agribank – Uong Bi branch in the period from 2011 to 2013

Currency unit: billion VND

Criteria	2011		2012		2013		
	Total value	Total value	Compare with previous year		Total value	Compare with previous year	
			+/-	%		+/-	%
Total loans	1134	1067	-67	-6%	1154	87	8%

In addition to accepting savings and advancing loans, Agribank- Uong Bi branch offers many other financial services which could be named: international transactions services, payment and budgeting services, provisions guarantees, financial advisory and other banking services.

International transactions services are also one of the functions directly bringing profits and income to the bank. There are two main services in this function, which are: export/import payments and foreign currency trading. In addition to that, Agribank – Uong Bi branch also provides domestic payment and budgeting services for corporate customers. The bank shall join the financial cycle of enterprises (probably at the last stage) and process domestic payments for customers, for example: to suppliers or paying salary to employees. Moreover, the bank also receives funds and payments on behalf of customers.

In addition, Agribank assists customers by providing many kinds of guarantee services, such as: loan guarantees , payment guarantee , guarantee for contracts implementation, bid guarantee, product quality assurance , guarantee for payment completion , counter guarantee and other forms of bank guarantee for domestic organizations and individuals under the provisions of the Agricultural Bank . Moreover, financial advisory services are offered to customers to assist and consult them in managing and investing to take the best out of their assets. Last but not least, the bank also perform other banking services which could be listed as: card services, forfaiting, authorize for loans of other financial organizations both domestically and internationally, issuance Letter of Credit, insurance agents and other banking services permitted by the government and Agribank Vietnam.

To summarize and make it clear, structure of services provided by the bank is visualized in the chart (figure 1) as follows:

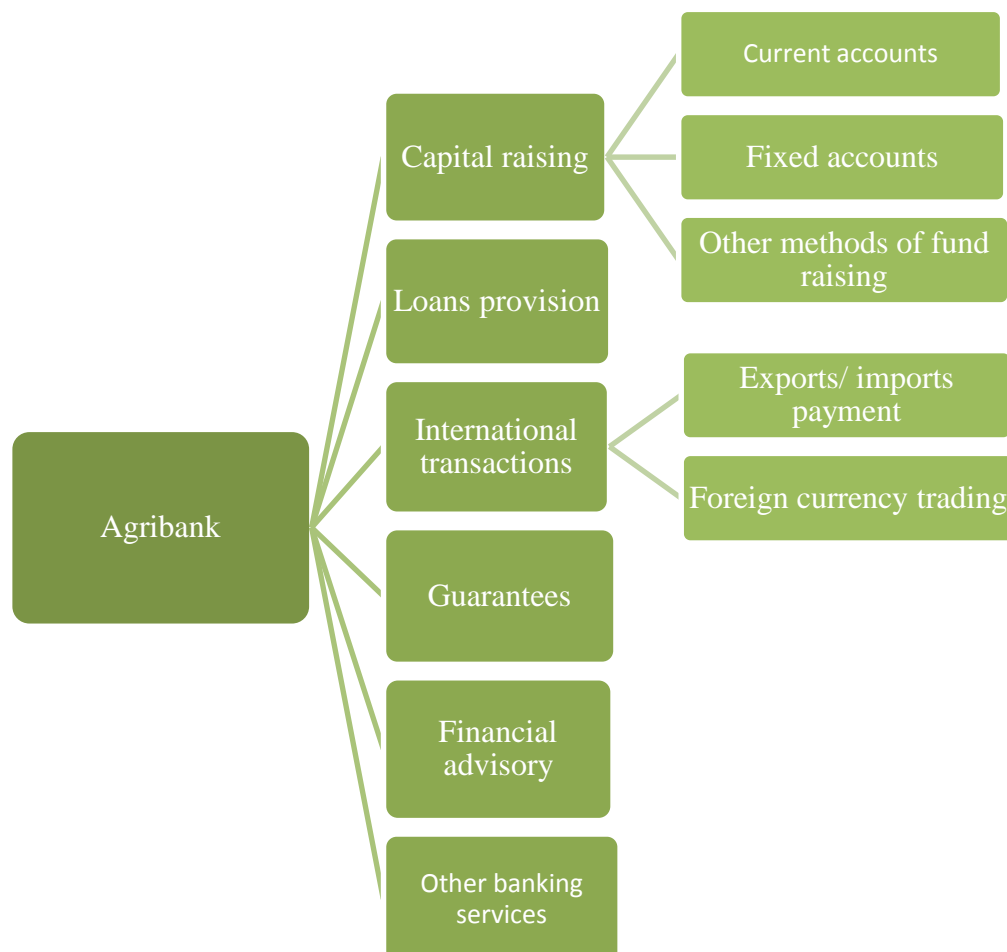


FIGURE 1. Structures of financial services offered by Agribank- Uong Bi branch

2.1.3 Structures and function of each department

Agribank- Uong Bi branch is formed by the Board of Directors and several functional departments. Board of Director includes: General Director and two Deputy Directors. The General Director controls and manages general operations of the whole branch while Deputy Directors are assigned to monitor and direct only some specific areas. There is one Deputy Director managing the departments who deals with external operations such as Credits services, International Transactions, Customer Services, etc. The other is responsible for internal operations such as: Human Resources, Accounting and Budget, General Planning and Administrative.

The functional departments are responsible for completing the tasks assigned by Board of Directors, under the direction of Deputy Director. There are eight functional departments in total, namely: Internal Control, Administrative, Information Technology, International Transactions, Credit Services, Accounting and Budget, Customer Services and General Planning Department. Each department shall has one head who is responsible for monitoring and managing the work of the whole department as well as communicating and reporting directly to the responsible Deputy Director. Structure of Agribank- Uong Bi branch is represented in the figure 2.

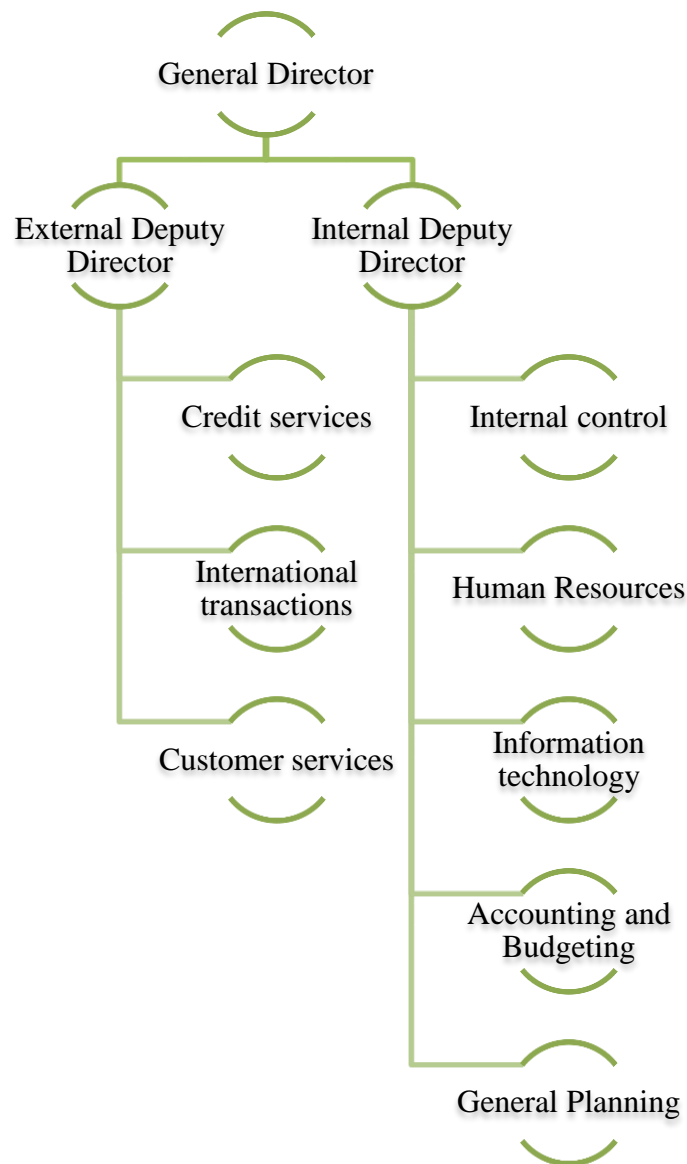


FIGURE 2. Organizational structure of Agribank – Uong Bi branch.

In the line of internal services, there are five departments. The first one is Internal Control, which has the job of ensuring that all processes implemented in the branch follow the rules and regulations stipulated by Agribank Vietnam. Human resources department, as expressed by its name, deals with everything related to personnel such as: recruitment, orientation, performance evaluation, training and fine, appraisal, etc. Department of Information Technology is the one which takes care of computers, technologies and networks in the branch, to ensure the continuance of transactions and information flows in and out from the bank. This is very important especially for the international transactions department.

The next department, which is also the focus of this thesis, is Accounting and Budgeting department. With the total of 11 employees the main task of this department is performing accounting jobs and other financial management tasks related. This is also the department mainly responsible for preparing budgeting. The last but not least in internal line is General Planning department. Although it could be seen that planning is one function of Accounting and Budget department as well but it is only in short-term. This department generally focuses on long and medium-term plans for Agribank- Uong Bi branch. It is also the department responsible for designing and developing new products, services or new development strategies for the branch.

On the other line, External Services, the first department is Credit Services Department: With the total of 10 people directly perform credit jobs such as lending. The department shall be responsible for all 11 wards of the city. Tasks of employees are directly contacting potential customers, receiving applications and making decision whether they meet requirements and criteria to borrow which are regulated by Agribank Vietnam. This department is also responsible for the plan to balance between funds available and fund demanded as well as the plan to use funds. The head of department shall report directly to the External Deputy Director. Staff of the department evaluate and examine investment projects to decided lending, guarantees or provide debt collecting services.

The second one is International Transactions which deals with international payment or foreign currency trading. The third one is Customer Services department. Its responsibility is taking care different customers communication channels, such as emails and telephone line and customers relations. It not only maintains current customers database and retain good relationship with current customers but also takes part in the process of designing marketing strategies to attract new customers.

2.2. Budgeting practices at Agribank

Budgeting at Agribank- Uong Bi branch is mostly implemented according to the top-down process. The target is set by the head office of Agribank Vietnam. It is usually expressed in the form of a percentage of increase in revenue. Usually the target assigned by the Agribank group is sent to the branch around the beginning of the fourth quarter.

After that, the branch takes the rate of increase as target to achieve during the year and depends on that to create different budgets. The target revenue is broken into smaller pieces which are revenues brought from different banking activities. This stage shall be calculated by the Accounting and Budget department. However, during the process, other departments also have to cooperate to build up the budgets for the whole branch.

After that, it is also the Accounting and Budget which prepares different plans or target revenue/ expenses for each department and those plans shall then be sent to the departments for their review.

In case of any problems/ conflicts or any department believe that the plan is unachievable or unreasonable, they shall response back to Accounting and Budget department for adjustment. After having been agreed, the Board of Director shall revise and decide if it is chosen to be the official one. After that, those plans shall be taken into implementation process and once it is accepted, it is set for the whole period.

Hence, it could be recognized that the budgeting process at Agribank – Uong Bi branch is not totally top-down as there is still chance for low-level manager to response to the budget assigned by higher level management. The information process of the budgeting process is illustrated in the graph (figure 3).

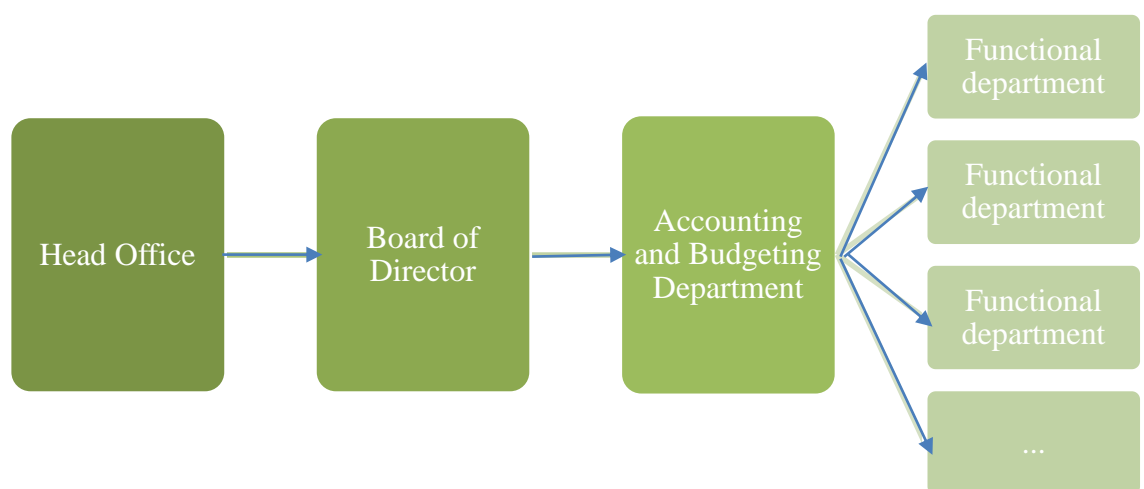


FIGURE 3. Budgeting process at Agribank- Uong Bi branch

2.2.1 Types of budgets planned in the branch

In Agribank- Uong Bi branch, three main kinds of budgets prepared are revenue, expenses and provision for bad loans. The budgets are calculated by simply adding a percentage to the figures/ results of the previous year. Revenue and expense structures are remained the same.

Revenues of the bank come from six main sources including: revenue from credit services (which includes: interests from lending and internal transfers), revenue from general services, international transactions, other business activities, from stocks, shares and securities trading and other revenues.

There are several types of expenditures that the banks has to pay out during the financial period, for example: interests payment, expenses for credit services, for internal business activities, for taxes and other fees, salary and other expenses for staff, managements, different kinds of provisions as well as other expenses.

As a very important element of planned expenses is provisions for bad loans, they are planned in details in a separate plan. In general, loans are categorized based on the payment overdue period of the borrowers. Hence, according to the Vietnamese Accounting Standards, there are five categories of loans. Characteristics of each group are gathered and summarized in the table below (table 5).

TABLE 5. Different categories of loans.

Category	Payment overdue period	Percentages needed for provisions
Group 1		0%
Group 2	10 – 90 days	5%
Group 3	91 – 180 days	20%
Group 4	181 – 360 days	50%
Group 5	> 360 days	100%

After collecting sufficient data and information about the current loans Agribank has lend, provisions shall be calculated according to the formulas below:

$$\textit{Provision needed} = \textit{Total values of loan} - \textit{accumulated value of mortgages} \quad (1)$$

$$\textit{Total general provision} = (\textit{Provisions for group 1} + \textit{2} + \textit{3} + \textit{4}) \times 75\% \quad (2)$$

$$\begin{aligned} \textit{Minimum provision needed} = & \textit{Provision for group 2} \times 5\% + \textit{Provision for group 3} \times \\ & 20\% + \textit{Provision for group 4} \times 50\% + \textit{Provision for group 5} \times 100\%. \end{aligned} \quad (3)$$

As expressed in the equations above, value of provision needed for each loan could be calculated by using the formula (1). It is the result got from subtracting the accumulated value of mortgages from total value of the loan. After determining provision for each loan, total general provision is 75% of the sum of all the provisions. Due to the fluctuations of operations, provisions for loans of the bank could fall lower than the total general provision. However, it should not be lower than the minimum provision needed which is determined by the formula (3).

2.2.2 Challenges acknowledged in budgeting process at Agribank – Uong Bi branch

Firstly, it is basically still a top-down process so it has not attract attention of lower-level managers and could lead to some negative feeling among staff as they feel they are forced to do so. It is a common feel that budget preparing is not their jobs and they could not participate in the budgeting preparation procedure.

Secondly, there is no follow-up stage to evaluate the budget prepared. Hence the budgeting process could not be reviewed and could not give lessons for the budgeting planning in the future. It is the fact that the budget procedure has been conducted in the same way for many years. It might be due to the lack of a proper research to review how beneficial budgets are. Therefore, demand for adjustment or changes has not been raised. Nevertheless, when business environment has some dramatic changes in the last few years, criticisms about budgets have been arisen so it is necessary for an budgeting practices evaluation.

Order of stages in creating budgeting is not clear and appropriate. Mixing between top-down process with opportunity for lower-level department to response possibly cause

some confusion. It could lead to a possibility that a budget is sent up and down for several times between getting approval, which is really time-consuming for the bank.

Last but not least, budgeting process at Agribank- Uong Bi branch is still passive. It mostly depends on the increase rate assigned by the headquarter. Budgets serve as tasks assigned from upper level but not a plan for the branch to achieve their best performance. Moreover, it could be said that the current budgeting practices is quite simple and it has not considered the capacities and capabilities available in the branch. As a result, sometimes the bank could not utilize optimally all resources it has.

3 THEORETICAL FRAMEWORK

3.1. Budgeting and its main functions

Since the introduction in the 1920s, budgeting has always remained as one of the most important management accounting techniques and stayed as the cornerstone in the control management system in nearly all organizations. Umaphathy in *Current Budgeting Practices in US industry* (1987, 311), considered budgeting as a wonderful management accounting technique which enabled managers to rejuvenate their organizations. Until the time of publishing and up to author's awareness, it was the only technique that translated qualitative mission statements and corporate strategies into specified action plans, as well as connected and conveyed the long-term plan to the short-term plan. Budgets also help to connect and bring managers in different levels and different functional areas together and at the same time provides continuity by the sheer regularity of the process. (Hansen, Otley & Vander Stede 2003, 95; Simons 1995, 213; Armstrong et al 1996, 15; Ekholm & Walin 2000, 525).

In the beginning, it was introduced as a tool to manage costs and cash flows and only was used in large organizations. Throughout its development history, until 1960s, not only costs and cash flows were controlled by budgeting but also other operational criteria or personnel criteria such as net income increase rate or return-on-investment.

There are many different definitions of budgeting. As a simple definition in Oxford dictionaries, budget was defined as an estimation of revenue and expenses for a fixed period of time in the future. It could be prepared for private entities such as a person, family, group of people or corporate entities, such as business, government, country, and multinational organization.

To define in a more professional and technical way, in *Cost Accounting*, a managerial emphasis 13th edition (2008, 241), Horngren et al has given the definition for budgeting as follows:

“Budget is defined as:

- (a) The quantitative expression of a proposed plan of action by management for a specified period
- (b) An aid to coordinate what needs to be done to implement that plan

A budget generally includes both financial and non-financial aspects of the plan and it serves as a blueprint for the company to follow in the next period.”

As mentioned before, budgeting was introduced quite a long time ago. However, until now it still remains as one of the most important techniques and is practiced by almost all organizations in the world. The most noticeable reason for this probably is the huge amount of advantages that budgeting (was supposed to) brings to organizations.

According to Hansen (2011, 289), budgeting has three main functions, namely: forecasting, planning and performance evaluation. Forecasting is the first stage when managers have to predict and estimate the revenue as well as expenses of the organizations in the next period. Planning function includes three main elements, namely: operational planning, strategy formation and communication of goals. It could be seen that in the planning function, budgeting takes part in both short-term (operational planning) and long-term planning (strategy formation) and also the communication of how to convey those plans to employees. The last function which is performance evaluation function enables companies to review their operations during business period and could take lessons from what have been done to make adjustment or changes in the future. (Hansen, Van der Stede 2004, 419).

There are also other works from some researchers gathering and summarizing reasons for budgeting practices. Hilton et al (2003, 603-604) pointed out five main advantages of budget, which are: planning, operational and financial performance management, performance evaluation and incentives provisions, resources allocation and supports for communication and coordination. However, those five benefits could be categorized in three main groups mentioned by Hansen as following: planning, allocating resources and facilitating communication and coordination shall be put in the planning stage and the second and the third benefit are included in the performance evaluation stage.

Hence, it could be concluded that benefits of budgeting could be categorized in three main groups which are: forecasting, planning and performance evaluation. Those main functions of budgeting are illustrated in the figure 4. This thesis shall be conducted based on the framework on those three main functions of budgeting practices to figure out the existing challenges and possible improvements in each function.

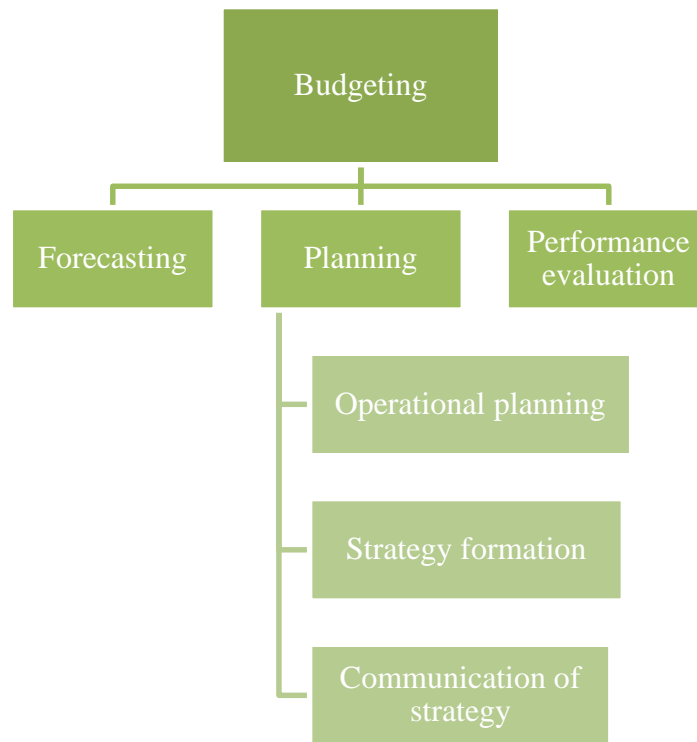


FIGURE 4. Main functions of budgeting

3.2 Problems of budgeting

On the contrary, although budgeting is thought to bring a lot of benefits for companies' operations, there are many criticisms about it. There have been a lot of published works drawn both by researchers and practitioners about the problems of budgeting in the actual applying context. According to Hope and Fraser (2003, 95), budgets are becoming more and more inappropriate in the current business environment, especially for organizations which operate in a highly competitive environment and desire to achieve high performance results. Budgets in those cases not only do not assist organizations to achieve their targets but also prevent them from getting closer to those targets. Therefore, they suggested that budgets should be abandoned.

In another work published of Hansen, Otley and Van der Stede (2003, 95) said that: "...budgets impede the allocation of organizational resources to their best uses and encourage myopic decision making and other dysfunctional budget games. They attribute these problems, in part, to traditional budgeting's financial, top-down, command-and-control orientation as embedded in annual budget planning and performance evaluation processes."

Looking closer into the specific problems that traditional budgeting might bring to organizations, in A substantial review of worldwide planning and budgeting practices published in 2001 (1-2) by Neely, Sutcliffe and Heyns, 12 most cited weaknesses of budgetary control were listed as bellows:

- “1. Budgets are time-consuming to put together;*
- 2. Budgets constrain responsiveness and are often a barrier to change;*
- 3. Budgets are rarely strategically focused and often contradictory;*
- 4. Budgets add little value, especially given the time required to prepare them;*
- 5. Budgets concentrate on cost reduction and not value creation;*
- 6. Budgets strengthen vertical command-and-control;*
- 7. Budgets do not reflect the emerging network structures that organizations are adopting;*
- 8. Budgets encourage gaming and preserve behaviours;*
- 9. Budgets are developed and updated too infrequently, usually annually;*
- 10. Budgets are based on unsupported assumptions and guesswork;*
- 11. Budgets reinforce department barriers rather than encourage knowledge sharing;*
and
- 12. Budgets make people feel undervalued.”*

It could be seen that those 12 weaknesses all relates to budgeting’s main function. Criticisms 1, 4, 9, 10 all link to the amount of time consumed to prepare budgeting compared to the value it brought, which are connected to forecasting and planning functions. Criticisms number 2, 3, 5, 6 and 8 express the affection of budgeting to the organizational structure, decision making process and its focus on cost reduction rather than value generation, which relate to strategy formation element of planning function. The last three criticisms which are number 7, 11, 12 link to the communication inside the organization which is also in planning function.

These 12 weaknesses shall be utilized as the theoretical base for the research for area potential for changes and improvement in budgeting process at Agribank – Uong Bi branch.

3.3 Framework for improvement

After discovering existing challenges inside each function of budgeting practices, three main theoretical alternatives of budgeting, namely Rolling Budgeting, Activity-Based Budgeting and Beyond Budgeting shall be utilised to form the guideline for possible improvements. Details and information of those alternatives shall be introduced in the following parts of this thesis.

4 THE FORECASTING FUNCTION

Forecasting has been defined in Oxford dictionary as the process of predicting or estimating a future event or trend, especially coming weather or a financial trend.

This function of budgeting relates to the first stage of strategic planning, when managers collect information and data both from external and internal sources to make estimations about the business environment in the future, for example, demand for organization's products or services or price level of the inputs needed to maintain the business, etc. It is absolutely an important function as it shall be the base for other two functions. Only when forecasting is done well that company could prepare and allocate resources in a sufficient way, which means the planning stage could be executed well. In another words, the more accurate forecasting function is, the more reasonable targets are. That is the necessary base for a good performance evaluation process.

4.1. Research and result

To review performance of forecasting function in budgeting process, two main ways of researches have been done. The first method is interviewing with an accountant and the chief account of the branch with the aim to explore and discover opinion of management about actual performance of budgets in the bank (such as the advantages, disadvantages and problems that it brings). Moreover, some internal documents of Agribank were analysed to compare between the budgeted plan and the actual results in the last three years.

The result for those research shall be summarized as follows: Firstly, during the interview, the management have said that the budgeting process inside the branch until now is mainly and only based on the target set by the Head quarter. There is almost no forecasting process implemented at the bank, only reviewing the target set and then translating it into operational plan. In the second question, according to the chief accountant, the targets are usually achievable and reasonable by the time received but sometimes, during the year, after some changes happen in external environment, they might become not reasonable and achievable anymore. It might be the reason leading to the branch's failure in achieving targets in 2012 and 2013.

The chief accountant believes that that failure is mainly due to the external factors as before they always achieved the targets and even over-achieved it. Some reasons which were named as the possible factors affecting performance of the branch are:

- The salary increasing policy issued at the middle of the year 2013 by the government could be possible reasons for the increase in the bank's deposits. According to it, the basic salary in the salary scale was increased by 15%. It led to the increase in income and also the amount of savings of public.
- Mining is the leading industry in Uong Bi city, one of the biggest customer is the Vang Danh Mining Joint Stock Company. Besides, the branch also has other important customers running business in coal and natural resources mining. Hence, the dramatic downturn in mining industry in 2013 has affected badly on the business of the branch. The decrease in demand for coal to export to China led to a situation when a lot of mining companies could not sell their goods. They had to reduce their worker's working hours and cut down a number of employees. As a result, those companies neither had demand for loans for new investment and projects nor consumed a lot of banking services such as payments (both domestic and international) or depositing in their bank accounts. This led to the drop in Agribank's revenue and might be a major reason why it could not achieve the increase of 10% in 2013.
- The chief accountant also showed her opinion that if the branch executes the forecasting themselves, it could be more relevant. The reason is the insufficient information and knowledge about the local business of people in the head office might compared to the local staff. On behalf of the branch's staff, she is also willing to take new tasks and jobs for the Accounting and Budgeting department and believes that there are enough human resources to perform the tasks.

About the documents analysis, during the research process, the writer have gathered data and make comparisons between budgeted and recorded revenues and expenses throughout the period of the last three years, from 2011 to 2013. The calculation was implemented by taking percentages of differences of actual values compared to planned values. Details of the calculation could be seen in Appendix 1. A brief summarizing results of the calculation is shown in the table below (table 6). In the case of provision

for bad debts, it requires the tracking of payment time which relates to many internal documents and requires a lot of time to complete the comparison. In the scope of this work, it was decided not to be implemented. This remains as a potential area for further work in evaluating the effectiveness of budgeting process in the branch.

TABLE 6. Comparisons between budgeted and actual figures in the period from 2011 to 2013

No	Criteria	2011	2012	2013
1	Total revenue	2,10%	-4,79%	-3,41%
2	Revenue from credit services	2,10%	-5,03%	-3,09%
3	Revenue from other services	7,38%	-4,66%	6,05%
4	Revenue from international transactions	9,61%	1,21%	-1,57%
5	Revenue from securities trading	6,59%	10,52%	-3,58%
6	Other income	-11,09%	21,02%	-53,57%
7	Expenses	1,82%	-4,17%	-2,35%
8	Expenses for interest payment	1,77%	-4,93%	-1,65%
9	Expenses for credit services activities	-2,88%	-1,84%	-4,99%
10	Expenses for international transactions	-2,84%	-1,87%	-4,03%
11	Expenses for taxes and other fees	0,73%	-5,78%	-7,98%
12	Expenses for other business activities	1,39%	-3,03%	-8,15%
13	Expenses for staff	2,72%	-1,64%	-5,56%
14	Expenses for management and business trips	2,22%	-1,97%	-4,68%
15	Expenses for assets management	1,66%	-1,86%	-2,92%
16	Provisions	0,16%	-3,13%	-1,88%
17	Other expenses	6,58%	-1,58%	-6,90%

Hence, it could be seen from the table (table 6) that compared with 2011, the differences between planned and actual figures of the year 2012 and 2013 are slightly higher. The unpredictable and adverse moves in economy which occurred not only in Vietnam but also all over the world could be the reason for the drop in budgets accuracy. Generally,

most of the variations fluctuated around 5 or 6%. There are some figures that were significantly higher or lower but we could consider that the average is around 5% of differences. Considering the value of assets and revenue coming to the bank every year, this 5% is considered to be quite remarkable. Thus, according to the author, it is necessary to seek for improvement in the forecasting process of budgeting.

4.2. Potential areas for improvement

As could be seen from research results above, the biggest gaps are in the sections of revenue from credit services and expenses for interest payments and credit services. Other revenues such as income from other banking services, international transactions or securities trading only account a very small percentage in the total revenue of the branch. In addition, generally, their fluctuations during the last few years are relatively small.

Most of the expenses are predictable and could be controlled by the enterprise, for example: for building and other asset expenses, rent is stated in a fixed contract and water, electricity or Internet fee are all subjected to contracts and could not be changed without 3 month advance notice. Expense for staff, management and business trips could be controlled inside the branch as it subjects to the decisions of the bank's management. Total of other expenses such as for taxes and other fees, assets management and other expenses only account approximately 3,2% in total expenses. It is a relatively small proportion and changes in those figures shall not affect a lot to company's final value.

Hence the area that should be focused to improve is estimating process of demand for credit services, such as loans and deposits. It is the fact that these demands have a very high elasticity and highly subject to the changes in external environment.

4.3. Suggested solution

Based on the personal knowledge and opinion, it is very difficult or even almost impossible to get sufficient and accurate information prior to a whole period of one financial year. It is due to the fact that information environment is not perfect and there are always information and data remaining unknown for any organization. Moreover, during the year there are always some sudden changes or sudden events in the business context

that could not be predicted at the beginning of the year. Hence, trying to increase the accuracy of the forecast at the beginning for the whole year is not an option focused in this case. In the author's opinion, reducing the time gap between forecasting and the real time might be a possible improvement. Therefore, technique of rolling budgeting could be applied in Agribank- Uong Bi case.

As a response to criticisms on the relevance and accuracy of budgets done in traditional way, the idea of rolling instruments in general and rolling forecast in specific have been introduced and known for a long time (Owens 1949, 598). A lot of organizations and companies all over the world have implemented this method to reduce and correct some drawbacks of the traditional static budgeting process. However, in Vietnam, generally, traditional command-and-control budgeting is still common and other budgeting techniques have not been known popularly.

In "A Theoretical Analysis of the Impact of Adopting Rolling Budgets, Activity-Based Budgeting and Beyond Budgeting", Hansen (2011, 301) has given the definition for rolling budgeting as "A forecast that maintains a constant forward-looking time horizon, usually between 12 and 18 months. Rolling budgets are a variant where the budget is periodically updated to maintain a constant forward-looking time horizon."

From the author's personal observation during the internship in Agribank – Uong Bi branch, software system used to prepare budgets in the bank is basically Microsoft Excel. The method of constructing budgets, which is adding the percentage of increase set by the head office to all the figures of the previous year to create the budget for next year, does not require a complex IT system.

To apply the essence of rolling budgeting, the same IT system could be kept for using. The bank is not required to invest in the new machines or equipment. The main difference or improvement is instead of executing the forecasting process once a year, now the process shall be implemented more frequently during the year.

In the case of Agribank- Uong Bi branch, as mentioned before, there are three main elements of budget prepared in the bank, which are: revenue, expenses and provisions for bad loans. Hence, in the forecasting function, management have to make estimations for all of those three items.

- To estimate total revenue: revenue of the branch come from six main business activities. To estimate the total figure, it is advised to estimate each element first and then sum up to calculate the number for the whole branch.
- To estimate expenses: Similarly to revenue, expenses are normally estimated by forecasting the price level and amount to spend for each element of it.
- To estimate provisions for bad loans: it relates both to the estimated value of loans and the inspections of credit levels of borrowers to categorize them into different loan groups.

There are many options of choosing the periodically length to apply. However, to begin with, I suggest Agribank- Uong Bi branch to implement quarterly due to the following main reasons. Firstly, this technique is new and it needs time to be tested in real business context. Secondly, applying rolling budgeting leads to an increase in the workload for staff of Accounting and Budgeting department. Hence, a sudden increase is not recommended. It is better to increase gradually. It might be quarterly at first and if the technique shows its benefits to the company and employees have got used to the process then the management could consider whether the frequency should be increased to monthly.

Moreover, changes in environment which could have effects on the bank's business are mostly in politics or in some industries, which only gradually take effect least after 2 or 3 months. The case is different from companies which have gone public or securities and investment companies which have their operations subjected to changes in stock exchange market in speed of minutes. Hence, forecasting quarterly is a reasonable choice.

To conclude, budgeting process after applied rolling technique shall be done for one year ahead. When the first quarter ends, for example at the end of March, the bank starts prepare for the first quarter of next year. At the same time, as amount of information received about the current financial year has increased, adjustments to current budgets for the last three quarters could be made if necessary.

Hence, there are two key tasks of rolling technique. Firstly, the bank has to keep forecasting continuously and frequently so that there are always budgets for four quarters available. To some extent, it increases the frequency but reduce the workload for each time as instead of forecasting for the whole financial year, now they just need to prepare for one quarter at one time. Secondly, budgets are kept opened for adjustments and modifications during the year.

4.4 Further suggestions

In the long-run, to ensure the efficiency of the forecasting function, the branch needs to seek for the connection and relations between changes in external environment to the actual business of the branch. For example, it is agreed that a downturn in mining industry might affect badly to the branch but the level of affection still remains unknown. Therefore, I suggest company to run a data system to record the risks and their effects on company's business.

This shall not require so much time and efforts of the accountant. Staff only need to record changes in external environment and company's results of the year and at the end of the period, links them respectively. We could not expect those causal relations to be totally accurate as the bank's business is affected by many factors and it is impossible to distinguish which part of the change is connected to which event. However, this small work could help the budgeting team a lot in performing rolling budgeting. For instance, the accountants shall not have to do all the evaluation and research for every events and exposures which could happen. Moreover, the experiences of the bank are recorded for future use so even when there are changes in personnel, the new staff still could utilize the work and experiences of the old ones. The form of the system could be done simply as in the table 7 below.

TABLE 7. Form to record exposures and their effects to branch's operations

No	Exposures	Category	Time to affect	Effects on business
1				
2				
3				
...				

4.5 Advantages of new changes

Rolling budgeting is not a new idea and it has been recognized by many enterprises. Recently, a survey of over 200 organizations found that 80% percent of them expecting to have quarterly rolling forecast and budgets in place (Rickards & Ritsert 2012, 135). One of the significant benefits that rolling budgeting could bring to organizations is reducing the amount of assumptions used to create budgets, which increases the accuracy of the budgets. This method also allows updating and revision of budgets prepared before so the flexibility and ability to response to environment's changes of the bank are increased.

Furthermore, rolling budgeting prevents some personnel problems. It is the fact that reasons affecting a company's business could come from both factors controllable and uncontrollable by the management. If the performance of employees are judged based on the uncontrollable factors such as a natural disaster, employees could feel unfair as they are under-evaluated and dissatisfied with the company. Then it could reduce their commitments to the branch. Using Rolling Budgeting could help Agribank- Uong Bi branch to overcome it.

Last but not least, this method is not expensive and does not require new investment so it is very easy to execute. Since staff already have experiences in doing forecasting job, implementing this process more frequently shall not be a big problem.

4.6 Disadvantages of new changes

One of the criticisms raised about rolling budgeting is that it focuses too much on short-term plan. This might distract managers from focusing sufficiently on long-term plan which actually serves the final purposes, missions and reasons of the business. Moreover, many people have argued that annual goal setting process is really costly and demanding so repeating that process quarterly shall be more expensive. It could be the extra burden for company's human resources.

4.7 Brief conclusion

In my opinion, the substantial amount of potential advantages of rolling budgeting outweighs the possible disadvantages. Utilizing a database shall save a lot of work for staff when doing forecasting. Moreover, as mentioned above the frequency is increased but workload at one time is reduced. Hence, it is actually not a burden for the bank's human resources. Therefore, it is reasonable to increase the frequency of executing the forecasting. In addition, according to the structure of Agribank- Uong Bi branch, budgeting formation is the duty of Accounting and Budgeting department so the Board of Director and General Planning department could still focus on long-term planning. As a result, it does not distract staff from long-term planning. To conclude, the author believes that it is worth to try implementing the technique to improve the management accounting process in Agribank- Uong Bi branch.

5 THE PLANNING FUNCTION

The planning function mentioned in this thesis consists of three main elements. The first element is operational planning, which mainly relates to the short-term plan of the company. It shows how to allocate resources and personnel of the bank to keep it running and achieve the short-term goals. It could be considered as the most important element of the planning function. The next element is strategy formation. It connects with long-term planning including how to design strategy to create competitive advantage for the bank. However, as the commissioner is a branch of Agribank group so long-term strategy is usually created by the headquarter and Agribank- Uong Bi branch shall have to go along with the same strategy of the group. Hence, in this work, this element shall not be the object to search for improvement. The last part of planning function is communication of strategy concerning how to convey the strategy, missions, goals or operational plan of the whole branch to each employee.

5.1 Potential areas for improvement

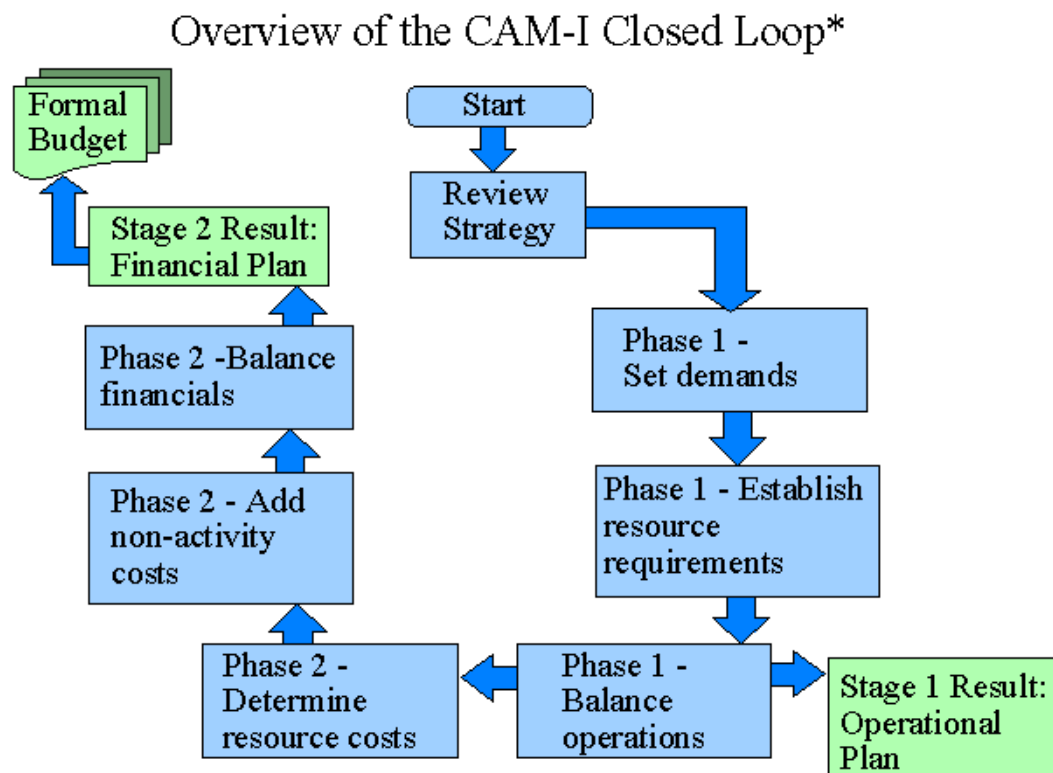
Currently, planning stage in budgeting process at Agribank- Uong Bi branch is implemented by adding the percentage of increase set by headquarter to all the elements as revenues, expenses, amount of resources consumed, etc. in the budget. Hence, to fulfil the whole demand and achieve the increased revenue, the only adjustment option available is increasing the amount of resources consumed in the bank. This is based on the assumption that the current structure or productivity of the branch are in their optimal states, which is still in doubt.

Moreover, as could be interpreted from the chapter about current budgeting implementation at Agribank, at the moment, budgeting is mainly executed and paid attention by higher-level managers. Hence, due to result of some semi-interviews executed by the author, there are some employees who may feel that it is not related to them. As a result, they do not really understand or pay attention the goals or objectives of the branch. Additionally, employees sometimes do not acknowledge their important role towards the entire organization. It is common thought that the role of one employee is relatively small so a change in their work does not leave an impact on company's final result.

Therefore, to improve this function, suggestion to use a modified idea of Activity-Based Budgeting (ABB) shall be introduced. Differently from the traditional model, ABB does not focus on products, markets, departments or responsibility centre but on activities needed to perform the jobs. In a business operating in services sector like Agribank-Uong Bi branch, this model is very suitable as the value created inside the branch mainly coming from activities, jobs and tasks performed by its staff.

5.2 Suggestions for improvement

An Activity-Based Budgeting could be constructed using many different models. However, in this case of Agribank- Uong Bi branch, the author shall give suggestion of a model created by the CAM-I (Consortium of Advanced Management International), named Closed Loop Model which is illustrated in figure 5. The essence of this model is building up an operational budget before creating the financial budget. There are two main stages in the Closed Loop Model, which are operational loop and financial loop. (Klammer et al 1997, 314 - 323; Antos & Brimson 1998, 231-254).



* Adapted from Sandison, Hansen & Torok, Exhibit 1, p. 17.

FIGURE 5. Overview of the CAM-I Closed Loop Model

In the first stage which is Operational Loop, the demands or revenue estimated in the forecasting stage shall be used to calculate activity requirements through activity consumption rate. Then, resources required for company's operations are converted by dividing by resources consumption rate. (Hansen, Otley & Van der Stede 2003, 99)

Therefore, it could be seen that a system to record staff' working time and main activities needed for each job is required. Currently, there is no such a system in Agribank – Uong Bi branch so it needs to be built brand new. This system could be done with the participation of all employees to fill up or input this information to the system.

However, it is the fact that the amount of different activities performed in the branch every day is really huge. Moreover, according to the 80/20 rules, the main 20% activities involved shall contribute 80% of the work. Therefore, due to the scope of this thesis, I shall only suggest to concentrate on some professional activities which connect directly to the tasks to increase the practicality level of the technique. Below is my personal proposed summary (table 8). This list could be improved and added by the commissioner in case of other activities considered needed.

TABLE 8. System to record jobs and activities related

No	Job	Activity	Number of working hours
1	Depositing	Marketing activity	
		Front officer staying behind the counter	
		Staff working on IT system to perform the job	
2	Loans advancing	Marketing activities	
		Direct marketing/ personal meeting of salespeople	
		Collecting lead list of potential customers	
		Staff working on IT system to perform the job	
		Front officer staying behind the	

		counter	
3	Internal transactions	Staff working on IT system to perform the job	
4	Securities trading	Market analysing	
		Trading	
5	Other banking services	Receiving card application	
		Card making	
	

*) Activity consumption rate: this could be calculated only after the connection between those activities and final demand or revenue is found out. This requires management of the bank to examine and consider carefully and create a database of which activity related to which jobs or tasks.

*) Resources consumption rate: Basically human resources are the main and the most costly resources in a bank's operations. Due to the nature of banking industry which does not have raw materials or input goods but mainly deals with financial products, expenses for human resources account the biggest proportion in total expenses spent on resources. Hence, resources consumption rate could be calculated by number of working hours to perform each activity.

After all the activities and resources required are known, it is time to move on to the second stage – the financial loop. Instead of depending on the result of the operational loop to calculate resources the bank shall consume to create the financial plan, this stage begins with evaluating and checking the available resources inside the branch. The purpose of financial loop is to balance between the resources required pointed out in the previous stage and the available ones.

In the case of Agribank, as mentioned above, resources consumption rate shall be calculated based on working hour for each activity. Hence, in order to check the capacity available at the organizations, staff of Accounting and Budgeting department gather information and sum them up to calculate the total estimated available working hour of employees from each department. After that, the number received shall be compared with the one got from operational loop.

In case of imbalances, ABB offers many options of adjustment for the bank to choose:

1. Quantity of demand that company desires to fulfil. For example, in case the bank think that the demand is out of current capacity and there is too costly to purchase new resources, the bank could decide that they shall not go for the whole demand.
2. Resources capacity: for example, in a similar case like above, if the demand in the market is too high the bank could decide whether to purchase extra resources to be able to fulfil, for instance, they could plan to recruit more people.
3. Resources consumption rate: another option shall be increasing the productivity of staff. In this case, it is the number of working hours required for each activity. This should only be taken into implementation based on a careful consideration to avoid putting too much pressure on staff and also the management should take employees' opinions into consideration.
4. Activity consumption rate: That is when company tries to improve and renovate the working process to maintain the bank's performance but consume fewer activities, for example when it changes procedures of some banking services, such as :
 - a. Depositing, transferring money via e-banking: reduce the jobs of front officers, customers could manage and process themselves.
 - b. Changing in the new IT management system so the daily report could be submitted online and archive directly to the bank's database instead of printing and bringing to the director for her approval before sending back to administrative department

Hence, ABB offers twice as many options as traditional budgeting to balance between the demand from external environment and enterprise's capacity.

However, as the suggested approach above is simplified to make it more practical for the bank, gradually, the bank is still advised to increase the complexity of the system by taking into considerations activities not directly related to revenue generating but are also very important as they support and ensure the smooth operations of the bank, for

example: IT services and system (this shall be more and more important when the bank currently have plan of launching and promoting the e-banking services); management time (this is crucially important to keep the bank running); or administration time needed. Therefore, if Agribank- Uong Bi branch desires to utilize optimally advantages of ABB approach, it should gradually apply the Activity- Based Costing idea to the whole budgeting process.

5.3 Advantages of new changes

Applying Activity-Based Budgeting technique not only could bring a lot of advantages to the enterprise but also help enterprise to overcome the drawbacks of the current traditional budgeting process.

With Activity-Based Budgeting, Agribank- Uong Bi is able to set more realistic budgets. Instead of accepting targets set by the headquarter and, based on that, planning their operations for the year, now the bank could consider their available capacity to evaluate if the target is reasonable. In case of conflicts, the bank could respond to the head office to make necessary adjustment and changes if needed.

Secondly, by dividing financial targets to specific activities and number of working hours, the lower-level managers and employees shall find it easier to understand those targets. For instance, talking with a front officer about how much time he or she should spend on this job shall be much easier to understand than telling him or her that he or she needs to work in some way so that the revenue of the whole branch shall increase by 7%. This increases the efficiency and effectiveness of internal strategy communication inside the branch, which is one element of planning function mentioned in the previous parts.

Moreover, implementing Activity- Based Budgeting also makes it more flexible for the branch to balance the operational plan and the financial plan. In addition to two ways of adjusting, now ABB brings more options so that Agribank could choose which criterion is easiest and least costly to adjust. In addition to it, dividing the operations into specific activities and resources shall help the bank to control and provide greater ability to respond to unforeseen events in the future. ABB shows detailed working structure of the

company so in case of some changes or adjustments needed, it is easy to point out which department or which stage in the working cycle requires amendment.

Another advantage of ABB is that the internal transparency shall increase. By pointing out productivity and operating efficiency of each activity and resource, the imbalances, inefficiencies and bottlenecks in the working cycle of the bank are shown. Hence, management could evaluate the performance of each department or each staff and increase the fairness of performance evaluation process.

5.4 Disadvantages of new changes

It is criticized by a lot of researchers and practitioners all over the world that Activity-Based Budgeting could only exist in theory and in practical, it is very hard to define to which job that an activity or resource is related. There is also inter-relationship among activities. Moreover, an activity could support or contribute to many jobs simultaneously and it is difficult to slide it down to smaller pieces for each job.

Another problem of ABB that Agribank might cross by is the huge workload of preparation for a data system of Activity-Based Costing which is a prerequisite for the implementation of ABB. To build up this new costing system, a lot of information and data are needed. Only when data is accurate that this budgeting technique could show its benefits and advantages. Hence, this preparation has to be executed carefully so it might take a long time before being able to put into application.

In addition, to implement ABB, a new IT system or network throughout the bank and the participation of all staff shall be required. Hence, firstly, it shall be costly for the branch whose scale is not too big like Agribank – Uong Bi branch. It could be a burden for company's expenses of the year and takes long time for this investment to reach the breakeven. Secondly, it consumes the working hours of employees which otherwise could be utilized to perform other tasks.

Finally, it is true that in banking industry, especially in the current business context, there are always many new products or services which are going to be introduced. They relate to new activities and resources required. Hence, the data system needs to be updated all the time and as mentioned before, it takes time to prepare a detailed data for

each job so enterprises sometimes could not afford paying that much time to create this system before launching those products or services.

5.5 Brief conclusion

In conclusion, Activity-Based Budgeting is a good option to optimize the commissioner's management accounting process in general and budgeting in specific. It is promising to provide better assistance to managers with highly transparent and detailed information system to reflect operations inside the bank. Applying Activity-Based techniques could renovate the whole image of accounting system in the bank.

However, it requires a gigantic amount of investment both in human and financial resources. Moreover, time needed to prepare the system before implementation is long. Therefore, company should consider carefully between costs and benefits of this method before making decision whether to apply ABB approach. Nevertheless, there is another option for the commissioner to reduce the burden of investment in the branch as it could send the plan applying ABB to the upper level management of Agribank Vietnam group. In that case, Uong Bi branch shall not have to bear the whole investment. In addition, as to some extent, different branches in the group still have similar banking process so it is more economical to apply this technique in large scope.

6 THE PERFORMANCE EVALUATION FUNCTION

The last but not least main function of budgeting is performance evaluation. Performance evaluation is the term used to describe the process of collecting, analyzing and reporting information about the performance of an individual, business unit, a company or an organization. It was defined by Neely as "the process of quantifying the efficiency and effectiveness of the past action" (Ferreira & Otley 2009, 275). Thus, it could be recognized that it mostly focuses on how to evaluate the performance after it happened. The purpose is through inferring past information, assisting management to make decisions related to the operations in the future. Thus, nowadays, it is a shared responsibility between both managers and management accountants.

Currently, in the case of Agribank, performance evaluation is mainly based on the final revenue of the period. At the end of the period, if the branch achieves its targets set in advance, it is considered that the bank has performed well during the period and all the staff shall receive bonus respectively with their salary level in the salary scale. There are also some few other criteria for some departments which interact directly with customers. For example in the case of the credit services department, if they could raise up to a specific level of capital, they shall receive the extra bonus separately from the rest of the bank. Hence, in brief, the performance evaluation in Agribank is mainly based of the financial result of the period compared with the targets set in advance.

6.1 Existing challenges

However, during the last few years, there are some problems related to the process of examining and reviewing performance, which could be named as follows:

Firstly, among employees of the bank, there are opinions about the unfairness evaluation in the last few years. They believe that they still worked in the same quality level but due to the external economic moves in 2012 and 2013 that the bank's final result was not as good as the previous years. It leads to some problems in motivation observed by the author during the time being intern at the bank. At Agribank – Uong Bi branch, performance evaluation directly relates to bonus at the end of the year. Thus, when employees feel they are under-evaluated, they feel they did not receive as much bonus as they deserved. Moreover, due to the downturn of economy in the last few

years, there are some negative thoughts that no matter how hard they work, they shall not achieve the targets set. It could lead to a decrease in employees' commitment and motivation to work for the bank.

In addition, from the interview with the chief accountant, some existing challenges in the present performance evaluation system have been found. For example, there were cases that at the end of the year, when there were some customers approaching and asking for a loan, even it was just for a very short time but to ensure the credit and debit levels, the bank had to refuse that business opportunity. Hence, sometimes, the fixed performance evaluation system prevents Agribank from taking investment opportunities.

Moreover, as nowadays, business environment is becoming more and more dynamic, market conditions are not stable as it was in the past, competitors are not always known and their actions are also highly unpredictable. In current business context, more decisions are required to be made and the time for decision making process is shorter and shorter. Therefore, the decision making process could not be centralized at higher-level managers like in the past. For example, when there is a customer urgently demands for a loan to invest in a highly profitable project and he or she is considering a bank to get a loan. There might not be enough time to send the case to higher-level management for examination and evaluation. Contrast to the situation of customers approaching banks in the past, nowadays, banks have to compete with each other to approach customers. Thus, it shall be a competitive advantage for a bank if lower-managers or employees are able to consider, execute evaluation process and make decisions.

To solve the problems mentioned above, the author suggest one budgeting alternative named Beyond Budgeting (BB) which is known as the Coherent Model. Hope, Fraser, Bunce and Roosli (2004, 3) have summarized the main principles of the model as in figure 6.

Principles of the Coherent Model	
Leadership principles	
1. Customers	- Focus everyone on improving customer outcomes, <i>not on hierarchical relationships.</i>
2. Organization	- Organize as a network of lean, accountable teams, <i>not around centralized functions.</i>
3. Responsibility	- Enable everyone to think and act like a leader, <i>not merely follow 'the plan'.</i>
4. Autonomy	- Give teams the freedom and capability to act; <i>don't micro-manage them.</i>
5. Values	- Govern through a few clear values, goals and boundaries, <i>not detailed rules and budgets.</i>
6. Transparency	- Promote open information for self management; <i>don't restrict it hierarchically.</i>
Process principles	
7. Goals	- Set relative goals for continuous improvement; <i>don't negotiate fixed performance contracts.</i>
8. Rewards	- Reward shared success based on relative performance, <i>not on meeting fixed targets.</i>
9. Planning	- Make planning a continuous and inclusive process, <i>not a top-down annual event.</i>
10. Controls	- Base controls on relative indicators and trends, <i>not variances against plan.</i>
11. Resources	- Make resources available as needed, <i>not through annual budget allocations.</i>
12. Coordination	- Coordinate interactions dynamically, <i>not through annual planning cycles.</i>

FIGURE 6. Principles of Coherent Model

As could be seen from the table (figure 6), there are two main categories of principles of Beyond Budgeting. In the field of leadership, the essence of the model is empowering and coaching staff at all level to act like an entrepreneur and actively make decisions themselves with the belief that they are trustworthy and entirely capable of taking responsibility for their actions. Secondly, about process, BB approach mainly aims at changing in the performance evaluation system of organization by replacing fixed targets systems with flexible targets determined at the end of the period. It is also different from traditional budgeting in choices of performance measurements, which shall be explained further in the later parts.

6.2 Possible suggestions of improvement

To utilize the idea of Beyond Budgeting approach, the author has made some suggestions and example guidelines as follows.

- a) In performance evaluation system.

As mentioned above, the main difference BB brings to companies is the replacement of the fixed targets with relative targets. At the end of financial period, targets could be determined by relative or subjective performance system.

Firstly, Hansen, Otley, Van der Stede (2003, 101) proposed the application of relative performance contracts with hindsight for organizations applying Beyond Budgeting approach. It means “*rather than fixed targets set at the beginning of the period, targets*

are adjusted by looking back and incorporating the actual operating and economic circumstances during the period.” It is different from rolling or flexible budgeting as flexible budgeting is a process of adjusting the budget for an acknowledged volume of information received. While, on the other hand, Beyond Budgeting approach with hindsight emphasizes in utilizing and taking into accounts all relevant information which becomes available at the end of period. Hence, they could be base for the subjective assessments.

However, it is true that “determining targets at the end of the period” sounds very ideal in theory but the implementation easily subjects to bias and some gaming behaviours as targets could be adjusted to suit with what has been done during the period. Hence, it is advised to use benchmarking method to compare performance of the bank.

According to Keehley and Abercrombie (2008, 12), benchmarking is the method to improve performance by searching high-performing organisations and implementing their practices to improve enterprise’s own operations. Benchmarked performance could be taken both from internal and external of the group. Both two options shall be presented and analysed in the following part:

**) Internal benchmarked performance:*

Managers could make comparison with performance of other branches of Agribank in the region of Quang Ninh province. The plus point of this option is that information shall be available inside the group so it is accessible for the branch. Moreover, as they are in the same group so the competitive strategies and methods are also shared. In case there is a branch having superior performance compared with our branch, we could refer and consult from their strategy. This option is quite easy to conduct and also contributes to increase the motivation inside the group to striving for the best position.

However, this method also has some downturns. For example: each branch still operates in different area so the business environments are, to some extent, different. Therefore, sometimes, the comparison is not accurate and reasonable. Moreover, it could lead to a side effect that instead of encouraging branches to perform at their best, it leads to an unhealthy competition between branches. It could prevent branches from sharing information and cooperate with each other as they worry that other branches could surpass

their performance, which affects bonuses at the end of the year. Consequently, at the end of the day, final return of the whole group could drop as the result.

*) External benchmarked performance

In this benchmarking option, comparison shall be made with other banks operating in Uong Bi city. Compared to the previous method, the plus point of this method is that those banks operate in the same environment and mostly have to bear with the same external conditions so the fairness of the comparison is increased. It could prevent complaints from the employees about the fairness of comparisons as the key question of the method is “If others could do it, why can’t we?” Hence it encourages employees to strive to be the best in the market.

However, it is true that because banking industry is a very highly competitive and imperfect market so information is not always available and accessible. Up to the author’s awareness, in Vietnam, banks do not usually publish their financial results for each branch to the outsiders, but only the figures of the whole group.

Therefore, Agribank could consider pros and cons between those two options to make the final choice to implement. In my opinion, the external option slightly outweighs the internal one due to the fairness of comparisons. However, internal method could be more practical at the moment. With some adjustments and management methods to reduce the minus points, it could be a suitable choice for the commissioner.

b) Addition of non-financial measurements

It is mentioned above that at the moment, Agribank mainly focuses on the financial criteria to assess staff’ performance. However, it is true that financial results could only be achieved with the contribution of appropriate levels of many other non-financial criteria such as: customers satisfaction, issue-solving time, personnel turn-over ratios, staff satisfactions, number of new services adopted/ introduced or number of training hours for staff, etc. Hence, paying attention to those non-financial factors could ensure that the bank is on track to achieve the desired financial results. Hence, I suggested the Agribank should take them into consideration.

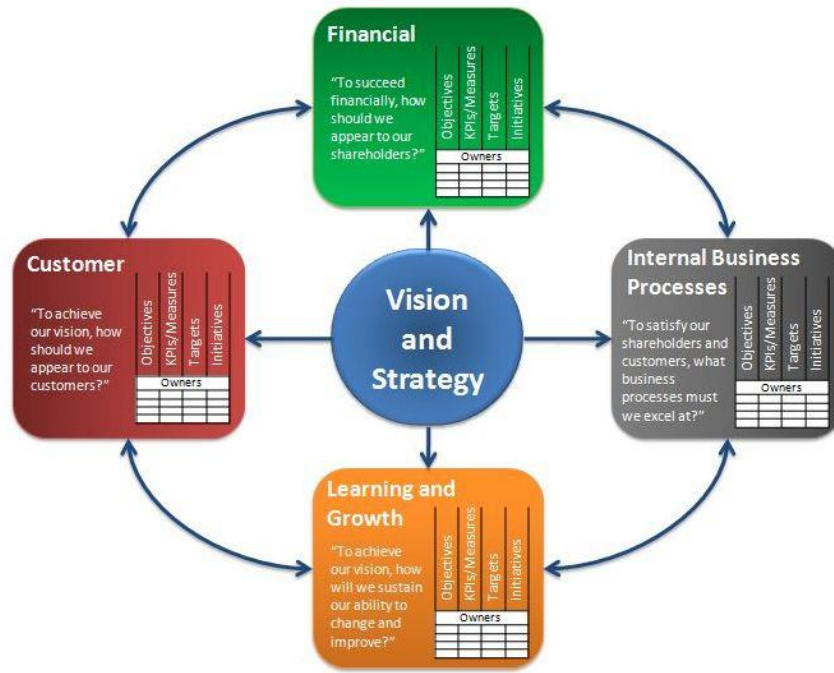


FIGURE 7. The Balanced Scorecard model

One model which could be applied is The Balance Scorecard which was introduced by Kaplan and Norton in 1992. The Balanced Scorecard breaks down vision and strategy of company or organization into different measurements and performance indicators. In this model, those measurements are categorized in four different areas: financial, customers, internal-business process and learning and growth perspectives (figure 7). Respectively, they represent the desired image of the company in perspective of its shareholders and its customers, the business process needed to achieve those images and changes and innovations needed to maintain and develop its operations in the future, not only in short term but also in long term view. Under those main categories, there will be different outcome measurements and also outcome – driver measures chosen to reflect the business result in that area. Moreover, even those four areas are separate, but they are all linked together in a cause-and-effect relationship.

Some suggestions for criteria to be taken into consideration are summarized in the table 9 below.

TABLE 9. Suggested Balanced Scorecard for Agribank- Uong Bi branch

Financial	Internal Business Processes
<ul style="list-style-type: none"> Revenue 	<ul style="list-style-type: none"> Average of time solving a prob-

<ul style="list-style-type: none"> • Total expenses • Revenue from credit services • EBIT 		<ul style="list-style-type: none"> • Number of customers responded from customers • Ratios of computers and number of employees 	
Customer satisfaction <ul style="list-style-type: none"> • Number of customers renewing their contracts/ accounts • Number of new customers 		Learning and Growth <ul style="list-style-type: none"> • Number of training hours for staff per year • Number of staff participating training organized 	

However, it should be noted that BB approach aims to eliminate the fixed targets performance evaluation but not the whole budgeting process. Agribank- Uong Bi branch should still construct budgets to serve the organizational needs, for example to prepare resources for operations in the period.

6.3 Advantages of new changes

The first advantage of Beyond Budgeting is helping Agribank to reduce the barriers to change of traditional budgeting process. It encourages employees to take opportunities even when it requires further investment, which means increasing expenses for companies but shall bring benefits in the long run for companies. Managers shall not hesitate to make investments since they know that their actions shall be evaluated later by taking into considerations all relevant information not with fixed targets on revenue or expenses.

Secondly, BB enables fast responses to environment changes or economic moves as employees are empowered and capable of making decision themselves. It could raise motivation among the employees and bring good reputation about the personnel policy of the company. As a result, the bank could attract talented managers and employees

Moreover, like other budgeting alternatives mentioned above, Beyond Budgeting approach could also reduce and prevent some dysfunctional and encourage ethical behaviours.

Last but not least, using benchmarking with hindsight could create a database of connection between external exposures and their effects company's operations. It could support for the forecasting function in the future to increase the accuracy of the budget.

6.4 Issues of new technique

The first issue relating to Beyond Budgeting is the limited accessible comparative performance data as the company is in a highly competitive and rapid changing industry so information environment is not perfect and different companies do not have the same access to same information. Moreover, most of the companies do not publish their data to public. This issue affects directly to the possibility of implementing relative performance evaluation.

Secondly, subjective performance evaluation could easily subject to bias or unfair judgement of people responsible for the post-period assessment. It is crucial to ensure that personal judgement or personal opinions should not be taken into the assessment process.

Moreover, adding non-financial criteria to the performane evaluation means extra workload. Hence, the willingness of management to take more work is the prerequisite to apply BB approach. In addition, too many criteria in the system could make it more complicated. Managers and employees could feel overwhelmed as they have to pay attention about too many things at the same time. It might confuse employees which criteria is the most prioritized.

Last but not least, it is true that this approach is quite new compared with other techniques. There are not many enterprises and organizations having implemented this technique. Therefore, the amount of experiences that Agribank could learn from is limited.

6.5 Brief conclusion

Even when there are some issues relating to Beyond Budgeting mentioned above, this technique is considered as a promising method to develop current performance evaluation system. Solutions or arguments against those problems could be mentioned

as follows. For example, limited access to relative performance information could be overcome by using internal benchmarking which is comparing with other branches of Agribank in the region of Quang Ninh province. About the extra non-financial criteria added, it is true that they are important factors for all businesses, especially for those operating in services sector like the commissioner. Therefore, even without applying BB approach, the enterprise still have to pay attention to them so they could not be considered as a burden brought by BB.

Besides, benefits of BB approach, such as elimination of barriers to changes, ability to response quickly to environment's changes and preventing dysfunctional behaviors, prove that this technique could upgrade the current system. Last but not least, although there have not been many companies in the world applying this technique, there are still some absolutely successful cases, for example: Svenska Handelsbanken – the most successful Nordic bank, ALDI – the globally famous retailer and UBS Wealth Management and Business Banking (Hope, Fraser, Bunce & Roosli 2004, 5)

7 CONCLUSION

Management accounting is one important factor in the internal control process, which could bring significant competitive advantage to companies. Budgeting could be considered to be its core element. This thesis is aimed to provide some basic guidelines on applying modern budgeting alternatives to improve the budgeting process at Agribank-Uong Bi branch in Quang Ninh, Vietnam. To achieve that purpose, the author shall analyse the current process at the bank to determine potential areas for improvement. After those alternatives are suggested and introduced, they shall be compared and evaluated based on their advantages and disadvantages to discover the best solution for the commissioner.

The main research method to conduct the thesis is qualitative due to its capability to get in-depth understanding of the case with rich and detailed data. However, quantitative method also was used to interpret data collected from internal documents. Data used in this thesis was collected both from primary and secondary sources. Secondary sources such as literatures, internal documents, text books, articles and journals were utilised to be the theoretical base. In addition to them, the author has conducted data collection herself through staff interviews as well as personal observations to form the practical base for the thesis.

This thesis was conducted for the case of Agribank- Uong Bi branch. Agribank stands for Vietnam Bank for Agriculture and Rural Development which is the biggest commercial bank in Vietnam by total assets. Uong Bi branch is a second-level branch of Agribank and is located in one of the three biggest economic zones in the North of Vietnam with a very promising potential for banking business. Even when it was just established for 8 years, it has been remaining to be one of the most profitable branches of Agribank with the annual revenue of around VND 425 billion (2013).

Currently, budgeting process inside the bank was conducted mainly by top-down process. Targets are set by the Headquarter to Board of Directors and then shall be the base for Accounting and Budgeting department to create operational plan and set targets for each functional department. There is still chance for those departments or the branch to response back to the Headquarter in case of unreasonable targets but it is a very rare case to happen.

There are three main budgets created in the banks, which relate to revenues, expenses and provisions for bad loans. After conducting the primary research, the author has determined some areas which could be improve such as the forecasting and estimating process the bank, the follow-up stage of budgeting process to evaluate the pros and cons of budgets design or the passiveness of the budgeting process as budgets are considered assignment or mission set by Headquarter but not the bank's plan.

The work was conducted based on the theoretical framework of three main functions of a budget, which are forecasting, planning and performance evaluation. The author has examined and then determined the challenges existing in each function and suggested solutions for them.

As the result achieving from staff interviews and annual report analysis, a gap between budgeted and actual figures has been found. Hence, the forecasting stage is potential for a change and Rolling Budgeting technique was proposed to improve and help Agribank to overcome the challenge. The essence of this technique is replacing conducting budget for the whole financial year by shorter period and keeping adjusting and building budget for an extra period whenever a period comes to the end. In this thesis, the length was suggested to be every quarter due to specific reasons.

This technique is considered to be very suitable as it is easy to adopt. Accountants could utilize the current accounting system of the branch but just perform the budgeting job more frequently. Moreover the benefits it could bring to company are quite transparent. Firstly, updating information every quarter shall reduce the amount of assumptions needed to be made and increase the accuracy of budgets. It also allows changes and adjustments to the budgets during the period. Some disadvantages of this method could be named as the burden of repeating the jobs many times during the year or distracting managers from long-term missions. In my opinion, those disadvantages all could be overcome. For example, it is suggested that the bank should build up its own database to record external changes and their affections to the bank's operation. Hence, it could save a lot of work for the staff. Furthermore, due to the structure of the bank that budget is prepared by Accounting and Budgeting department, the Board of Director and General Planning department still could focus on long-term plan.

Secondly, planning function relates to three main elements, which are operational planning, strategy formation and communication. However, as mentioned above, this thesis only focused on short-term budgeting hence strategy formation was not focused. The challenge discovered in the planning stage of budgeting is planning method which seems to be too simple compared to the complexity of the bank' operations. What accountants do is adding a percentage of increase set by the Headquarter to all accounts based on the assumption that the current structure and productivity of the branch are in their optimal states or could not be changed. Hence, adjusting those elements have never been options to balance capacity to fulfil demand.

Activity-Based Budgeting is the alternative choice to improve this function and the model which was used as framework for changing is Closed Loop Model. This model uses two new ratios: activities requirement rate and resources consumption rate to conduct operational plan and then try to balance with the financial plan relating to available capacity of the bank. The author has introduced a simplified application of Closed Loop Model to increase the practical level of the method.

This method could bring a lot of benefits for the commissioner as it increases the level of details and transparency of budget so the bank is given more flexibility to adjust, modify budgets or determine problems and solutions in the banking process. By translating financial targets into operational terms, smooth communication of strategy inside the bank is enhanced. However, it is true that a huge workload of preparation is required. Active participation of all employees to build up an Activity-Based Accounting and probably a new and more complex IT system is necessary. This means a huge investment to be spent. Hence, it should be taken into considerations carefully before application. Agribank- Uong Bi branch could consider an option that ABB could be suggested to national level so that the branch does not have to bear the burden itself.

The last function of budgeting mentioned in this thesis is performance evaluation. Currently, at Agribank- Uong Bi branch, performance is evaluated mainly based on revenue. Due to the fixed targets system and the adverse moves of the business environment in the last two years, the bank did not achieve its annual targets. It led to a motivational problem among employees and prevented the bank to catch some investment opportunities.

Therefore, it was suggested that Agribank could utilize the idea of Beyond Budgeting to improve this function. In this alternative, instead of fixed targets, flexible criteria which are determined at the end of financial period are used. The targets could be determined relatively by comparing with benchmarked performance and subjectively by considering all the movements in business environment during the period to calculate the desired performance. There are two types of benchmarked performance, which is internal benchmarking (by comparing with other branches of Agribank) or external one (by comparing with other banks operating in the region). Each of them has its own advantages and disadvantages. It depends on Agribank's ability to approach information to choose which method to apply. Moreover, some non-financial criteria such as: number of training hours for employees, number of new products and services launched during the year, etc. are proposed to be added to performance evaluation system.

Beyond Budgeting gives the bank flexibility in decisions making, helps to reduce the barriers to change of the current traditional budgeting, encourages employees to make decisions and decreases the gaming behaviours (if any). However, it also means an increase in workload for staff as more criteria are used. Sometimes, relative performance evaluation is not possible due to the limitation of information company can access and subjective performance review easily subjects to bias or unfair judgement. However, it is believed that the advantages of this method outweighs the disadvantages. Implementing relative internal benchmarking is totally possible to execute and does not require so much investment. Evaluating non-financial criteria is always important for service providers even when they do not apply Beyond Budgeting. Therefore, I believe that Beyond Budgeting is worth to give a try.

To conclude, those three budgeting alternatives support three different functions of budgeting. However, all of them could bring the benefits of increasing the accuracy, transparency and flexibility of the budgets of Agribank- Uong Bi branch. Each of them has its own pros and cons. Nevertheless, they do not conflict with each other and could be combined in harmony to construct one budgeting process to suit the nature of the commissioner. Although completed guidelines to apply those three techniques are suggested in the previous parts, there are still some potentials for further research and development in the future, for example, the appropriateness of budgets of provisions for bad loans, the need for increasing frequency of rolling budgeting or building a detailed Activity-Based Accounting system for the bank, etc. The bank could consider to exe-

cutte those researches after advantages of the techniques are proved. It shall help to enhance and utilize those alternatives to their maximum levels.

REFERENCES

- Anderson, J. D. 2006. *Qualitative and Quantitative Research*. Imperial COE, 3.
- Antos, J. & Brimson, J. 1998. *Driving Value Using Activity-Based Budgeting*. New York: John Wiley & Sons.
- Armstrong, P., Marginson, P., Edwards, P. & Purcell, J. 1996. Budgetary control and the labor force: findings from a survey of large British companies. *Management Accounting Research* 7, 1-23.
- Bhimani, A., Hongren, C.T., Datar, S.M. & Foster, G. 2008. *Management and Cost Accounting*, 4th edition. Essex: Pearson Education Limited.
- Bourmistrov, A. & Kaarboe, K. 2013. From comfort to stretch zones: A field study of two multinational companies applying “beyond budgeting” ideas. *Management Accounting Research* 24, 196 – 211.
- Cheshier, S. & Penrose, J. 2007. *Industrial Strategies of Vietnam’s largest firms*. United Development Programme.
- Cooperstein, S. E. & Kocevar-Weidinger, E. 2004. Beyond active learning: a constructivist approach. *Reference Services Review* Volume 32, 141-148.
- Covaleski, M., Evans III, J. H., Luft, J. & Shields, M. D. 2007. Budgeting Research: Three Theoretical Perspectives and Criteria for Selective Integration. *Handbook of Management Accounting Research*.
- Ekholm, B. & Wallin, J. 2000. Is the annual budget really dead? . *European Accounting Review* 9, 519-539.
- Ferreira, F. & Otley, D. 2009. The design of use of performance management systems: An extended framework for analysis. *Management Accounting Research* 20, 263-282.
- Frow, N., Marginson, D. & Ogden, S. 2010. “Continuous” budgeting: Reconciling budget flexibility with budgetary control. *Accounting, Organizations and Society* 35, 444 - 461.
- Hansen, S. C. & Van der Stede, W. A. 2004. Multiple facets of budgeting: an exploratory analysis. *Management Accounting Research* 15, 415 – 439.
- Hansen, S.C. 2011. A Theoretical Analysis of the Impact of Adopting Rolling Budgets, Activity-Based Budgeting and Beyond Budgeting. *European Accounting Review* Vol. 20, No. 2, 289 – 319.
- Hansen, S.C., Otley, D.T. & Van der Stede, W.A. 2003. Practice Developments in Budgeting: An Overview and Research Perspective. *Journal of Management Accounting Research*, volume fifteen, 95 – 116.

Hope, J., Fraser, R., Bunce, P. & Roosli, F. 2004. Beyond Budgeting- The Coherent Model that reunites leadership thinking, management processes and information systems for sustained success in a changing world, 1-7.

Horngren, C. T., Foster, G., Datar, S. M., Rajan, M. V. & Ittner, C.M. 2008. Cost Accounting, a managerial emphasis, 13th edition. Essex: Person Education Limited.

Keehley, P. & Abercrombie, N. 2008. Benchmarking in the public and non-profit sectors. 2nd edition. San Francisco: Jossey - Bass.

King, R., Clarkson, P. M. & Wallace, S. 2010. Budgeting practices and performance in small healthcare businesses. Management Accounting Research 21, 40 – 55.

Klammer, T., Ansari, S. & Bell, J. 1997. Activity Based Budgeting. Boston: McGraw-Hill/ Irwin.

Libby, T. & Murray, L. R. 2010. Beyond budgeting or budgeting reconsidered? A survey of North- American budgeting practice. Management Accounting Research 21, 56 – 75.

Mishkin, F. S. 2007. The Economics of Money, Banking and Financial Markets, 8th edition. Boston: Pearson Education, Inc.

Proctor, T. 2005. Essentials of Marketing Research. 4th edition. Pearson Education.

Rickards, R. C. & Ritsert, R. 2012. 2nd Annual International Conference on Accounting and Finance (AF 2012) Rediscovering Rolling Planning: Controller's Roadmap for Implementing Rolling Instruments in SMEs. Procedia Economics and Finance 2, 135 – 144.

Simons, R. 1995. Levers of Control. Boston: Havard Business School Press.

Umapathy, S. 1987. Current Budgeting Practices in US industry. New York: Quorum Books.

Agribank – Uong Bi branch, Annual Report 2011

Agribank – Uong Bi branch, Annual Report 2012

Agribank – Uong Bi branch, Annual Report 2013

Agribank – Uong Bi branch, Budget 2011

Agribank – Uong Bi branch, Budget 2012

Agribank – Uong Bi branch, Budget 2013

APPENDICES

Appendix 1. Comparisons between budgeted and actual values in the last three year, from 2011 to 2013.

Criteria		2011			2012			2013		
		Budget figures	Actual figures	Gaps	Budget figures	Actual figures	Gaps	Budget figures	Actual figures	Gaps
1	Revenue	374.356.400.376	382.206.583.541	2.10%	420.427.241.895	400.294.951.701	-4.79%	440.324.446.871	425.309.121.409	-3.41%
2	Revenue from credit services	361.124.346.999	368.691.857.992	2.10%	405.561.043.791	385.155.966.009	-5.03%	423.671.562.610	410.584.931.802	-3.09%
3	Revenue from services	9.323.133.758	10.011.176.919	7.38%	11.012.294.611	10.499.100.570	-4.66%	11.549.010.627	12.247.548.321	6.05%
4	Revenue from international transactions	46.250.707	50.694.178	9.61%	55.763.596	56.435.842	1.21%	62.079.426	61.106.122	-1.57%
5	Revenue from securities trading	105.031.172	111.953.957	6.59%	123.149.353	136.107.311	10.52%	149.718.042	144.354.361	-3.58%
6	Other income	3.757.637.740	3.340.900.494	-11.09%	3.674.990.544	4.447.341.969	21.02%	4.892.076.166	2.271.180.803	-53.57%
7	Expenses	304.264.656.980	309.795.472.188	1.82%	340.775.019.407	326.552.455.666	-4.17%	359.207.701.233	350.761.281.643	-2.35%
8	Expenses for interest payment	226.534.959.758	230.540.013.843	1.77%	253.594.015.227	241.084.391.802	-4.93%	265.192.830.982	260.811.946.633	-1.65%
9	Expenses for	1.194.930.591	1.160.538.046	-2.88%	1.276.591.850	1.253.072.838	-1.84%	1.378.380.122	1.309.620.962	-4.99%

	credit services activity									
10	Expenses for international transactions services	4.155.194	4.037.245	-2.84%	4.440.970	4.358.113	-1.87%	4.793.925	4.600.761	-4.03%
11	Expenses for tax and other fees	541.082.219	545.052.303	0.73%	599.557.533	564.922.784	-5.78%	621.415.062	571.808.913	-7.98%
12	Expenses for other business activities	110.499.241	112.030.360	1.39%	123.233.396	119.501.267	-3.03%	131.451.394	120.733.184	-8.15%
13	Expenses for staff	32.032.540.937	32.903.251.725	2.72%	36.193.576.898	35.599.882.289	-1.64%	39.159.870.518	36.982.497.361	-5.56%
14	Expenses for management and business trips	15.144.175.682	15.480.688.384	2.22%	17.028.757.222	16.692.845.449	-1.97%	18.362.129.994	17.502.860.322	-4.68%
15	Expenses for assets management	19.389.153.235	19.711.931.381	1.66%	21.683.124.519	21.280.665.425	-1.86%	23.408.731.968	22.724.061.717	-2.92%
16	Provisions	9.165.184.365	9.180.216.786	0.16%	10.098.238.465	9.782.071.449	-3.13%	10.760.278.593	10.558.284.878	-1.88%
17	Other expenses	147.975.758	157.712.116	6.58%	173.483.327	170.744.250	-1.58%	187.818.675	174.866.912	-6.90%

Appendix 2. Results of the interview with Chief Accountant of Agribank- Uong Bi branch.

1. Does Agribank conduct demand forecasting for next year inside the bank?
 - Not actually, we basically base on the targets assigned by the headquarter to calculate the operating plan
2. Do you think the targets set by the Head quarter reasonable and achievable?
 - Yeah, at the time we receive, most of them are quite reasonable. However, during the year, there were some changes from external environments that could affect our operations. If so, those targets might become not reasonable anymore.
3. What are your performance in the last couple of years?
 - In the last two years, we did not achieve the targets of increasing 10% per year.
4. What do you think are the reasons for them?
 - We believe that the reasons coming both from internal and external. However, the major shall be on the external factors. As you also know about the global economy in the last couple of years. All the companies got affected badly in this situation of economy.
5. Could you give some external factors that might be the reasons for those performance?
 - There are a couple of factors that could be named. For example, government issued a policy about increasing salary in the middle of last year. The downturn in the mining industry as they could not sell their goods to China, which is our biggest coal importer, etc.
6. If the bank execute the forecasting itself, do you think it shall be more relevant?
 - Yeah, I think it shall be more relevant. And it could be better if the budget could be adjusted during the year as well. You know, the economy is becoming more and more unpredictable.
7. Are you willing to perform extra jobs in Accounting and Budgeting department?
 - Yeah, why not! I think we have enough human resources to perform more.