Part (a) (45 min.) http://www.accountingtools.com/questions-and-answers/what-is-participative-budgeting.html

Note: There is plenty of information online relating to participative budgeting. Students should be able to get good definitions from here. These sites will also describe the advantages and disadvantages.

In answering Kay and Jean’s questions, Mohamed should also mention the following:
• If middle management has no idea of setting budgets then maybe the organisation needs to organise some training sessions. This is really a skill you would expect all managers to have to some degree.
• Managers should be involved in the budgeting process as they have the most knowledge and understanding of what goes on in their section.
• If they are involved in setting the budget then they will not be in a position to suggest the budget is unattainable.
• They will only build in slack if the budget is attached to some sort of performance evaluation. If that is currently the case then perhaps the way performance is evaluated needs to be reviewed.
• Kay, Jean and Mohamed are aware of the problems of participative budgeting so know what to look for if the process is being abused.

Part (b) 10-26 (30 min.) Responsibility and controllability

1. (a) Production manager  
   (b) Purchasing Manager

The purchasing manager has control of the cost to the extent that he/she is doing the purchasing and can seek or contract for the best price. The production manager should work with the purchasing manager from the warehouse. They can, together, possibly find a combination of better engine and better price for the engine than the production manager has found.

2. (a) Production Manager  
   (b) External Forces

In the case of the utility rate hike the production manager would be responsible for the costs, but they are hard to control. The rates are fixed by the utility company and there is usually no choice in which utility company is used. The production manager can try to reduce waste (turn off lights when not in use, turn off machines when not running, don’t leave water running, etc.), but other than conservation measures, the manager has no say in the utility rates. The manager might consider purchasing more energy-efficient machines.

3. (a) Van 3 driver  
   (b) Service manager

The driver of each van has the responsibility to stay within budget for the costs of the service vehicle. The service manager should set policies to which the drivers must adhere, including not using the van for personal use. Although costly, the service manager could install GPS in the vans to make sure they are where they are supposed to be and can also fire the driver of Van 3 for misusing company property. (Using the van for personal driving affects the tax deductibility of the van for the firm as well).
4. (a) Anderson’s service manager  
   (b) Bigstore Warehouse manager

Since Bigstore Warehouse has a maintenance contract with Anderson, both the
warehouse manager and Anderson’s service manager should work together to make
sure routine maintenance is scheduled for the Bigstore Warehouse forklifts. This will
decrease the number and cost of the repair emergencies. The manager should also
consider the average cost of these service calls over the months where there were no
calls.

5. (a) Service manager  
   (b) This depends...

The answer to this question really depends on why Fred Snert works so slowly. If it is
because Fred is chatting with the customers (which may be why they like him) then
the service manage should tell him to only bill for actual time worked. If it is because
Fred works intentionally slowly to get the overtime, then the service manager should
consider disciplining him unless he is too valuable in other ways. If it is because he
does not have adequate training, then HR should be involved and the service
manager should work with Fred to get him more training and with HR to make sure
future hires are adequately trained.

6. (a) Service manager  
   (b) External forces

Like the cost of utilities, the cost of gasoline is determined externally. However, unlike
the case of utilities, it is possible that the service manager can contract with a
gasoline company to buy gas at a fixed price over a period of time. The advantage for
Anderson is that the price is set, and the advantage for the gasoline company is that
they are certain to have a long term customer even if the price is lower than for a
random customer.

Part (c) 10-41 (30 min.) Human aspects of budgeting in a service firm

1. The manager of Hair Suite III has the best style, because this manager is
   involving the workers in a decision that directly affects their work.

2. The workers will most likely be upset or even angry with the manager of Hair
   Suite I. The manager is not a stylist and yet is changing the schedule for the stylists,
   assuming they can work faster and need less rest between customers, without
   discussing this change with them or asking for input or suggestions.

To indicate displeasure, the stylists at Hair Suite I could quit, or they could perform a
work slowdown. This means that the manager will schedule a customer for a 40-
minute appointment, but the stylist will spend more than 40 minutes with each
customer anyway. The result is that the appointments will get backed up, some
customers may not get served and overall the customers will be unhappy.

Most of the workers in Hair Suite II are not likely to volunteer to work an extra hour a
day. Although it would mean additional revenue for each stylist, it will make each
work day longer and the idea was not presented to the workers in a way that appears
beneficial to the workers.

To indicate displeasure with this plan, the stylist will simply not volunteer to work an
extra hour a day.
3. Of course the manager of Hair Suite III could implement one of the plans of the other salons. That is, workers could shorten their appointment times per customer or lengthen their work days, or a combination of both. Alternately, workers could work six days per week rather than five. However, in the case of Hair Suite III, the manager has invited the stylists to help solve the problem rather than the manager telling them what changes to make, so they will be more likely to agree to make changes since they are involved in the decision.

Other things they may do:

- The manager may let individual stylists set their own schedules. It is possible that not all customers need an hour each, and the stylists can individually book customers in a way that works in an extra customer per day.
- They could agree to shorter lunch breaks
- They could implement a monthly contest to see who can service the most customers (but still have satisfied customers) and earn rewards, including:
  - A name on a plaque for employee of the month (virtually no cost to the salon)
  - Gift certificates to local businesses (low cost to the salon)
  - Reduction in one month’s rental revenue (some cost to the salon, depending on the amount of the reduction)
  - If the salon is in an area where parking is hard to find or costly, a month of free parking or an assigned parking space

4. A stretch target is supposed to be challenging but achievable. The manager of Hair Suite I is asking the stylists to reduce per-customer service time by 20 minutes, or a 20/60 = 33% reduction in service time. Even if this reduction is achievable, the other part of the issue is whether the customers will believe they are still getting the same quality service. In a hair salon this is particularly important because the customers expect to look good when they come out and they will not if the stylist has to rush or cut corners to meet the 40 minute deadline. Also, as mentioned before, the stretch target should motivate employees, but if the manager simply imposes the time constraint on the stylists without their input, this will have the opposite effect.