

# An Examination of Budgetary Roles in the Context of Sponsorship Management: A Contingency Perspective

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## Abstract

*This study examines budgetary roles in the context of sponsorship management and identifies factors affecting the importance of budgetary roles in the sponsorship investment decision-making context. This has been pursued through the analysis of qualitative field data as well as a survey of Australian organisations with active sponsorship agendas.*

*It was found that authorisation of sponsorship expenditure is the main sponsorship management budgetary role. It was also found that planning, forecasting and motivation are relatively important sponsorship management budgetary roles. Trust and risk were identified as significant factors affecting the importance of budgetary roles in this context. These findings give credence to Sidhu and Roberts (2008) call for further research of the marketing/accounting interface as it appears the relative importance of budgetary roles in a sponsorship management context differs to the relative importance of budgetary roles that have been reported in the literature.*

## Keywords:

**Budgetary Roles  
Sponsorship Management  
Contingency Theory  
Marketing – Accounting Interface**

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## Introduction

It has long been recognised that the budget is an integral part of organisational planning and control. This study seeks to (1) examine the nature and importance of the roles of the budget in the context of sponsorship investment decision-making and (2) identify factors affecting the importance of budgetary roles in this context. There are several studies that have examined the generic roles of the budget (Hope and Fraser, 1997, 1998, 1999, 2003; Hansen, Otley and Van der Stede, 2003; Hansen and Van der Stede, 2004; Sivabalan, Malmi, Matolcsy, and Brown, 2005, 2007; Lyne and Dugdale, 2007; Sivabalan, Booth, Malmi and Brown, 2009), but there has been little discussion or examination of the manner in which budgetary roles may be context specific or what factors affect the importance attached to these roles. Sponsorship comprises the provision of resources in exchange for a direct association with an activity or event and this direct association can be used by the organisation “to achieve their corporate, marketing or media objectives” (Sandler and Shani, 1989, p.10). Given the somewhat discretionary nature of sponsorship expenditure, it appears to represent a management context with a high propensity to manifest a differential in the relative importance attached to budgetary roles when compared to other management contexts.

It is increasingly recognised that the field of marketing must become more financially accountable (Ratnatunga, 1983; Srivastava, Shervani and Fahey, 1997; Lehmann, 2004; Rao and Bhaaradwaj, 2008). It was observed by Stewart (2006) that marketers must justify their actions, for example resource allocation, in a similar manner to managers in other parts of an organisation. Within the marketing literature, studies concerned with sponsorship have noted the increasing need for accountability and for a return on investment to be determined (Kuzma, Shanklin and McCally, 1993; Pope and Voges, 2000; Stotlar, 2001; Sweet, 2002; Stotlar, 2004).

It is a well-accepted tenet of the marketing discipline that sponsorship represents an important and unique component of an organisation’s integrated marketing strategy. Sponsors are now

demanding a demonstrable return on investment (Masterman, 2007). Recent commentary on the accounting / marketing interface suggests that marketing is “losing its seat at the boardroom table” (Sidhu and Roberts, 2008, p.671) in part due to its lack of financial discipline and credibility (Roslender and Wilson, 2008). These factors underscore the significance of furthering our appreciation of the nature of the accounting / marketing interface. The manner in which budgets support sponsorship management can be seen as representing a particular facet of the accounting / marketing interface. The management accounting literature describes how budgets can be used as a rational model for identification, measurement, analysis and communication of information for use in investment decision-making processes (Horngren, Foster and Datar, 2006; Drury, 2008; Inglis, 2008). As sponsorship can be a significant expenditure giving rise to benefits that accrue over the long term, it can be seen to constitute a form of investment. For many corporations, sponsorship has become essential to their continued existence. They are increasingly using sponsorship as a significant avenue of marketing activity. This development poses several interesting accounting issues. As sponsorship can be viewed as a form of investment, one might anticipate the deployment of accounting based investment appraisal techniques and other management accounting methodologies in the course of the sponsorship investment decision-making process. These considerations suggest that sponsorship expenditure might be becoming less discretionary. Despite this, it would appear to be misleading to suggest that sponsorship does not continue to represent a form of discretionary marketing expenditure.

This study contributes to the budget research literature by providing both qualitative and quantitative evidence that the relative importance of budgetary roles in a sponsorship management context differ to the relative importance of budgetary roles that have been reported in the literature. This gives credence to Sidhu and Roberts (2008) call for further research of the sponsorship/accounting interface and is significant as it demonstrates the need to look beyond factors such as performance evaluation when examining

budget use (Brownell and Hirst, 1986; Brownell and Dunk, 1991)

The remainder of the paper is organised as follows. The next section provides a theoretical context for the study by overviewing the most pertinent literature to develop propositions concerned with factors affecting the importance of budgetary roles. The exploratory interview phase and findings are then presented, followed by an outline of the quantitative research method employed. Then the study’s findings and conclusions are presented and the paper concludes with an outline of the study’s implications, limitations and areas for further research.

## Literature Review

The organisational and behavioural effects of budgetary control systems have been the subject of much accounting research over an extended period (Argyris, 1952; Stedry, 1960; Hofstede, 1968; Hopwood, 1973; Otley, 1978; Briers and Hirst, 1990; Abernethy and Brownell, 1999; Hansen et al., 2003; Hansen and Van der Stede, 2004; Sivabalan, Booth, Malmi and Brown, 2007). One point of focus taken by some early researchers concerned the link between management control systems, competitive environment and technology (Burns and Stalker, 1961; Lawrence and Lorsch, 1967; Perrow, 1970; Galbraith, 1973). This laid the basis for subsequent research that examined the role of contingent variables such as environment, strategy, and size, as well as intervening variables such as the extent of participation, in affecting budgeting system success. A substantial body of research has focussed on dysfunctional aspects of budget use in the context of planning and performance evaluation (Hartmann, 2000; Hope and Fraser, 1997, 2003; Marcino, 2000; Jensen, 2001; Hansen, Otley and Van der Stede, 2003; Hansen and Van der Stede, 2004). Overviews of the literature relating to budgetary control systems have been provided by a number of researchers including Otley (1980), Briers and Hirst (1990), Chapman (1997), Langfield-Smith (1997), Shields and Shields (1998), Chenhall (2003) and Hansen et al. (2003). Much of this research focuses on the characteristics, antecedents and consequences of budgetary control systems.

Based on budgetary roles outlined primarily in the normative accounting literature (Emmanuel and Otley, 1985; Lyne, 1988; Horngren and Foster, 1991), Guilding and Pike (1994) distilled eight budgetary roles and implications. These are performance evaluation, communication, co-ordination, motivation, planning and forecasting, modifier of perceived organisational reality, political, and expenditure authorisation. The importance of budgets as a management tool continues to be noted in managerial accounting textbooks with the following roles most widely cited: planning, co-ordinating, communicating, motivating, controlling and performance evaluation (Emmanuel, Otley and Merchant, 1990; Langfield-Smith, Thorne & Hilton, 2003; Horngren, Foster and Datar, 2006; Drury, 2008).

This traditional view of budgetary roles has been challenged by Hope and Fraser (1997, 1998, 1999, 2003) who developed a management model generally referred to as 'beyond budgeting' that questions the usefulness of budgeting. Hope and Fraser (1999) argue that in recent times, knowledge and intellectual capital have grown, but budgets have failed to adapt to intangible asset measurement. Hope and Fraser criticise budgets from three perspectives: their bureaucratic nature, their failure to meet management needs in a competitive environment, and the extent to which they promote dysfunctional budget games. Other recent research and commentaries have noted that companies still use and value budgets, irrespective of other factors impacting the organisation (eg, Hansen et al., 2003; Hansen and Van der Stede, 2004; Sivabalan, Malmi, Matolcsy, and Brown, 2005, Lyne and Dugdale, 2007). In an attempt to provide a reconciliation with the perspective taken by Hope and Fraser, both Hansen et al. (2003) and Lyne and Dugdale (2007) note that organisations may use budgets as a broad management tool even if their role in connection with performance evaluation has diminished.

There has been little recent empirical research concerned with budgetary roles, although Hansen and Van der Stede (2004) observe that the reasons organisations budget relate to a need for operational planning and performance evaluation (short-term) and communication of goals and

strategy formulation (long-term). This suggests a continuing breadth of roles played by budgets.

The literature provides strong evidence that budgets fulfil multiple roles and the reasons organisations use budgets should not be viewed in isolation of one another (Moores and Yuen, 2001). Hope and Fraser (1997, 1998, 2000, 2003) comment that no single set of budget data can serve all the reasons to budget in an organisation. For example, budgets used for performance evaluation purposes may be set at a forecast level of sales achievement, however for motivational purposes they may be set at a more challenging level in an attempt to induce management to strive for the higher sales target.

To place this study in appropriate context, we need to consider how sponsorship decisions are made. Hoek, Gendall and West (1990) suggest that companies undertaking sponsorship must initially decide the objectives of the sponsorship and how these will best be achieved, who they will sponsor, and how much to spend. The sophistication of the process of sponsorship decision-making ranges from the most simple, involving a sponsor giving money in order to gain attention for their product or organisation, to the highly sophisticated (Meenaghan, 1991; Thjomoe, Olson and Brunn, 2002). It has been noted that goal setting, coordination and effect measurement constitute deliberate attempts to increase the level of sophistication of a sponsorship programme (Cornwell and Maignan, 1998).

Several research commentaries have been directed towards identifying processes that can raise the sophistication of sponsorship execution (Abratt and Grobler, 1989; Irwin and Asimakopoulos, 1992; Mastermann and Wood, 2006). More recently, Pitts and Stotlar (2007) outlined a four stage process. Stage one focuses on the need for sponsorship to be conducted explicitly in the context of an integrated marketing programme. Stage two involves a set of steps for review and selection. Stages three and four are concerned with implementation, exploitation and evaluation. Conventional views on the roles of budgeting are apparent in all stages of this process.

Sponsorship comprises the provision of resources in exchange for a direct association with an activity or event and this direct association can be used by the organisation “to achieve their corporate, marketing or media objectives” (Sandler and Shani, 1989, p.10). Sponsorship, therefore, generally involves a significant financial investment that is made in advance of the receipt of marketing benefits. Despite the fact that marketing managers view the purchase of a sponsorship entitlement as constituting an investment, it is generally treated by accountants as constituting an expense (Ratnatunga, Pike and Hooley, 1989; Ramaseshan, 1990; Emmanuel et al., 1990; Foster and Gupta, 1994). Regardless of this issue, as a sponsorship involves a financial outlay that is made by the sponsoring entity, one would expect it to feature within the sponsor’s budget.

Given the close association between sponsorship and advertising, and the fact that much of the normative sponsorship literature refers to the advertising literature, it is pertinent to consider the primary methods used to determine the advertising budget. The literature suggests the following five main methods: historical (based on past expenditure), bottom-up (based on the cost of achieving objectives), percentage-of-sales method, competition method (based on competitor expenditure levels), and the ‘all you can afford’ method (Batra, Aaker and Meyers, 1996; Arens, 2002; Wells, Burnett and Moriarity, 2006). It has been noted that a range of perspectives influence the marketing budgetary process. These include the desire to maintain a balance between the size of the marketing budget and expected sales, the need to maintain competitive parity and recognition of individual product promotional requirements. These factors provide key context for the determination of the advertising budget (Lilien and Little, 1976; Guiltinan and Paul, 1982; Wills and Kennedy, 1982). It follows that they also represent important context for sponsorship budgeting.

With respect to sponsorship management, it appears that the ‘expenditure authorisation’ budgetary role will be significant, particularly as sponsorship can be viewed as a discretionary form of expenditure and a budget would provide a

valuable indication of the discretionary expenditure ceiling. On the other hand, the ‘performance evaluation’ role of budgets, which in the context of engineered cost centres is likely to be a predominant feature of a budgetary control system (Anthony and Govindarajan, 2004), is probably less relevant in the context of sponsorship management. As a budget may serve a number of functions, it would appear useful to determine its primary functions in a sponsorship context to help managers when conceiving of the control system in place in connection with sponsorship management. The papers next section concerns the development of 5 propositions relating to factors affecting the role of the budget in a sponsorship investment decision-making context.

## **Proposition Development**

### *Strategy*

The relationship between management control systems and strategy has been considered widely in many earlier accounting studies (Khandwall, 1972; Miles and Snow, 1978; Merchant, 1985; Govindarajan and Gupta, 1985; Simons, 1987; Langfield-Smith, 1997, Abernethy and Brownell, 1999; Guilding, 1999; Bouwens and Abernethy, 2000). Recent research has noted that managers can position their organisations in particular environments through the use of “strategic choice” (Chenhall, 2003). Miles and Snow (1978) identified three successful firm archetypes: prospector, defender and analyser, which will form the basis of the dimension of strategy to be explored in this study. It is anticipated that prospectors are more likely to use the budget roles specifically aligned to sponsorship, and conversely that defenders will have a budget process integrated with that of the marketing department. By definition, prospector firms are more externally focussed, constantly seeking new opportunities. Defender firms have a more internal focus concentrating on offering higher quality products and services, superior service and lower prices. Defender firms would therefore be more likely to embrace a sponsorship budget process that places importance on budgetary roles. It is therefore proposed that:

**Proposition 1:** *Organisations pursuing a defender-type strategy are more likely to attach importance to budgetary roles when making a sponsorship investment decision.*

### **Perceived Environmental Uncertainty**

Perceived environmental uncertainty (PEU) is concerned with a management's perceived inability to accurately predict their firm's external environment (Tymon, Stout and Shaw, 1998). Extensive research has been undertaken examining the relationship between PEU and a company's informational needs (Gordon and Miller, 1976; Chenhall and Morris, 1986). Chenhall and Morris (1986) observed that in highly uncertain environments, managers require information that is current, provides rapid feedback, and in addition is related to the external environment and is both financial and non-financial. More formalised accounting processes that place importance on the role of budgets can be seen as representing the basis for providing managers with more relevant information pertinent to managers attempting to cope with the complexities of environmental uncertainty. Consistent with this rationale, it is proposed that:

**Proposition 2:** *Organisations operating in more uncertain environment are more likely to attach importance to budgetary roles when making a sponsorship investment decision.*

### **Size**

Previous contingency studies have noted a positive relationship between company size and management accounting system sophistication (Bruns and Waterhouse, 1975; Merchant, 1981; Chenhall, 2003). It is argued that larger organisations are more complex and the need for managers to handle greater quantities of information increases resulting in more sophisticated systems (Abernethy and Brownell, 1997; Lamminmaki, 2008). In light of this rationale and prior research findings, the following proposition is posited.

**Proposition 3:** *Larger organisations are more likely to attach importance to budgetary roles when making a sponsorship investment decision.*

### **Risk**

Unlike environmental uncertainty, which concerns factors that lie outside the control of a company, business uncertainty represents a form of uncertainty that can be affected by decisions made within a company (Gitman, Juchau and Flanagan, 2008). It is expected that where a sponsoring organisation has a high aversion to risk, it would take a relatively formalised approach to the sponsorship decision-making process in order to appropriately evaluate the risk associated with sponsoring and the sponsorship situation as well as to evaluate the implications arising from the greater level of risk present. Following this rationale, it is proposed that where there is a higher level of risk, an organisation is more likely to attach importance to the use of budgetary roles in the sponsorship investment decision-making process. This proposition should be noted as having particular significance, as the review of contingency theory based accounting studies has uncovered no prior work using risk as an independent variable.

**Proposition 4:** *Organisations with a high degree of risk are more likely to attach importance to budgetary roles when making a sponsorship investment decision.*

### **Trust**

Trust relates to the concept that one party has confidence that a second party will honour their relationship responsibilities and not act in a way that damages the relationship (Kay, 1993; Mukherji and Nagarajan, 1996; McAulay, 1996; Tinsley, O'Connor and Sullivan, 2002). The presence of trust can be viewed as an important facilitator of an enduring sponsorship arrangement, as it is impossible to draft a contract that covers all issues that may arise when two organisations enter into a sponsorship arrangement. For those relationships where a sponsor has a high degree of trust in a rightsholder, the sponsor can view the trust as underwriting a rightsholder's pledge to provide a quality service to the sponsor. In light of this underwritten facet, the sponsor can be expected to feel a reduced need to expend resources in maintaining a highly formalised sponsorship

decision making process. The presence of high trust in a relationship will provide the sponsor with greater confidence that the rightsholder will act in a manner as agreed and expected by the sponsor. Following this rationale, if most of an organisation's sponsoring activities are conducted in the context of highly trusting relationships, the sponsoring entity will have a relatively low need for budgetary roles in the sponsorship investment decision-making processes.

**Proposition 5:** *Sponsors that place high emphasis on trust when entering a sponsorship arrangement will attach less importance to budgetary roles in the sponsorship investment decision-making process.*

## Research Method

### Exploratory Interview Phase

Exploratory interviews were employed as the initial empirical data collection phase. This form of data collection appeared particularly appropriate in light of the absence of prior work investigating the role of accounting in sponsorship management. The exploratory interviews enabled the research team to seek broad clarification of issues in a manner that would not have been possible had a questionnaire survey been the starting point in empirical data collection.

### *Exploratory Interview Method*

Twenty-four interviews were conducted with managers representing 22 organisations. The sample was selected based on convenience with respect to the research team being able to gain access to appropriate personnel in organisations involved in sponsorship activities and located in relatively close geographical proximity to the research team's place of work. Several interview contacts were established through cold-calling local organisations known to be active sponsors. Other organisations were approached due to the research team having a personal contact within the enterprise or following a referral provided by an interviewee. While the majority of the interviews were conducted in the South East Queensland area, some were also conducted in large

organisations outside Queensland, thereby increasing the breadth of the sample data collected.

Three types of entity were targeted when generating the interview sample: (1) consultants with a specialism in providing sponsorship advice; (2) sponsoring companies, including public and private companies and professional services firms who represent a major source of sponsorship funding; and (3) organisations seeking sponsorship funding including sporting associations, the arts, and charitable organisations. The rationale for drawing on these three distinct types of entity stemmed from an expectation that a richer and more comprehensive data set would result and that this would lay the basis for a more profound understanding of the phenomenon under examination. The specialist advisors were included in the sample as they play a key role in advising their clients on sponsorship decision-making. It was considered prudent to include them in this phase of the study in order to gain the benefit of their insights that derive from extensive sponsorship management experiences. Sponsee representatives were included in an attempt to avail a breadth of perspectives on the sponsorship management process, to provide insights into what sponsors look for when deciding to invest in their organisation and how they manage and develop their ongoing relationship with sponsor entities. An overview of the interviewees, their functional areas and the nature of the organisation that they represent is provided in Table 1. In the first column of Table 1, a reference code is assigned to each interviewee. These codes are identified whenever a particular interviewee's comments are cited below.

Most of the interviewees had encountered a range of sponsorship experiences as a result of a number of different managerial positions held in the course of their careers. As a result, the reflections provided by the interviewees were not restricted to experiences gained in their job at the time of the interview. It was also noted that the sponsorship managers were engaged in a high degree of networking and that sponsorship 'deals' often arose as a result of their connections amongst the 'sponsorship community'.

**Table 1: List of Interviewees**

<b>Interviewee Code</b>	<b>Nature of Organisation</b>	<b>Title of Interviewee</b>
1	Sponsorship consultants	Sponsorship manager
2	Business and marketing communications consultancy	Director
3	Talent management and sponsorship sales	CEO
4	Sporting retailer	Sponsorship manager
5	International professional services firm	Marketing manager
6	International professional services firm	Marketing manager
7	International professional services firm	Marketing manager
8	National professional services firm	Marketing manager
9	National bathroom and plumbing supplies company	Marketing manager
10	Banking services	Sponsorship manager
11	Large national telecommunications company	Sponsorship manager
12	Large multinational electronics firm	Marketing communications executive
13	Banking services	Sponsorship manager
14	State energy suppliers	Sponsorship manager
15	National television station	Marketing manager
16	Private property development company	Marketing manager
17	Leader in the holiday ownership industry	Sponsorship consultant
18	Company involved in the airport industry	Business development and marketing manager
19	Publicly listed sporting club	Marketing manager
20	National sporting association	Marketing manager
21	State association of sports people	CEO
22	Private company involved in sport	Sponsorship manager
23	National charitable association	Marketing and public relations manager
24	Company representing the arts	Sponsorship manager

Interviews varied in length from approximately 30 minutes to one and a half hours. The interview length was somewhat determined by the extent to which the interviewees sought to elaborate on the issues discussed. Some interviewees were more forthcoming with respect to sponsorship processes than others. This often related to the extent to which the process they described was formalised. The interviews were conducted in Brisbane, the Gold Coast and Sydney in a face-to-face setting at

the office of the interviewee, except in two cases where interviewees granted a telephone interview. These exceptions concerned Interviewee 7 who was located in Sydney and unavailable at the time of the researcher's visit to that location, and Interviewee 13 who was unavailable for a face-to-face interview. Verbal consent to audio record and transcribe these two telephone interviews, in accordance with ethical considerations, was secured.

### ***Exploratory Interview Data Findings***

In all of the sponsoring organisations, the sponsorship budget is generally seen as part of the marketing budget, it plays a significant role in the justification and control of total sponsorship expenditure and budgets are calibrated down to the level of individual sponsorship contracts. The budget is seen as a part of the initial decision-making regarding a sponsorship and in its management once the decision to sponsor had been taken.

As anticipated, it was found that the predominant budgetary role for the interviewees concerns the identification of total funds required for proposed sponsorship investment and subsequently how much is allocated to each individual sponsorship arrangement. Both of these phases relate to the 'expenditure authorisation' budgetary role.

In connection with the expenditure authorisation role, Interviewee 12 observed:

*"The budget is determined by how much this sponsorship is going to cost, and that's how much we are going to spend and no more. So it's our job to manage that spend and not exceed it."*

The interviewees did not appear to see a strong distinction between a budget's forecasting and planning roles. Several of the interviewees referred to these roles. Interviewee 11 noted:

*"We are doing our forecasting and planning and then budgeting for this which we review every three months"*.

The budgetary role of motivation is described in the literature as relating to a sales maximisation or cost minimisation target to be strived for. When examining for a motivation role for budgeting in the interview transcripts, it was noted that Interviewee 7 commented:

*"If you are driven by a budget then you are not going to get the best outcome"*.

This observation, combined with a lack of any claimed motivational role for budgets in the interview transcripts constitutes evidence that the

budget affords little in terms of a motivational role in a sponsorship management context.

It was noteworthy that Interviewee 6 commented:

*"What we write down in the budget becomes what is important"*.

This appears to relate to the "modifier of perceived organisational reality" budgetary role identified by Guilding and Pike (1994). Guilding and Pike note that inclusion of an item in a budget can raise the perceived importance of the item. A similar view is expressed by Behn (2003) and Saravanamuthu (2004).

With respect to the communication and co-ordination budgetary roles noted in the literature, while it appeared that the level at which sponsorship budgets are set can carry implications for the extent and form of communication between those involved in sponsorship activities, no significant particular forms of communication or co-ordination arising in the sponsorship budgetary process were in evidence.

Another significant budgetary role widely commented on in the literature concerns performance evaluation. It is widely accepted, however, in the context of discretionary expenditure where financial quantification of the outcome of the expenditure is problematical (such as in the sponsorship context), that the potential for this role is muted. The findings of this study support this view, as the interviewees provided no suggestion of budgets representing a useful tool in the context of gauging sponsorship performance or sponsorship manager performance.

The observations made in the exploratory interview phase of the study provided a strong basis for the development of the questionnaire instrument that was subsequently used to gauge the importance of sponsorship management budgetary roles in a more extensive sample.



## Survey Research Phase

### *Survey Research Method*

In Australia the main association of professionals involved in sponsorship activities is the *Australian Sponsorship Management Association (ASMA)*. Contact was made with ASMA and its management committee agreed for its membership database to be used as the study's sample frame.<sup>1</sup> This database provided an initial sample frame of 237. A mail-out comprising a covering letter, questionnaire and a return pre-paid self addressed envelope was made to the ASMA membership. A second mail-out was sent to all members three weeks after the initial mailing. In advance of the questionnaire's distribution, ASMA provided details of the study in their newsletter and emailed all members to encourage their participation in the survey.

Of the initial 237 questionnaire surveys mailed, surveys sent to nine of the association members were returned marked "person unknown at this address", and nine were returned indicating the recipient was not the appropriate person to complete the survey. The response rate was therefore determined using a final sample size of 219. Responses were received from 34 members for the first mail-out and 23 members for the second mail-out. This represents a response rate of 15.5% for the first mail-out and 10.5% for the second mail-out, yielding a total response rate of 26%. This response rate is within the general return rate parameters for mail surveys (between 10% and 50%) and therefore can be viewed as satisfactory (McBurney, 1994).

An investigation into the potential for non-response bias was conducted by ASMA on behalf of the research team due to privacy issues. ASMA contacted a sub-set of non-respondents to ascertain why they had not completed the survey and used this opportunity to encourage participation in the study. The main reasons cited for non-response

were "too busy" to participate, and "not the most appropriate person to complete the survey". No reason cited gave rise to a concern for non-response bias. Non-parametric *Mann-Whitney U* tests were also performed to investigate for response bias between early and late respondents. This analysis revealed no significant differences between early and late respondents for any of the questionnaire items.

### *Variable Measurement*

#### *Dependent variable*

The most widely cited roles of the budget were identified for examination in the questionnaire survey phase. It was decided that Guilding and Pike's (1994) "modifier of perceived organisational reality" and also the political role of budgets would not be included in the questionnaire. These two items are less functionally oriented than the other budgetary roles described in the literature. This signifies that a heightened degree of arbitrariness would bound to be invoked if an attempt was made to operationalise the constructs in the context of a quantitative data collection exercise. This factor resulted in the two constructs not being examined in the survey phase of this study. It is also notable that the "modifier of perceived organisational reality", although commented on by theorists (Wildavsky, 1979; Burchell, Clubb, Hopwood, Hughes and Naphiet, 1980; Cooper, Hayes and Wolf, 1980; Bruns and Kaplan, 1987; Covaleski and Dirsmith, 1988; Behn, 2003; Saravanamuthu, 2004) has not been recognised in recent management accounting textbook editions and research (Emmanuel, Otley and Merchant, 1990; Langfield-Smith, 2003; Hansen and Van der Stede, 2004; Horngren, Foster and Datar, 2006; Drury, 2008).

The questionnaire provided seven statements designed to elicit the respondents' views with respect to the relative importance of distinct budgetary roles in a sponsorship context. The seven statements were:

<sup>1</sup> A pilot study involving a review of the questionnaire by seven academics and five sponsorship practitioners was conducted in order to ensure that the survey questionnaire was relevant and contained no ambiguities.

**Table 2: Descriptive Statistics: Importance of Budgetary Roles**

	<b>Performance evaluation</b>	<b>Communication</b>	<b>Co-ordination</b>	<b>Planning</b>	<b>Forecasting</b>	<b>Motivation</b>	<b>Expenditure control</b>
Mean	3.88	3.91	4.09	4.68	4.44	4.95	5.35
Median	4	4	4	5	5	5	6
Standard Dev	1.84	1.65	1.55	1.45	1.4	1.46	1.46
Minimum	1	1	1	1	1	1	2
Maximum	7	7	7	7	7	7	7
Skewness	-0.044	-0.176	-0.181	-0.796	-0.394	-0.624	-0.787
Kurtosis	-1.122	-1.049	-0.739	-0.043	-0.518	0.006	-0.288
Correlations:							
Performance evaluation	1.000						
Communication	0.736**	1.000					
Co-ordination	0.560**	0.764**	1.000				
Planning	0.472**	0.427**	0.417**	1.000			
Forecasting	0.533**	0.596**	0.516**	0.569**	1.000		
Motivation	0.377**	0.362**	0.453**	0.456**	0.571**	1.000	
Expenditure control	0.335*	0.384**	0.508**	0.382**	0.518*	0.505*	1.000
<b>Principal Component Analysis</b>							
Factor Loadings	0.769	0.824	0.808	0.695	0.817	0.691	0.673
Eigenvalue	4.004						
Cronbach Alpha	0.873						
Variance explained:	57.21%						
Performance evaluation=The sponsorship budget provides a basis for departmental or manager performance evaluation; Communication = The sponsorship budget facilitates communication of the sponsorship plan to managers in my organisation; Co-ordination = The sponsorship budget facilitates co-ordination across the departments involved; Planning = The sponsorship budget provides a discipline requiring managers to plan sponsorship activities; Forecasting = The sponsorship budget provides a discipline requiring managers to forecast key environmental factors in the next financial year; Motivation = The sponsorship budget helps to motivate managers to get value for money from sponsorship expenditure; Expenditure control = The sponsorship budget controls how much is spent on sponsorship. Note: *** p: < 0.01; ** p: < 0.05; p: < 0.10; n = 57.							

1. 'The sponsorship budget provides a basis for departmental or manager *performance evaluation*'.
2. 'The sponsorship budget facilitates *communication* of the sponsorship plan to managers in my organisation'
3. 'The sponsorship budget facilitates *co-ordination* across the departments involved'.
4. 'The sponsorship budget provides a discipline requiring managers to *plan* sponsorship activities'.
5. 'The sponsorship budget provides a discipline requiring managers to *forecast* key environmental factors in the next financial year'.
6. 'The sponsorship budget helps to *motivate* managers to get value for money from sponsorship expenditure'.
7. 'The sponsorship budget *controls* how much is spent on sponsorship'.

The respondents recorded their degree of consensus with each of the seven statements on a seven-point Likert scale ranging from '1' (strongly disagree) to '7' (strongly agree). Table 2 presents descriptive statistics yielded by this phase of the study. Correlation co-efficients for these seven items reveal statistically significant positive associations. A principal component analysis reveals one factor with an eigenvalue greater than one and supports the combination of the seven items to provide one measure of the importance of budgetary roles. This was achieved by averaging the seven items.

#### *Independent Variables*

##### **Strategy**

Strategy has been measured in this study using the prospector/defender typology developed by Miles and Snow (1978) and adapted by Abernethy and Brownell (1999). Two descriptions of organisations were given and respondents were asked to indicate, on a seven-point Likert scale, where they would place their organisation's current strategic orientation. Organisation A represents a defender firm while Organisation B represents a prospector firm. Descriptive statistics relating to strategy are provided in Table 7.

##### **Perceived Environmental Uncertainty**

The questions used to measure perceived environment uncertainty (PEU) are consistent with the instrument developed by Kren and Kerr (1993) which was based on the instrument developed by Govindarajan (1984). This measure has been adapted as a measure of PEU in many subsequent accounting studies (Chenhall and Morris, 1993; Gul and Chia, 1994; Hoque, 2001). A seven-point Likert scale, ranging from '1' (not predictable) to '7' (very predictable) was used to record respondents' perception of their organisation's environmental uncertainty with respect to five dimensions: customers, suppliers, competitors, government/political, and technological. Tables 3 and 4 present the descriptive statistics and correlation matrix for the perceived environmental uncertainty items.

Table 4 presents the results of the principal components analysis of the PEU items. It identifies two factors with an eigenvalue greater than one, with 67.41% of the variance explained. Factor 1 includes 3 items with a Cronbach Alpha of 0.726 and Factor 2 includes 2 items with a correlation coefficient of 0.364 ( $p < 0.01$ ). This two factor finding is inconsistent with prior studies. Factor one incorporates the effects of customers, suppliers and competitors which would be expected to have a major effect on the sponsorship decision-making process. The second factor incorporates government/political and technological items which are expected to have less influence on sponsorship decision-making. As factor one appears to comprise the most relevant dimension of environmental uncertainty to sponsorship decision-making, it will serve as the sole measure of perceived environmental uncertainty in this study's proposition testing. The item has been measured using the weighted average method and has been labelled 'Perceived Environmental Uncertainty' (PEU).

##### **Risk**

Risk is a form of uncertainty that can be affected by decisions made within the company. It has been noted that it can be seen to comprise business

and financial risk and can also be considered from the perspective of risk aversion. Respondents were asked to indicate on a seven-point Likert scale, ranging from '1' (strongly disagree) to '7' (strongly agree), six dimensions of risk. Table 5 presents the descriptive statistics and correlation matrix for the risk items. As Sprisk1

and Sprisk2 tap into a similar construct and are highly statistically significantly positively related ( $p < 0.01$ ), the variable 'sponsorship risk' has been measured by calculating the weighted average of Sprisk1 and Sprisk2 and has been simply labelled 'Sprisk'.

**Table 3: Descriptive Statistics for Perceived Environmental Uncertainty Variables**

Descriptives	PEU1	PEU2	PEU3	PEU4	PEU5
Mean	4.75	4.88	4.44	4.60	4.63
Standard Dev	1.15	1.23	1.30	1.44	1.14
Minimum	1	1	1	1	1
Maximum	7	7	7	7	7
Skewness	-0.94	-0.72	-0.78	-0.71	-1.00
Kurtosis	1.38	1.22	0.63	0.11	1.53
Correlations:					
PEU1	1.00				
PEU2	0.521 <sup>***</sup>	1.00			
PEU3	0.321 <sup>**</sup>	0.563 <sup>***</sup>	1.00		
PEU4	-0.061	0.235 <sup>*</sup>	0.25 <sup>*</sup>	1.00	
PEU5	.093	-0.46	0.171	0.364 <sup>***</sup>	1.00
PEU1 = customers; PEU2 = suppliers; PEU3 = competitors; PEU4 = government/political; PEU5 = technological Note: *** $p < 0.01$ ; ** $p < 0.05$ ; * $p < 0.10$ ; $n=57$					

**Table 4: Principal Component Analysis of the Perceived Environmental Uncertainty Items**

Item	Factor 1 <i>Perceived Environmental Uncertainty</i>	Factor 2 <i>Other Perceived Environmental Uncertainty items</i>
PEU1	<b>0.773</b>	-0.126
PEU2	<b>0.885</b>	0.061
PEU3	<b>0.736</b>	0.313
PEU4	0.121	<b>0.826</b>
PEU5	-0.17	<b>0.796</b>
Eigenvalues	1.938	1.433
Variance explained	38.76%	28.66%
Cronbach Alpha	0.726	-

## Trust

The questions used to measure trust derive from Zaheer and Ventratman's (1995) study of the role of trust in economic exchange. Similar to the format employed to measure risk, respondents were presented with three items that focussed on "high level of mutual trust", "well-known for fair dealing" and "stands by its word" to measure trust.

The results of the principal components analysis are presented in Table 6 and highlight the extraction of one factor with an eigenvalue greater than one and support the combination of these items to provide one measure of trust in the sponsorship decision-making process.

**Table 5: Descriptive Statistics for Risk Items**

Descriptives	Busrisk	Finrisk	Sprisk1	Sprisk2	Orgrisk	Mgrrisk
Mean	5.14	2.96	3.19	3.77	3.30	3.84
Median	5	3	3	4	3	4
Standard Dev	1.43	1.68	1.65	1.54	1.99	1.73
Minimum	1	1	1	1	1	1
Maximum	7	7	7	7	7	7
Skewness	-0.86	0.41	0.39	0.03	0.40	-0.13
Kurtosis	0.512	-0.85	-0.77	-0.67	-1.21	-0.82
Correlations:						
Busrisk	1.00					
Finrisk	0.061	1.00				
Sprisk1	0.094	0.472***	1.00			
Sprisk2	-0.131	0.281**	0.468***	1.00		
Orgrisk	0.179	0.025	0.243*	-0.123	1.00	
Mgrrisk	0.153	0.047	0.192	0.047	0.647***	1.00
Busrisk = My organisation has a high proportion of fixed operating costs; Finrisk = For its size, my organisation has a high debt level; Sprisk1 = Given the nature of our business and market, sponsorship for my organisation can be a risky business; Sprisk2 = Sponsorship arrangements entered into by my organisation can have negative consequences; Orgrisk = Relative to its competitors, does your organisation have a culture that seeks to avoid risk; Mgrrisk = Relative to other managers, do you as a manager seek to avoid risk or cope well with taking risks? Note: *** $p < 0.01$ ; ** $p < 0.05$ ; * $p < 0.10$ ; $n=57$						

## Size

Three dimensions of size were measured: organisation size, total sponsorship budget and the amount spent on sponsorship relative to similar organisations in their industry. Due to the large

number of missing variables, only the amount spent on sponsorship relative to similar organisations was used as a measure of sponsorship expenditure. Descriptive statistics relating to size are provided in Table 7.

**Table 6: Descriptive Statistics for Trust Variables**

Descriptives	Trust1	Trust2	Trust3
Mean	5.09	4.89	5.25
Median	5	5	6
Standard Dev	1.57	1.68	1.39
Minimum	1	1	2
Maximum	7	7	7
Skewness	-0.78	-0.58	-0.75
Kurtosis	0.10	-0.66	-0.12
Correlations:			
Trust1	1.00		
Trust2	0.376**	1.00	
Trust3	0.447**	0.585**	1.00
Principal Component Analysis			
Factor Loadings	0.732	0.822	0.856
Eigenvalue	1.944		
Cronbach's alpha	0.720		
Variance explained	64.8%		
Trust1 = My organisation places great importance on trust when entering into sponsorship arrangements; Trust2 = My organisation strongly prefers to only deal with organisations with which we have a well-established relationship when entering into a sponsorship arrangement; Trust3 = For my organisation, having a good rapport with personnel in the sponsee organisation is a key factor in deciding to enter a sponsorship arrangement			
Note: ** $p < 0.05$ ; $n = 57$			

**Table 7: Descriptive Statistics for Strategy and Size items**

Descriptives	Strategy	Size
Mean	3.98	3.5
Median	4	4
Standard Deviation	1.67	1.458
Minimum	1	1
Maximum	7	7
Size measure: 'Relative to similarly sized organisations in your industry, how much does your company spend on sponsorship?' $n = 57$		

**Survey Research Findings**

The findings signify that the respondents scored around the mid-point of the measurement scale for the performance evaluation, communication and co-ordination roles. They scored the planning, forecasting and motivation roles as somewhat important. Expenditure control is the only role to yield a mean above ‘5’, suggesting this is the most important role of budgeting in the context of sponsorship management. The fact that the respondents scored ‘expenditure control’ most highly signifies the provision of support for observations made during the interview phase of the study.

It was observed in the interview phase that little importance is attached to the motivation role of budgets in a sponsorship context, yet with respect to the survey data, ‘motivation’ was the second highest scoring budgetary role. This may have resulted from the wording used in the ‘motivation’ role’s operationalisation. The wording refers to motivating “managers to get value for money from sponsorship expenditure”. The notion of a target to be reached, which is the way that the budget’s motivation role tends to be conceived of in the literature, makes little sense in a sponsorship context. The different nuance introduced to the motivation role through the way the construct was operationalised in the survey phase would have likely directed respondents to the notion of striving to maximise return from a limited resource. This potential for the motivating role being expressed in different ways should be carefully considered in any further work that builds on the study reported herein. Outside a discretionary cost setting one can reasonably talk of striving to meet an expense target, however this makes little sense when the context is transposed to a discretionary cost centre.

**Regression Analysis: Importance of Budgetary Roles**

Table 8 presents the regression analysis based on the following equation:

$$Y = b_1 + b_2\text{STRATEGY} + b_3 \text{PEU} + b_4 \text{RISK} + b_5 \text{TRUST} + b_6\text{SPSIZE} + e$$

Where:

Y	=	Importance of budgetary roles
STRATEGY	=	Strategy
PEU	=	Perceived environmental uncertainty
RISK	=	Business risk, Financial risk, Sponsorship risk, Organisation risk or Manager risk <sup>2</sup>
TRUST	=	Trust
SPSIZE	=	Sponsorship size

The regression analysis for the importance of budgetary roles provides statistically significant support for Proposition 5. This signifies support for the view that organisations that place high emphasis on the issue of trust when entering a sponsorship arrangement will attach less importance to budgetary roles in the sponsorship investment decision-making process. In addition Proposition 4, which concerns the expectation that organisations with a high degree of risk are more likely to attach importance to budgetary roles when making a sponsorship investment decision, is statistically supported.

**Discussion and Conclusion**

This study has sought to provide insight into the relative importance of budgetary roles in the context of sponsorship management. Two research objectives have been pursued: (1) to appraise the nature of the use and importance of budgetary roles in the sponsorship investment decision-making context; and (2) to identify factors affecting the importance of budgetary roles in this decision-making process. In addition to the contribution of novel insights with respect to the relative importance of different budgetary roles in a sponsorship management context, the study provides an original set of measures that can be used or adapted in future work focused on appraising the importance of budgetary roles, either in a specific or generic context.

<sup>2</sup> Multiple regressions were run using each of the risk variables. This failed to strengthen the regression model formulated.

**Table 8: Multiple Regression Analysis**

Variable	Coefficient	Std. Error	t-value	p-value
CONSTANT	2.284	1.067	2.141	0.037
STRATEGY	0.048	0.091	0.527	0.300
PEU	0.143	0.161	0.890	0.189
TRUST	0.301	0.123	2.452	0.009**
SPRISK	-0.162	0.119	-1.364	0.089*
SPSIZE	0.092	0.109	0.844	0.201
$R^2$	0.175			
Adjusted $R^2$	0.094			
F value	2.160, $p < 0.10^*$			
DF - model	5			
DF - error	51			
*** $p < 0.01$ ; ** $p < 0.05$ ; * $p < 0.10$				
<b>Dependent Variable:</b> <i>Importance of Budgetary Roles in the Sponsorship Investment Decision-making Process.</i>				

Comments provided during the study's interview phase provide a strong suggestion that expenditure authorisation is the most significant role in the context of sponsorship management. Affirmation of this view was provided by the survey data collected that operationalised the construct using the notion of 'expenditure control'. The survey findings suggest that other budgetary roles that exhibit a degree of importance in the sponsorship management context include planning, forecasting and motivation. The role of performance evaluation was considered to be the least important role, providing support for the widely held view that budgets are not used for performance measurement in the context of discretionary expenditures.

These findings provide an interesting insight into industry practice as they appear to be inconsistent with the academic literature which calls for marketing, and thereby sponsorship managers, to use financial terms and utilise instruments such as budgets for planning, control and performance evaluation (Hoek, Gendall and West, 1990; Cornwell and Maignan, 1998; Thjomoe et al, 2002; Masterman, 2007; Ambler and Roberts, 2008; Sidhu and Roberts, 2008). It is also notable

that limited importance has been found for the authorisation budgetary role in recently conducted accounting studies (e.g. Hope and Fraser, 1997, 1998, 2000, 2003; Langfield-Smith, Thorne and Hilton, 2003; Hansen and Van der Stede, 2004; Horngren, Foster and Datar, 2006) and hence its role has been somewhat played down. This literary observation is particularly incongruent with the findings made in this study.

The study's findings are not wholly surprising, however. As sponsorship is generally regarded as constituting an archetypal form of discretionary expenditure, the finding that budgets are predominantly used for sponsorship expenditure authorisation carries considerable intuitive merit. This highlights what is perhaps the most significant contribution of this study. The study's findings expose the ill-conceived nature of previous commentaries and documented research findings that fail to qualify assertions made with respect to budgetary roles in a manner that recognises that the relative importance of the roles are context specific. A more informed approach to determining the relative importance of budgetary roles would be to base the enquiry on a contingency model that



recognises differential budgetary usage across different industries, organisational settings as well as functions within organisations. In addition, further research directed specifically to examining the formulation of sponsorship budgets is to be welcomed.

The finding that planning, forecasting and motivation are somewhat important is consistent with recently documented generic research on budgetary roles. It was expected, however, that planning would be of greater importance in a sponsorship decision making context. This expectation was based on the view that prior to entering into a sponsorship agreement, a sponsorship proposal (or plan) would be drawn up for senior management approval. It could well be the case that this phase of sponsorship management was viewed by the survey respondents as relatively decoupled from the annualised formal budget setting round.

With respect to the study's second objective which was concerned with determining factors affecting the importance of budgetary roles in the sponsorship investment decision-making process, support has been provided for the propositions that where trust is considered important there is less importance attached to budgetary roles, and where there is high risk, more importance is attached to budgetary roles. These findings are intuitively appealing as it would be expected that where the importance of trust is high, the role of the budget would be diminished and conversely where there is a high level of risk the role of the budget would increase in importance. It is notable that research has found trust to be diminished, rather than created, through the use of formal accounting and contracting procedures that precisely document obligations and performance (Blau, 1964; Fox, 1974; Broadbent, Dietrich, and Laughlin, 1996). Neu (1991) contends that "when high levels of trust exist, there is no need for a contract ..." (p.247) however further studies suggest that trust and formal contracting are not mutually exclusive (Vincent-Jones and Harries, 1996; Deakin, Lane and Wilkinson, 1997). Seal and Vincent-Jones, (1997) suggest that ideally, formal accounting and contracting should be supportive of a co-operative and trusting relationship. Neu's (1991) position finds

support from the survey findings reported herein, as it has been found that in relationships characterised by trust, less importance is placed on budgetary roles. It has also been noted that in situations of high risk and uncertainty, high degrees of intuition will be drawn upon in management decision making (Agor, 1986; Langley, 1990; Butler et al., 1993; Van Cauwenbergh et al., 1996). The rationale for this is based on the view that in the presence of high risk, it is difficult to quantitatively model for outcomes, signifying that greater emphasis will be attached to intuition in decision-making. In light of this study's findings, managers in sponsorship scenarios characterised by high risk regard budgetary roles as increasingly important, as they seek to minimise risk and uncertainty. It appears as notable that the somewhat idiosyncratic context of sponsorship decision making has yielded a finding concerning risk that is congruent with the more generic literature on decision making.

It is somewhat surprising that a statistically significant role for size was not found given prior evidence that larger organisations are more likely to have sophisticated accounting systems which would lead to greater importance for budgetary roles (Bruns and Waterhouse, 1975; Guilding, 1999). It could be that the study failed to capture the most pertinent dimensions of size. Future research might explore alternative means of capturing the size dimension and could explore other issues such as the notion that in defender organisations there is a greater propensity to formulate a sponsorship budget based on what was spent in the preceding year, whilst in a prospector organisation the sponsorship budget is based more on tactical decision making.

The recent questioning of the usefulness of budgets (Hope and Fraser, 1997, 1998, 1999, 2003) can be seen to have received some support from the study reported on herein. This is because, with the exception of the expenditure authorisation role, none of the budgetary roles rise much above the mid-point of the measurement scale employed. The observations made largely underscore Hope and Fraser's view that budgets were not designed for the management of intangible assets such as the goodwill arising from sponsorship investment. Considered

holistically, the study's findings also give credence to Sidhu and Roberts' (2008) call for further research of the sponsorship/accounting interface, as it appears the relative uniqueness of sponsorship management gives rise to budget usage in a manner that radically departs from the way budgetary roles have been described in the literature.

As with any social scientific research, this study is not without limitations. With respect to the interview data collected, care must be taken not to extrapolate observations beyond the sample of subjects interviewed, as no attempt was made to secure a generalisable sample. Also, although the sample size is adequate for the statistical analysis conducted, care should still be taken in generalising the findings to all sponsors, and in particular those outside Australia. In a study such as that reported herein, some subjectivity is bound to be exercised with respect to how the constructs of interest are to be operationalised in the quantitative phase of the study. For instance, it was felt that the 'budget authorisation to spend' construct was most appropriately operationalised by referring to the control of 'how much is spent' rather than the authorisation of 'how much is spent'. Others may have elected to adopt a different set of words when attempting to capture the constructs under examination. This factor needs to be born in mind when interpreting the findings of the study's survey phase. Despite these limitations, the context specific nature of the study can be seen to have yielded insights that constitute a major contribution to our appreciation of the fact that the relative importance of different budgetary roles are situation specific.

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