

Effect of perceived environmental uncertainty on the relationship between style of budget use and return on management: evidence from Sri Lanka

V. Jayakumar¹ and E.M.A.S.B. Ekanayake^{2*}

¹*Department of Business Finance, Faculty of Management, University of Peradeniya, Sri Lanka,* ²*Department of Business Finance, Faculty of Management, University of Peradeniya, Sri Lanka*
**athulae@gmail.com*

In today's business environment information is plentiful; attention becomes a scarce resource. Thus, managers' attention on right things for the right amount of time is far more important. Following the notion of contingency theory, which suggests that the choice of appropriate Management Control System will depend upon the context within which an organization operates, this study examines the moderating effect of Perceived Environmental Uncertainty (PEU) on the relationship between the Style of Budget Use (SBU) and Return on Management (ROM).

Literature suggests that in a highly uncertain condition, budget requires attention from the management and vice versa in a more stable condition. This is the proposition that this study has analyzed using Moderated Regression Analysis and Binary logistic regression. For this purpose, responses of 80 top level managers from an equal number of listed companies in the Colombo Stock Exchange were gathered via a questionnaire survey.

The results of the empirical investigation support the hypothesis that the PEU significantly moderates the relationship between SBU and ROM. Positive evidence permitted subsequent analyses to show that PEU interacts with different variations to SBU and influence ROM. More specifically, under high level of PEU, diagnostic use of budget has shown a less likelihood of yielding high ROM. In contrast, under low level of PEU, diagnostic use of budget is likely to achieve a high ROM whilst interactive use of budget is less likely to achieve a high ROM. Nevertheless, the expectation of high ROM under high PEU when the budget is used interactively was not supported in the empirical study.

The results of this study therefore suggest that the interactive use of budget may have both positive and negative impacts on the ROM due to excessive management attention in a highly uncertain condition. Hence, managers need to maintain a tradeoff between diagnostic and interactive styles of budget use in a highly uncertain environment to optimize the ROM. The findings of this study is likely to help managers gain an awareness on the right amount of time to be invested in budget related activities based on their perception on environmental uncertainty.