

## Examining the Role of Budgeting and Budgetary Control in Achieving Objectives of Business Organisations

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### **Abstract**

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**T**his study examines the role budgeting and budgetary control play in the achievement of organizational objectives of business establishments. Budget as a profit planning device sets standards of performance for managers while budgetary control provides the mechanism for evaluating actual performance to ascertain if the desired results were achieved. A sample of 30 top and middle level managers was randomly selected for the study. A structured questionnaire bothering on key budget performance indicators, designed on 7-point Likert scale, was administered to the managers. Data collected were treated to mean standard deviation and One Sample Test to determine how far budgeting and budgetary control provide directions and help organisations to achieve corporate objectives. Findings indicate that 69% of the managers have established budgetary system that contributes to the achievement of the organizational objectives and appreciable growth. It is recommended that organizations should give room for flexible and employee-oriented budgetary system in order to increase profit propensity and ensure sustained growth.

**Keywords:** *Budgeting, Budgetary Control, Objectives, Business Organisations*

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### **Background to the Study**

A failure to plan is a plan to fail. This is most true of business organisations which are usually established with the motives of maximizing sales, profits and wealth or assets. Planning sets standards for actions and provides measures for success. One of those planning tools is budgeting. A functional budgetary system is the management's weapon for planning and control, a guide to deployment of resources both human and non-human, a parameter for judgment and decisions, and a medium for measuring the achievement of financial goals. Developing a working budget is a critical management function for planning any economic activity.

Business organizations of all types must engage in financial planning at whatever level to ensure judicious deployment of resources for achieving organisational goals. Routine operations as well as strategic decisions are all guided by a system of budgeting. Hence, the future of a business organization lies heavily on the type of budget and budgetary control system put in place. Despite the importance of budgetary system and reference made to it by managers, it is often commonplace to find it more on paper than seeing it practiced. It is expedient to explore and find answers to such probing questions as: What type of budgetary system do firms operate? How does the budgetary system provide guide for operating and strategic actions? Does financial planning contribute to profit realization and sustainable growth? Are there ways budgeting could have contributed positively or otherwise to the success of a business firm?

Therefore, this exploratory study is set out to achieve the following specific objectives.

- i. To examine the budgetary system adopted by business firms
- ii. To determine the extent to which budgeting sets standards for actions and functions in organizations
- iii. To assess the budgetary control mechanism in place to check performance
- iv. To assess the contribution of the budgetary system to profit objective and overall growth of the firm

### **Literature Review**

A budget is a quantitative plan expressed in monetary term to guide operations for achieving predetermined financial goals in an organization. Adams (2009) describes it as a financial plan prepared and approved prior to a defined period of time, showing capital to be invested, planned income to be generated and expenditure to be incurred during the period under consideration. A budget is an operational plan set at the beginning of a financial year to determine the anticipated profit or loss and balance sheet at the end of the year. An organization may, on the basis of production capacity, operate one of the following two forms of budget (Lambe 2004, Lawal & Okoli 2015). These include fixed budget system where the financial plan remains constant, irrespective of the levels of activity, i.e. the budget is created for a standard volume of production and flexible budget in which case the budget is created for different production levels or capacity utilization, i.e. it changes in accordance with the activity level. Fixed budget operates in only production level and under only one set of condition, but flexible budget comprises of several budgets and works in different conditions. Fixed budget limits expenditures to

amounts appropriated, giving no room for likely changes in the future. However, a flexible budget accommodates anticipated general economic changes that may occur during the budget period.

Onorah (2005) identifies four major types of budget which include incremental budgeting, activity-based budgeting, value proposition budgeting and zero-based budgeting. Incremental budgeting takes last year's actual figures and adds or subtracts a percentage to obtain the current year's budget. It is most appropriate where primary cost drivers do not change from year to year. Activity-based budgeting is a top-down budgeting approach in which expenditure is determined by the amount of inputs required to support the targets or outputs set by the company. Value proposition budgeting is an approach that ensures everything that is included in the budget delivers value for the business in order to avoid unnecessary expenditures. Zero-based budgeting assumes that all department budgets are zero and must be rebuilt from scratch so as to avoid all expenditures that are not considered absolutely essential to the company's successful (profitable) operation. In an organization where budget is adopted as a means of profit planning, several alternatives have to be evaluated and the most profitable options have to be considered, deploying the available resources in most economic manner. Running an operation without a functional, financial plan will amount to risking the scarce resources of the organization. According to MacLping (2000), some of the benefits an organisation stands to derive from budgeting include fair estimation of the cost of administration, production and marketing; anticipating and adequately planning for finances; directing the efforts of all organization members toward common goals; rational deployment of the available resources; establishing a firm system of check and balance; among others. Similarly, budget implementation requires a system of budgetary control. Budgetary control is a process of monitoring the implementation of the budget to ensure it achieves the desired results (Reeve & Warren 2008). It involves a periodic review and comparing actual results with established standards to identify and ameliorate any deviations. Budgetary control helps management to take appropriate actions to correct any adverse situation that may occur before it is too late.

As opined by Fagbemi and Abogun (2012), techniques of ensuring budgetary control should include preparation of financial budgets such as cash budget, capital expenditure budget and balance budget; operating budget such as sales budget, expense budget, and project budget; and non-financial budget such as number of hotel rooms, tones of output desired, number of clients serviced which actually serve as drivers for planning financial activities.

### **Empirical Review**

Many extant authors contributed to the discussion on the role of budgeting and budget control system in an organization. Kazeem, Hakeem, and Reuben, (2014) found a positive correlation between budgeting and organizational performance; they established that fiscal discipline, transparency, efficiency and accountability have been injected into the operational system through budgetary control mechanism. Marcormick and Hardcastle

(2011) carried out a study on budgetary control and organizational performance in 40 government parastatals in Europe and established that organizational performance considerably improved with the aid of budgetary control. In the same vein, Serem (2013) found a positive effect of budgetary control on performance of private business organisations in Kenya.

Egbunike and Unamma (2017) evaluated the impact of budgeting and budgetary control on the performance of hospitality firms in Nigeria and found a significant variation in the budget, budgetary control and performance of the firms. Laynetwor (2004) posits that budgeting is the only comprehensive approach to managing an organization and if utilized with sophistication and good judgment, the objectives of the organizations can be achieved with optimum results. However Brown & Howard, (2002) strongly recommend that a good and functional budget system must be comprehensive, participative, flexible, and allow for cost – benefit analysis and feedback.

### **Methodology**

A survey design was adopted for this study. The population of the study comprised the top and middle level managers of business organizations in Yola town, including hospitality, agricultural and marketing firms. A sample of 30 top and middle level managers was randomly selected across the firms. A structured questionnaire bothering on types of budget and key budget performance indicators, designed on 7-point Likert scale, ranging from 1 (Completely disagree) to 7 (Completely agree), was administered to the managers. The Cronbach Alpha reliability test was performed to establish the internal consistency of the research instrument and it yielded a coefficient of 0.68 and above for most factors. Those items with less than 0.50 Cronbach Alpha coefficients were excluded from the analysis. Data collected were analyzed by the use of mean standard deviation and One Sample Test to determine how far budgeting and budgetary control provide directions and help organisations to achieve corporate objectives. The respondents who willingly supplied the data that were analyzed in this study were managers actively involved in the activities of their establishments.

### **Findings and Discussion**

The main objective of this study was to examine the budgeting and budgetary control systems in place in business organisations and how they are operated to achieve results. It was hypothesized that business organizations do not have established and functional budgetary control systems. The analysis of primary data in relation to the research questions raised reveals some understanding of the managers about the implementation of budgeting and budgetary control in their organizations. Responses to some critical issues on each of the objectives and / or research questions were drawn from the questionnaire and analyzed as shown below.

**Table 1: Results of Data Analysis**

Budget Factor	Mean	StDev	t-test
<b>Objective 1</b>			
Budget committee exists and functions in your organization	5.0333	.99943	.000
Your company operates incremental budgeting system	5.8333	.91287	.000
Your company operates activity-based budgeting system	4.3667	1.32570	.141
Your company operates value-based budgeting system	3.8000	.80516	.184
Your company operates zero-based budgeting system	5.3333	.95893	.000
<b>Objective 2</b>			
Budgets motivate managers to establish control and achieve organizational objectives	6.2333	.85836	.000
Budgetary control assists management in assessing the level of performance	6.2000	.55086	.000
Budgeting has assisted organization in making optimal use of its resources	6.0667	.98027	.000
<b>Objective 3</b>			
Your company operates such budgets as sales budget, expense budget and project budget	4.2000	.92476	.246
Your company maintains cash budget, capital expenditure budget and balance sheet	6.1333	.73030	.000
Your company maintains non-financial budgets such as are based on output level, number of customers, etc.	4.3333	.71116	.016
<b>Objective 4</b>			
Budgeting process is duly followed by management to achieve results	4.1667	1.01992	.378
Budgetary control is an effective mechanism for financial planning and control	5.5000	.77682	.000
Budgetary control contributes positively to realization of profit objective of your organization	6.1667	.69893	.000
Managers need training to be able to utilize budgetary control techniques effectively	4.0333	.85029	.831

**Source:** Field Survey 2018

From the above table of mean, standard deviation and one Sample test determined at 95% confidence level, the following findings could be established:

- (i) Functional budget committee exists in most business organizations to oversee and coordinate budget implementation
- (ii) Companies practice incremental and zero-based budgeting more than other types of budgeting. This may be as a result of the simplicity of incremental budgeting and cost – saving benefits of zero based budgeting.

- (iii) Managers strongly accept the fact that effective budgeting system allows for setting of performance standards, evaluation of performance with a view to exercising control and ensuring optimal achievement of organizational goals. These, indeed are the basic purpose of budgeting as opined by Egbunike & Unamma (2017)
- (iv) There is a strong indication that business firms maintain financial budgets such as cash budget, capital expenditure budget and balance sheet but give little attention to operating and non-financial budgets like sales forecasting, expense budgets, customer projection, etc.
- (v) Budgetary control is strongly admitted as an effective mechanism for financial planning and control
- (vi) Managers throw strong support to budgetary control as a tool that positively contributes to realization of profit objective of an organization. This coincides with the position of Laynetwor (2004) and Yang (2010)

However, the nonchalant attitude of managers to some salient budget factors investigated in this study calls for the attention of agencies regulating small and medium enterprises to take pragmatic approach for revitalizing the sector as a major driver of the national economy Egbunike (2014)

### **Conclusion and Recommendation**

Budgeting and budgetary control are an indispensable financial management tool to a business organization. A functional budget system supported by a careful implementation programme can lead to cost minimization and increase in revenue, which in turn can result in maximization of profits. The extent to which budgetary control achieves the desired objectives depends on the operating efficiency of management. It is the budget that sets standard for operations and triggers the consciousness that lead to organizational performance and success.

Therefore, this study recommends as follows:

- i. Budget serves as a means of coordinating organizational plans and actions to achieve results. Therefore, it should be able to communicate and motivate those managers responsible for their execution, while serving as a standard for measuring actual performance
- ii. Managers of Small and Medium Enterprises should endeavour to monitor implementation of budget plans. There may be good budgeting policy, but unless effort is made to actualize it, it will amount to a daydreaming and waste of resources.
- iii. A flexible and employee – based budgeting system should be considered as an option for achieving desired profit objective of a business organization
- iv. For a budgetary control to work effectively, all the user managers must not only participate, but also have ready access to information about actual and forecast performance of budgets by their respective departments

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