

BUDGET AS AN INSTRUMENT OF FINANCIAL CONTROL IN BUSINESS ORGANISATIONS: A CASE STUDY OF BETA GLASS PLC, UGHELLI, DELTA STATE, NIGERIA

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ABSTRACT

The purpose of this study was to assess the efficacy of budget as a managerial tool for financial planning and control. Concern was given to the operational framework of the budgetary control system of Beta Glass Plc. Most Small and Medium Scale Enterprises (SMSEs) in Nigeria do not plan ahead and only deal with events or issues as they occur. It therefore seems that there still exist a wide gap between what theories postulate and their application by the Nigerian businesses. One hundred and twelve copies of questionnaire were administered but only eighty-six were retrieved. Returned instruments were analyzed using simple percentage and the Pearson Product Moment Correlation Analysis. The results of the study reported that budget is an effective instrument of financial control in an organisation. Hence, every company and establishment must regularly carry out budget formulation and control.

Keywords: Budget, instrument, financial control, organisation

INTRODUCTION

The complexities of scientific and technological development coupled with increasing scarce economic resources have made it imperative that business organisations should plan, organize and control their activities. The managerial functions of an organisation are so important that the continued survival of the organisation is tied to how efficiently these functions are executed in the ordinary course of business. A thoughtful planning and controlling of current and future operations of an organisation and prejudiced appraisal of its strengths and weaknesses would give a meaningful direction to the organisation.

The introduction of budgets and budgetary control system compels members of the organisation, from top of the hierarchy to the bottom to plan ahead. This is indubitably paramount owing to the high level of uncertainties facing present day managers and accountants. Budgets formulate expected performance and express managerial targets, which give meaning and direction to the operation of an organisation. Budgets are established to guide actions within a defined period. At the end of that period, the actual results are compared with the budgeted performance. Over the years business organizations in Nigeria have had deficiency in managing their budget effectively. This is as a result of inadequate effective budgetary system. The inability of the managers to control the organization's budget has created a major setback in the attainment of goods.

Budget is a managerial aid to planning and controlling the operations of an organisation. Such planning and controlling involve forecasting into the foreseeable future in attempt to ensure that the organisation sustains. Virtually in an organisation, managers

and executives assume managerial roles of planning and controlling their operations with the use of budgets and budgetary control techniques in most cases. It is sad to observe that those organisation that purport to adopt budget on planning and controlling system in their operations find it difficult to stand the test of competition within industries and to avoid financial malady in their operations. Budgeting is the mechanics involved in developing a budget, while budget as defined by the Institute of Cost and Management Accountants (1982) is a financial and/or quantitative statement prepared and approved prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a given objective. It may include income, expenditure or employment of capital.

Pandey (1998) strictly opines that budgeting is a systematic and formalized approach for stating and communicating the firm's expectation and accomplishing the planning, coordination and control responsibilities of management in such a way as to maximize the use of given resources. The purpose of budgeting is to manage both human and material resources of an organisation and plan for the future. Thus, a budget of an organisation whether family, private or public must be prepared in the light of four main focal points of management (men, money machines and materials). Another purpose of budget is that, it is a formal expression of an organization's objectives, goals, aims and so on, expressed quantitatively. A budget aids an organisation to be goals directed. A budget could be prepared for short term and long term purpose.

Furthermore, budget reduces the atmosphere of uncertainty both for the organisation as an entity and the individuals and the general public who have interest in the organisation. It enables departments, divisions and staff of the organisation to be conscious in advance of how and where they are heading for. Budgeting is the determination of what should be done, how the goals may be reached and that individuals or units are to assume responsibility and be held accountable.

According to Koontz (1983), intelligent estimates made by experienced executive and technicians are often extra-ordinary prophetic. After a meticulous study of broad forecast or national and state economic trends, an organisation can translate their impact on her operation thereby assisting the organisation in her budgeting planning and control. With the use of budgets, employees are conscious of expected from them from time to time. As basis for judging actual results, predetermine performance is generally seen, as been a better framework than past performance. Budgets also aid in the coordination in that all factors of production are merged and balanced as well as all departments and functions of the organisation for the purpose of achieving corporate objectives in a harmonious manner.

The Institute of Cost and Management Accountants (1982), defined budgetary control as the establishment of departmental budgets relating to the responsibilities of executives to the requirement of policy and the continuous of actual with budgetary results either to secure by individual action, the objectives of that policy or to provide them firm basis for its revision. According to Batty (1975), budgetary control is a system which use budget as a means of planning and controlling aspects of producing certain commodities.

Budgets are widely concept for managerial planning and control. It is strictly based on plans. The result is that funds of the company are intelligently allocated on the basis of what is really needed to accomplish desired goals. Though the clear goals and action plans to accomplished them are known by top management, who also know how much money is necessary to do what is desired. By stating plans in terms of numbers and breaking them into components consistent with the organizational structure, budget correlate planning and allow authority to be delegated without loss of control. Based on the foregoing, two research questions were generated to guide the study.

1. Is there any direct relationship between managerial efficiency and budgets.
2. Is there any relationship between efficiency allocation of scarce resources and the setting of budget.

The following hypotheses had been formulated.

Ho₁: There is no direct relationship between managerial efficiency and budgets.

Ho₂: There is no relationship between efficiency allocation of scarce resources and the setting of budget.

RESEARCH METHODOLOGY

This study adopted a descriptive research design. Beta Glass Plc., Ughelli in Delta State was adopted as a case study. A questionnaire was developed for the study to measure the study construct. Given the nature of the study as regards data generation requirements, it was considered that responses should be elicited from source knowledgeable in the organisation budgetary control system and the overall performance organisation so as to limit measurement error (Bowman and Abrosini, 1997). In this regard, production staff and management staff in the organisation were treated as the key respondents.

With the key approach, data were collected from the production staff on issues relating to production of the organization's products and the management staff on issues relating to management efficiency. Therefore two types of structured questionnaire were described to the company making a total of one hundred and twelve copies of questionnaires described. It was assumed that such managers have the best advantage point to provide the most accurate response. A total of eighty- six copies of questionnaire were returned. Data collected were analysed using percentage and Pearson Product Moment Correlation.

RESULTS AND DISCUSSION

Table 1: Relationship between management efficiency and budgets.

Variables	SA	A	U	D	SD	Total%
Organizational activities can be effectively run through the use of budgets.	25(29.1)	38(44.2)	2(2.3)	9(10.5)	12(13.9)	86(100)
For most firm to effectively perform well, there should be a yard stick (budget) against which actual results can be measured	31(36)	27(31.4)	4(4.6)	6(6.9)	18(20.9)	86(100)
Achieving optimum efficiency in management can be attributed to effective management of both human and material resources.	25(29.1)	36(41.9)	1(1.2)	6(6.9)	14(16.3)	86(100)

Source: Survey, 2011

Table 1 shows that 73% of the respondents agree that organisational activities can be effectively run through the use of budgets, while 24% disagree and insignificant percentage of 2 were indifferent. For most firm to effectively perform well, there should be a yardstick (budget) against which actual results can be measured was agreed by 67%, and disagreed by 28% of the respondents. Also, 71% of the respondent were of the opinion that achieving optimum efficiency in management can be attributed to effective management of both human and material resources in relation to finance while 23% were of the opposing views (table 1).

Table 2: Research question one items for hypothesis one

	X Points				
	5	4	3	2	1
1	25	38	2	9	12
2	31	27	4	6	18
3	29	36	1	6	14
Total	85	101	7	21	44

Source: Survey, 2011. N/B: Dividing the total in each column by 3 gives the Y responses.

Table 3: Pearson Product Moment Correlation Computation

Option on research question 1	X	Y	XY	X²	Y²
SA	5	28	140	25	784
A	4	34	136	16	1156
U	3	2	6	9	4
D	2	7	14	4	14
SD	1	15	15	1	225
Total	15	86	311	55	2183

Source: Survey, 2011.

$$r = \frac{\sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - \sum X^2} \times \sqrt{n \sum Y^2 - \sum Y^2}} ; r = \frac{5(311) - 15(86)}{\sqrt{5(55) - 225} \times \sqrt{5(2183) - 86^2}}$$

$$r = \frac{1555 - 1290}{\sqrt{(275 - 225) \times (10915 - 7396)}} ; r = \frac{265}{\sqrt{175950}} ; r = \frac{265}{419} ; r = 0.63$$

The correlation is 0.63 which indicates a positive linear correlation between the two variables (management efficiency and budget). Therefore, the null hypothesis that there is no direct relationship between managerial efficiency and budget is rejected. This implies that there is a significant relationship between managerial efficiency and budget.

Table 4: Relationship between efficiency allocation of scarce resources and the setting of budget

Variables	SA	A	U	D	SD	Total%
Most SM enterprises that survived despite the scarce resources is a result of effective planning and controlling of these resources.	42(48.8)	34(39.5)	2(2.3)	2(2.3)	6(6.9)	86(100)
The aim of budget is to provide an orderly administration of the company's resources in such a way that the maximum return on them is achieved.	35(40.7)	32(37)	3(3.4)	7(8.1)	9(10.5)	86(100)
Budget as a quantitative plan of action helps in the reduction of wastage in the production process.	29(33.7)	31(36)	4(4.6)	8(9.3)	14(16.3)	86(100)

Source: Survey, 2011.

Table 4 indicates that 88% of the respondents are of the opinion that most of the firms that survive despite the scarce resources is as a result of effective planning and controlling of these resources, while 9% opposed and 2% were indifferent. The aim of budget is to provide an orderly administration of the company's resources in such a way that the maximum return on them is achieved was accepted by 78% of the respondents, while 19% did not accept, and 3.4% were indifferent. 70% of the respondents agreed with the perception that budget is a quantitative plan of action that helps in the reduction of wastage in the production process, while 27% opposed to it.

Table 5: Research question two items for Hypothesis two

	X points				
	5	4	3	2	1
1	42	34	2	2	6
2	35	32	3	7	9
3	29	31	4	8	14
Total	106	97	9	17	29

Source: Survey, 2011. N/B: Dividing the total in each column by 3 gives the Y responses.

Table 6: Pearson Product Moment Correlation Computation

Option on research question 1	X	Y	XY	X²	Y²
SA	5	35	175	25	1225
A	4	32	128	16	1024
U	3	3	9	9	9
D	2	6	12	4	36
SD	1	10	10	1	100
Total	15	86	334	55	2394

Source: Survey 2011.

$$r = \frac{\sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - \sum (X^2) \times n \sum Y^2 - \sum Y^2}} ; r = \frac{5(334) - 15(86)}{\sqrt{5(55) - 225 \times 5(2394) - 86^2}}$$

$$r = \frac{1670 - 1290}{\sqrt{(275 - 225) \times (11970 - 7396)}} ; r = \frac{380}{\sqrt{228700}} ; r = \frac{380}{478} ; r = 0.79$$

The correlation is 0.63 which indicates a positive linear correlation between the two variables efficient allocation of scarce resource and budgets. This therefore reject the null hypothesis that there is no significant relationship between efficient allocation of scarce resources and the setting of budget. Implying that there is a relationship between efficient allocation of scarce resources and the setting of budgets.

CONCLUSION

The important of budget control in an organisation cannot be over emphasized, hence, the interest to conduct a study of this nature to make contribution to the business growth and sustenance. Against this background, it is therefore conclude that if minimal spending is to be achieved, then sound budget formulation and implementation must be part of organizational culture and corporate strategies because it is when organizational goals and

aspiration are achieve that the only time societal needs can be met. Every company and establishment must regularly carry out budget formulation and control. There is a need for wider participation by ensuring that all sundries in the company are made to be part of budget committee by encouraging them to make contribution. Budget formulation and implementation must be objective and subjective to derive tangible result. Regular staff training and budgetary formulation and implementation, will increase knowledge especially in this area of resource allocation which stands to reduce wastage and promote corporate efficiency and effectiveness.

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