

**BUDGETARY CONTROL SYSTEM AND FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA.**

**Okpolosa Matthew Onyebuchi**  
**Department of Accounting, Faculty of Management Sciences**  
**Ignatius Ajuru University of Education, Rumuolumeni, Port Harcourt, Rivers State,**  
**Nigeria.**

*Email: Onyebuchi,okpolosa55@gmail.com*

**ABSTRACT**

*Budget implementation and control has always been a difficult task and its achievement has been a mirage in recent years in Nigeria. The inclusion of mostly non-professionals in budget committee members have posed problem in budget preparation, monitoring control in the entire budget cycle. Hence, it becomes imperative for the study to examine the effect of budgetary control system and financial performance of manufacturing firms in Nigeria. Given this, two objectives and hypotheses were raised as guide to the study. The study also used financial accessibility theory and efficiency structure theory as its theoretical framework. The cross sectional survey design was used, with sample size of 60 using convenient, quota and snowballing sampling techniques. Both primary and secondary sources were used and as such Spearman rank correlation co-efficient were used for data analysis. The findings revealed that budgetary control system has major effects on the performance of firms in Rivers State. It equally shows that prudent expenditure retirement has significant influence on the performance of workers in manufacturing firms. Thus, the study concluded and recommended that management of manufacturing firms should put in place an effective budgetary control system which will enable them conduct their duties in an efficient manner and again, managers should also set up supplementary budgeting centers as well as employ more budget officers and provide budget manual so as to advance on their budgetary control.*

**Keywords: Budget, Budget control system, Manufacturing firms, Financial performance**

**INTRODUCTION**

The role of budget in an economy cannot be overemphasized. This is because budget is an important instrument of national resource mobilization, allocation and economic management. It is an economic instrument for facilitating and realizing the vision of the government in a given fiscal year (Seaman, Landry Jr. & Williams, 2011). Budgeting involves the establishment of predetermined goals, the reporting of actual performance results and evaluation of performance in terms of the predetermined goals. Since the inception of democratic governance over a decade ago, Nigerians have built up very high expectation that the budget would contain laudable programmes that would lead to poverty reduction in particular and promote their welfare in general. But concern seems to be growing among stakeholders regarding the ability of the budget to fulfill the policy objectives of government and by implementing and satisfying the aspiration of the people through government established ministries.

Budgetary control system is universal and has been considered as an essential tool for financial planning. The purpose of budgetary control is to provide a forecast of revenues and expenditures; this is achieved through constructing a model of how government might perform financially speaking if certain strategies, events and plans are carried out (Churchill, 2011). Both firms and government use budget control as the primary means of corporate financial controls, it provides a comprehensive management platform for efficient and effective allocation of resources. Budgetary controls enable the firms to see whether they conform to the plans, effective implementation of

budgetary control as an important guarantee for the effective implementation of budget in the economy.

The budget can be considered as the engine of the on-going economic reforms. If it is switched off at any time or if it is malfunctioning, the reforms cannot generate the expected outcomes. The budget process involves key stages such as budget conception, preparation, approval, execution, monitoring and control as well as budget evaluation (Akintoye, 2008). Budgetary control system helps Firms in the use of the comprehensive system of budgeting to aid management in carrying out its functions like planning, coordination and control (Collins 2001). Reacting on this, Hope (2003) noted that budgetary control system is in connection to or a method of monitoring and controlling income, and expenditure and for managing the demands for cash and minimizing borrowings. Thus, reforms initiated by various firms have brought the manufacturing sector into the competitive arena in terms of customers and products. However, with budgetary control systems being at the center of increasing organizational efficiency and controlling costs, then the need to examine the effect of budgetary control system and financial performance of firms in Nigeria becomes imperative.

### **Statement Of The Problem.**

Budgetary control is used by government as a tool for proper management of resources in government ministries and its activities. Various establishments in Nigeria had employed a number of strategies aimed at enhancing budgetary control system. Therefore, budget implementation has always been a difficult task and its achievement has been a mirage in recent years in Nigeria. The inclusion of mostly non-professionals in budget committee members have not only posed problem in budget preparation, monitoring control in the entire budget cycle.

Considerable empirical evidence exists on budgetary control and financial performance. Akintoye (2008) examined the relationship between budget and budgetary control and performance of selected food and beverages companies in Nigeria and established that a significant relationship exists between budget and budgetary control and performance. Pimpong and Laryea (2016) studied budgeting and its impact on financial performance of non-bank financial institutions in Ghana and found a positive relationship between budgeting and financial performance. In Kenya, several studies have been done on budgetary control and performance of commercial banks in Kenya (Koech, 2015; Onduso, 2013; Munene, 2010; Kipkemboi, 2013). Koech (2015) studied budgetary control and its effect on performance of companies listed on NSE and found that budgetary control has an impact on firm performance. Despite these findings, it is not obvious that such a relationship exists in the manufacturing firms, hence the need for the current study. The answers to this constitute the central focus of the research study.

### **Aim of the Study**

The aim of this work is mainly to ascertain the effect of budgetary control system on financial performance of listed manufacturing Firms in Nigeria. Other specific aims include:

- i. To determine whether effective financial control system affect financial performance of Firms in Rivers State.
- ii. To determine whether prudent expenditure retirement affect financial performance of Firms in Rivers State.

### **Research Hypotheses**

The study was guided by the following set of hypotheses:

**Ho<sub>1</sub>:** There is no significant relationship between Financial control system and financial performance of manufacturing firms in Rivers state.

**Ho<sub>2</sub>:** There is no significant relationship between prudent expenditure retirement and financial performance of firms in Rivers state.

## Review of Related Literatures

### Conceptual Review

**a). Budgeting:** A budget is a statement of financial position of a sovereign body for a definite period of time based on detailed estimates of revenue or expected expenditure during the period and proposal for financial them (Mobster Dictionary, 2005). Budget is also the process of demanding funds from the president of the country and national Assembly in support of the programmed activities, once approved, the budget becomes the operating plan for the ministry or department concerned (Osonuga et al, 2006). Budget is the act of preparing a budget. As stated earlier, individuals, governments and business organization always budget. The budgeting of government is always financial. However, individual always engage in the act of budgeting, sometimes unconsciously.

Kalagbor (2007) cited in Tasie (2016) pointed various types of budget. According to him, budget is usually classified into varieties on functional basis and around responsibility centers or on contingency basis, they are as follow. **The Master Budgeting-** it is the comprehensive budget containing all the subsidiary budgets by whichever classification adopted by the government establishment for the entire fiscal year, thus constitutes the overall target for the establishment.

**Supplementary Budget-** it is an adjustment budget to take account of unforeseen contingencies and other shocks to the master budget such as emergencies involving war or natural calamities or even extra developments manifesting in exchange rate fluctuations, which necessitate extra budgetary expenditure.

**Capital Budget-** this types budget lay down the planned requirements for fixed assets for the continued operation of government establishment and possible for expansion. For this reason capital budgets are usually multi-period or even long – term implemented through the annual budget. **The Recurrent Budget-** this is the type of budgets that deal with regular, contractual and legal obligations of government establishment which cannot be avoided such as interest payments on loans, repayment of maturing loans wages and salaries (personal emoluments), pensions, provident funds etc.

Again, Kalagbor (2007) revealed that budget which represents a financial plan of a central authority could be divided into (3) broad categories: **Balance Budget-** This type of budget will occur when the proposed revenue of a central authority is equal to the proposed expenditure of a central authority of any given county. This type of budgets is described as the best budget because it does not lead to any financial indiscipline or corruption of any government or firm. **Deficit Budget-** This type of budget will occur when the proposed revenue of a central authority is less than the proposed expenditure of a central authority of any given country. This type of budget does not lead to financial recklessness. The only thing that will happen when proposed revenue fall short of the proposed expenditure, is to borrow from within or outside. This will lead to national debt or public debt. Secondly, every deficit budget will lead to the expansionary fiscal policy which deals with increase in government spending and tax – reduction, depending on the prevailing economic situation on ground (Kalagbor & Onuchukwu, 2012) **Surplus Budget-** this type of budget will occur when the proposed revenue is greater than the proposed expenditure of a central authority of any given country. This type of budget will lead to financial indiscipline / complain. (Kalagbor & Onuchukwu, 2012).

**b). Budgetary control System-** Control involves the means by which government assures that all parts of the organization functions properly and attains the objectives set down in the planning stage. What then is budgetary control? Budgetary control according to the instant business dictionary (2006) is defined as a plan control and operations in order to secure a maximum profit from a minimum capital investment. This is accomplished by setting standard against which actual performance can be made. An efficient budgetary control programme not only detects inefficiencies but also definitely fixed responsibility upon the proper person or persons. Budgetary control system is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishes responsibilities, comparing actual upon results to achieve maximum profitability (Brown and Howard, 2009). It should be noted or observed that all

the definitions are revolving around one centre. According to them, budgeting control deals with the comparison of the actual previously planned. Although the wordings vary, they are trying to come out with the something. However, the use of budget to control a firm's activities is known as budgetary control.

### **Theoretical Review**

**a). Financial Accessibility Theory-** the theory focuses on the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner, by mainstream institutional players (Emmanuel & Otley, 2005). This theory is relevant to this study because it focuses on inclusive financial issue that provides access to credit for all bankable people and firms. This refers to commercial banks whose main business is credit facilities; good budgetary control lead to better provision of credit hence more financial accessibility and in turn better performance for the banks.

**b). Efficiency Structure Theory (Es)-** this theory suggests that enhanced managerial and scale efficiency leads to higher concentration and then to higher profitability. From this theory, it is possible to conclude that bank performance is also influenced by both internal factors. The internal factors include money transfer services efficiency among others. The efficiency structure hypothesis is the proposition that more efficient companies are better competes, develop and grow in scale, thus resulting in an increase in the degree of market concentration. The theory is relevant to this study because it focuses on enhanced management and efficiency which is related to budgetary control; and further links them to higher profitability which is related to financial performance.

### **Empirical Review**

Ghimire and Abo (2013) researched on budgetary control and performance of Ivorian SMEs. Data collection was done from SMEs operators in both urban and rural areas. The study deployed descriptive survey design. Moreover, structured questionnaires were deployed. The research showed that budgetary control influenced the performance of SMEs. The study results further revealed that the key factors affecting SMEs performance were lack of enough budgeting skills and information asymmetry.

Lilly and Juma (2014) investigated strategic capabilities and its impact on performance of public universities. The study used semi-structured questionnaire and used a descriptive research design. The research concluded that budgeting as a capability positively affects performance of public universities. However, the research only focused on different conceptual concepts and only discussed budgeting as a capability. Moreover, the study focused on public universities and not commercial banks; another gap the current study sought to fill.

Ambetsa (1998) investigated the impact of budgeting practices on the performance of commercial airlines at Wilson Airport, Nairobi. Study findings revealed that the poor performance was as a result of poor cooperation in budgeting process, lack of top management support, and inadequate skills on budget evaluations. It was further revealed that business performance in airline sector was planned implemented and evaluated by use of budget. According to the research it was concluded that all businesses perform planning by use of budgets. The budgeting is formal and systematic in some businesses while in others it is informal. Generally all enterprises have some budgeting control processes. Therefore the key concern was how to prepare an effective budget.

Muthoni (2016), researched on the influence of budgeting on SMEs credit accessibility and performance in Nairobi, Kenya. The research purposed to reveal the relationship between the variables. The research was mainly concerned with imperfect information theory. The research relied on secondary data source from financial records of enterprises as from 2008 to 2012. Descriptive survey design was deployed. Results showed that budgeting had a significant influence

on credit accessibility and return on investments for SMEs. Nevertheless the study depended on secondary data and also was done on SMEs.

## METHODOLOGY

The cross sectional survey design was used. The accessible population for this study consisted of the manufacturing Firms in Rivers State. This population was selected using the convenience sampling method. Convenient sampling technique was used and 3 manufacturing firms were selected. Given this, 60 respondents were selected using a quota sampling technique that proportionately assigned 20 persons in each firms to measure up a sample size of 60. Having done this, the snowballing sampling method was used to reach and distribute questionnaires to the selected respondents. Both primary and secondary sources of data were used. The open ended and multiple choice questions constituted the questionnaire instrument used. Method of data analysis was through Spearman's rank correlation co-efficient.

## Presentation and Analysis of Data

In this particular area, the hypotheses were analyzed using the Spearman's rank correlation co-efficient, at 0.05 level of significance.

**Table 1. : Response Rates of Sent and Returned Questionnaires**

Department	No of Administrati on	No Returne d	No Not Returne d	Accepte d	Not Accepte d	Accepted Percentag e (%)
Dufil Prima Foods Limited	20	20	0	20	0	33.3%
Guinness Nigeria PLC	20	20	0	20	0	33.3%
Uniliver Nigeria PLC	20	20	0	20	0	33.3%
<b>TOTAL</b>	60	60	0	60	0	100%

**Source: Survey Data, 2022**

From the table above, 60 questionnaires were sent to five manufacturing Firms in Rivers State. 60 questionnaires were returned which indicate 100% retrieval rate.

## TEST OF HYPOTHESES

**Ho<sub>1</sub>: There is no significant relationship between Financial control system and financial performance of manufacturing firms in Rivers state.**

The hypotheses was tested at 5% (0.05) level of significance.

**Table 2. : Computation of spearman correlation coefficient on budgetary control systems and the performance of selected manufacturing firms in Rivers State**

X	R <sub>x</sub>	Y	R <sub>y</sub>	D	(R <sub>x</sub> -R <sub>y</sub> )	D <sup>2</sup>	(R <sub>x</sub> -R <sub>y</sub> ) <sup>2</sup>
5	5	6	4		1		1
7	4	4	5		-1		1
17	2	11	3		-1		1
26	1	19	2		-1		1
14	3	29	1		2		4
					0		8

**Source: Survey Data, 2022**

$$RS = 1 - \frac{6\sum d^2}{n^3 - n}$$

Where: RS = Correlation coefficient being studied.

$\sum d^2$  = Sum of the squared differences in the ranking of the Subject on the two variables.

n = Sample size.

Substituting the value into the above formula, we will have

$$\sum d^2 = 8$$

$$n = 5$$

$$\text{Therefore: } r_s = 1 - \frac{6 \times 8}{(5)^2 - 5}$$

$$= 1 - \frac{48}{125 - 5}$$

$$= 1 - \frac{48}{120} = 0.4$$

$$1 - 0.4 = 0.6$$

$$\begin{aligned} Z &= r_s \sqrt{n-1} \\ &= 0.6 \sqrt{5-1} \\ &= 0.6 \sqrt{4} \\ &= 0.6 \times 2 \\ &= 1.2 \end{aligned}$$

### DECISION RULE

The decision rule said accept  $H_0$  if the calculated  $z$  is less than the tabulated critical value. Hence reject  $H_0$  and accept  $H_a$  if the calculated  $z$  is greater than the tabulated critical value. In the computation above, the computed value of  $z = 1.2$  which is greater than the tabulated critical value of 0.9000, hence we reject  $H_0$  and accept  $H_a$ . Therefore, this implies that budgetary control system has significantly relationship with the performance of management activities in selected manufacturing firms in Rivers State.

### $H_0$ : There is no significant relationship between prudent expenditure retirement and financial performance of firms in Rivers state.

The independent variable is designated as  $X$ ; while the dependent variable is designated as  $Y$ . the hypotheses was tested at 5% (0.05) level of significance.

**Table 3. : Computation of Spearman correlation coefficient on prudent expenditure retirement.**

X	R <sub>x</sub>	Y	R <sub>y</sub>	D R <sub>y</sub>	(R <sub>x</sub> - R <sub>y</sub> ) <sup>2</sup>	D <sup>2</sup> R <sub>y</sub> ) <sup>2</sup>	(R <sub>x</sub> - R <sub>y</sub> ) <sup>2</sup>
3	5	7	4	1	1	1	1
7	4	4	5	-1	1	1	1
15	3	15	2	1	1	1	1
21	2	11	3	-1	1	1	1
23	1	32	1	0	0	0	0
				0	0	4	4

**Source: Survey Data, 2022**

$$R_s = 1 - \frac{6 \sum d^2}{n^3 - n}$$

Where:  $R_s$  = Correlation coefficient being studied.

$\sum d^2$  = Sum of the squared differences in the ranking of the Subject on the two variables.

$n$  = Sample size.

Substituting the value into the above formula, we will have

$$\sum d^2 = 4$$

$$n = 5$$

$$\text{Therefore: } r_s = 1 - \frac{6 \times 4}{(5)^3 - 5}$$

$$= 1 - \frac{24}{125-5}$$

$$= 1 - \frac{24}{120} = 0.2$$

$$1 - 0.2 = 0.8$$

$$Z = r\sqrt{n-1}$$

$$= 0.8\sqrt{5-1}$$

$$= 0.8\sqrt{4}$$

$$0.8 \times 2$$

$$= 1.6$$

### DECISION RULE

The decision rule said accept  $H_0$  if the calculated  $z$  is less than the tabulated critical value. Hence reject  $H_0$  and accept  $H_a$  if the calculated  $z$  is greater than the tabulated critical value. In the computation above, the computed value of  $z = 1.6$  which is greater than the tabulated critical value of 0.9000, hence we reject  $H_0$  and accept  $H_a$ . Therefore, financial control system significant relationship with the performance of ministry of works in Rivers State.

### DISCUSSION ON FINDINGS

The hypotheses proved that budgetary control system has significant relationship with the performance of management activities of manufacturing firms in Rivers State. That is to say that budgetary control measures enables management to operate at a less expensive medium avoiding wastage and losses.

Also, the hypotheses proved that prudent expenditure retirement has significant relationship with the performance of workers in manufacturing firms. This is in agreement with Seldin (2001) who also argues that for smooth implementation of budgets, budgetary planning and control must be done properly. Evaluation of budgetary controls act as a process of assessing performance against budget standards and performance targets with the intent to take corrective action as stated by Emmanuel and Otley (2005).

So, from the study, the research found out that budgetary control system has major relationship with the performance of firms in Rivers State. And this is in line with Ngereboa, (2009) who suggested that inadequate budgetary control lead to objectives being unclear and performance not satisfactorily achieved. This reduces output because employees/staff do not know or are doubtful about what to do, when and how to do it.

### CONCLUSION/RECOMMENDATIONS

From the findings of the study, the following conclusions were drawn: first, the study concluded that, financial control system has significantly relationship with the performance of firms in Rivers State. Secondly, the study also concludes that prudent expenditure retirement has significant relationship with the performance of manufacturing firms in Rivers State. Based on the findings of this study, we proffer the following recommendations-

1. Management of manufacturing firms should put in place an effective budgetary control system which will enable them conduct their duties in an efficient manner. A firm's budgets should be regarded as an effective means of controlling or managing an organizational finance.
2. Budget should be comprehensive enough to include all revenues, expenditure as well as key programs, projects and policies. Equally, firm's managers should evaluate their present performance annual targets, work on threats and opportunities and analyses the achievement and breakdown of previous plans so as to advance on their budgetary planning.

**REFERENCES**

- Akintoye, I. R. (2008). Budget and budgetary control for improved performance: A consideration for selected food and beverages companies in Nigeria. *European Journal of Economics and Administrative Sciences*, 6(3), 159-161.
- Ambetsa, W. O. (1998). *A survey of the challenges in budgeting by commercial airlines*. Unpublished PhD Thesis, University of Nairobi.
- Churchill, E. (2011). Budget and prudent spending, the Nigerian accountants: *Journal of the Institute of Chartered Accountants*, 19(6), 30-33.
- Collins, D. (2011). *Finance and accounts for managers*. Pan Book.
- Emmanuel, B. & Otley, W. (2005). Accounting, budgeting and control systems in their organizational context: Theoretical and empirical perspectives. *Accounting, Organizations & Society*, 8 (2/3), 153–169.
- Ghimire, B., & Abo, R. (2013). An empirical investigation of Ivorian SMEs access to bank finance: Constraining factors at demand level. *Journal of Finance and Investment Analysis*, 2(4), 29–55.
- Kalagbor K. G. & Onuchukwu, C. (2012). *Public Sector Accounting and Economics in Nigeria*. Acahrdec Research Publisher.
- Kalagbor, K. G (2007). *Intermediate macroeconomics and prevailing market forces*. Gbeke, W. C Ventures.
- Kipkemboi, S. (2013). *Effect of budgetary control on performance of non-governmental organizations in Kenya (Unpublished MBA Project)*. University of Nairobi
- Koech G. M. (2015). *Effects of budgetary control on the financial performance of selected manufacturing companies in Kenya (Unpublished MBA Project)*. University of Nairobi, Kenya.
- Lilly, L. & Juma, D. (2014). Influence of strategic innovation on performance of commercial banks in Kenya: The case of Kenya commercial bank limited in Nairobi. *European Journal of Business Management*, 2 (1), 336-341.
- Munene, G., (2010). *A survey of the challenges of budget preparation and implementation among manufacturing companies*. Quoted at the Nairobi Stock Exchange (Unpublished MBA Project). University of Nairobi.
- Muthoni, W. (2016). Influence of budgeting on SMEs credit accessibility and performance in Nairobi. *International Journal of Information Technology and Business Management*, 17(1), 1-11.
- Ngerebo-a T. A (2002). *Corporate financial management*. Sabcos Publisher.
- Onduso, E., (2013). *The effect of budgets on financial performance of manufacturing companies in Nairobi (Unpublished MBA Project)*. University of Nairobi.

- Pimpong S. & Laryea H. (2016). Budgeting and its impact on financial performance: The case of non-bank financial institutions in Ghana. *International Journal of Academic Research and Reflection*, 4 (5); 12-22
- Seaman, A. E., Jor, R. L. & Williams, J. J. (2011). *Budget related behavior: Resolving a portion of the performance puzzle in the Management Accounting System*. Cartwright Publishers.
- Seldin M. (2001). *Public Accounting & Finance in Nigeria*. Osiai Int'l Publishers Ltd.
- Tasie, J. C. (2016). *Budgetary control system and organizational performance of ministry of works in Rivers State*. An Unpublished project, Accounting Department, Ignatius Ajuru University of Education.