CORPORATE BUDGETING AND ITS IMPACT ON ORGANIZATIONAL SUCCESS: A CONSIDERATION FOR SELECTED MANUFACTURING COMPANIES IN DELTA STATE, NIGERIA

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ABSTRACT

This study was carried out to examine how corporate budgeting can impact on the organizational success of the selected manufacturing companies in Delta State, Nigeria being a sample of the entire population of the firms in the Nigerian manufacturing sector. In the current economic environment, corporate organizations are beginning to pay more attention to efficient management of limited resources and, for this purpose, employ budgets as tools for sound financial management. A set of structured questionnaires were used as instrument for data collection. A sample size of 80 was used in this study out of a total population of 100 at 95% confidence level using Yaro Yamene formula. An empirical investigation was carried out considering two hypotheses formulated and tested using the Pearson Product Moment Correlation Coefficient at 0.05 level of significance. The results established that positive and significant relationship subsists between effective corporate budgeting and the enhancement of accountability, planning, and control in entities. The study concluded that for an organization to conduct its activities profitably, effective implementation of budgets is imperative. The study recommended top management involvement and support; addressing budget-gaps employees participation in goal setting; a clear definition of both short-term and long-term objectives within which corporate budgeting operates, and organizational structure which clearly defines responsibilities and authority; an effective accounting information system; and regular refinement of budgets and targets in line with prevailing circumstances for effective corporate budgeting.

Keywords: Budgets, budgeting, budget committee, corporate, organizational success.

BACKGROUND TO THE STUDY

Following the complexities, uncertainties and dynamics of both microeconomic and macroeconomic environment under which business activities are globally conducted in modern times, managers are inevitably compelled to use some proven managerial techniques and tools to wither the storms of the ever-changing business climate. Therefore, management of businesses are constantly conscious of the fact that a lot of challenges have to be surmounted to ensure effectiveness and efficiency in optimizing their operations in order to improve upon their earning potentials and attain overall organizational success. The budgetary system is handy as a panacea to achieve their corporate goals and objectives, thereby ensuring stable future. For a fact, budgeting is a universal concept that is used by the three components of an economy (individuals, firms, and governmental units).

Stated simply, the budget is a financial plan showing an entity's objective and how its management intends to acquire and use the available resources to attain its pre-established objectives. It is either one plans to succeed or plans to fail and worse-off without a plan. A budget is a management's blue-print in structured form, disclosing the desired outcome of financial activities for a specific set of resources and for a certain period of time. In other words, the budget is a tool by which an entity translates its strategies and quantitative mission statements into action. Generally, budgeting is seen as the cornerstone for the prosperity of any economic unit's future. Therefore, failure to plan and control operations through the use of budgets could spell doom or financial quagmire for a company (Sunday-Ekwu,2004).

From the spectacle of Omolehinwa (2006:309), the budget is defined as "the plan of the dominant individuals in an organization expressed in monetary terms, and subject to the constraints imposed by other participants and the environment indicating how the available resources may be utilized to achieve whatever the dominant individuals agree to be the organization's priorities". Budgets have for sometime grown to be accepted as a primary tool for financial forecasting for organizations as it is obvious that for a business to be conducted profitably there should be a prediction of anticipated receipts or revenues and anticipated expenses and payments. Over the years, scholars have noted the importance of budgeting and have conducted much related researches, but to date, the results have been difficult to integrate and as such are often times conflicting.

In the business world, budget may be prepared for the business as a whole, for departments, for functions such as sales and production, or for financial and resource items such as cash, manpower, purchases, capital expenditures, etc. used in view of the fact that they are scarce, in every sector of the economy, when compared against needs. The growing complexity of the business environment and the cut-throat competition in market places makes budgeting an invaluable managerial tool. Management must know where it wants to be at the end of a prescribed period and how it intends to get there. It is not just enough to know what share of the market a company wants to capture, it must also plan how to achieve that objective.

Unfortunately, many business undertakings have not come to terms with this indispensable financial tool that has over the years guided a number of successful businesses. The situation becomes more precarious with the Small and Medium Scale Enterprises (SMEs) and assumes a frightening dimension in single or sole proprietorship concerns. The position clearly is that these businesses operate without any clear financial plan that shows where they presently are in physical terms and where they would desire to be in the future. More or less, they have no plan in terms of their anticipated financial incomes and expenditures.

Budgeting to an individual might not be a formal plan but his or her activities could be based on some degree of budgeting and reflect some level of planning if control is to be exercised. Business and other organizational activities of firms must be well planned so that the firms may operate effectively and efficiently utilizing all resources economically to achieve the desired results. Government at various levels must budget for the revenues to be generated and the expenditures to be incurred using its scarce resources to cater for the general well-being of her citizenry. Budget indiscipline on the part of any of the three components of the economy would surely lead to a lot of problems. Notably, the budget enables every functional area of an organization to be co-ordinated and integrated in terms of resource needs and application for optimum performance of the entire firm within a defined period of time.

Research Problem

Business failures in Nigeria are traceable to a number of issues connected with budgeting. These are mentioned hereunder in passing:

- Outright failure to draw up budgets before operations.
- Drawing up unrealistic budgets.

- Failure to comply with budgets, where there is one.
- Inability to finance budgets because of constraints.
- Lack of clarity and consistency in budgeting procedures, responsibilities, and timescales.
- Failure to follow-up and analyze variances.

The fear, therefore, is that if the situation is allowed to persist there will be high rate of business extinctions due to poor financial performance. This research sets out to investigate corporate budgeting and its impact on organizational success in some selected manufacturing companies in Delta State, Nigeria. Specifically, the study seeks to establish through empirical evidence if there is a relationship between sound budgeting system and organizational success in terms of accountability, planning, and control of resources vis-a-vis group goals and objectives.

Objectives of the Study

The broad objective of this study is to investigate corporate budgeting and its impact on organizational success in Nigeria. The specific objectives include:

1. To identify the extent to which corporate budgeting assist organizations in enhancing accountability, planning and control of their resources.
2. To identify the role of corporate budgeting in achieving corporate plans.
3. How budgeting can help to enhance financial stability and guarantee organizational success.

Research Questions

The following questions were raised to guide this study:

1. To what extent does corporate budgeting assist organizations in enhancing accountability and control?
2. Does corporate budgeting significantly assist organizations in achieving corporate plans, organizational success and stability?

Research Hypotheses

To be able to obtain cogent explanations for the impact of corporate budgeting on organizational success, the following research hypotheses are considered relevant for this study:

H_1- There is no significant relationship between corporate budgeting and organizational accountability and control.

H_2- There is no significant relationship between budgeting and achievement of corporate plans and organizational success and stability.

Literature Review and Conceptual Framework

A budget represents a quantified plan of action of an economic entity’s commitments to planned activities and resource acquisitions and uses, prepared and approved prior to a certain period of time. A budget can as well be described as a future plan of action formulated by management for the whole organization or a section thereof which is expressed in monetary terms. A budget is, therefore, a detailed commitment to a plan of action, and in this respect differs from a “forecast” which is merely an assessment of future events which are likely to occur if no positive planning action is taken (Adeniyi, 2013).

The act of preparing budgets is addressed as ‘’budgeting’’. Budgeting, an aspect of management process, involves the setting of performance standard for future activities so as to exercise control on costs, revenues, incomes, and other financial or non-financial activities. Thus, it is a means of obtaining accountability and control over the use of money or overall activities and relates to the expression of an entity’s future operating and financial decisions either in a quantitative or qualitative plans of action or both. Budgets are coordinated with each other as each functional budget has an effect on other budgets.

Horngren, Stratton, Sutton, and Teall (2004) perceives the budget as the quantitative expression of a proposed plan of action for a specified period and an aid to coordinating what needs to be done to implement plans; while Gorden Shillinglaw in Arora (2011) defined a business budget as “a pre-determined detailed plan of action, developed and distributed as a guide to current operations and as a partial basis for subsequent evaluation of performance”. A wealth of evidence presented in several literatures on corporate budgeting has affirmed that properly conceived budgets can be an effective device to communicate objectives, constraints, and expectations to people throughout an entity. Consequently, budget provides a road map for future activities and to set a series of goals to be pursued and the means by which they could be attained. It is worthy to note that Jesus Christ, the Risen Lord, interestingly is an Apostle of budgeting. His support for the budgeting system was clearly illustrated in His teachings on the *counting of costs* as recorded in Luke 14: 28-31.

Budgeting Process

More generally, working of the budgeting process takes off with the identification of the principal (or limiting) budget factor, which is the factor that limits the organization’s activities. As in the case with most manufacturing companies all that are produced can be sold and so the sales budget, an upshot of sales volume, is the logical starting point. In some other cases the principal factor may be a factor of production, such as productive/machine capacity or the unavailability of materials, shortage of skilled labour. Notice is taken that technical data on which budgets are based streams from the respective departments or units. Usually, the accountant or budget officer will express these plans in financial terms. Budget values reported in statements takes into consideration wherever possible, all known adjustments to budgets and all reasonably anticipated future adjustments within an outside a firm’s operating environment. (Atrill, 2002: Abohi, 2004: and Sunday-Ekwu,2004).

Coordination of budgets is often achieved through a *Budget Committee* whose membership comprises of senior managers to make sure that budgets are compatible and realistic. The *Budget Committee* is saddled with the responsibilities of providing the general guidelines that are needed for the preparation of budgets, resolving any difference amongst the different budgets prepared by the various units or budget holders. It also issues *budget manual* which is an assemblage of rules or instructions governing the responsibilities of budget-holders and procedures, forms, and records relating to the preparation and use of budgeting data. The Committee meets at regular intervals during the preparation of the budgets to clear any misinterpretation that may arise and the regular meetings help to permit and improve acceptance of the budgets by those who are expected to achieve them (Omolehinwa, 2008).

As soon as the first set of budgets have been compiled and coordinated with each other, they are summarized into a *Master Budget* and submitted to the company’s Board of Director’s to review and consider the budget results to ensure that they display fair representations of the firm's plan for the budget period. Upon amendment and approval, it becomes a working, planning and control document for the forth-coming budget period. Then after, the agreed budgets for the period under reference is published for use. Budgeted figures are constantly compared with real results; variances are located; the main differences are thoroughly studied: and a follow-up of necessary correctional actions is initiated.

Reasons for Budgeting

Various reasons have been adduced why corporate organizations are involved in budgeting. Some of these reasons according to Eferakeya (2013) are:

- It provides a formal planning framework which enables people to decide the future actions through production of detailed operational plans for each department or functional areas of an organization.
- Corporate budgeting fosters co-ordination of activities and departments of an organization so that each department or facet of operations to contribute meaningfully towards the entity's overall plan.
- Budgeting focuses business operations towards an organization set out goals.
- Budgeting enables control to be exercised in organizations. This involves the process of comparing actual results with budgeted figures and reporting on variations. This control framework enables expenditures to be kept within agreed limits and where deviations occur corrective actions can be taken promptly.
- Corporate budgeting fosters co-ordination of activities and departments or facet of operations to contribute meaningfully towards the entity's overall plan.
- Corporate budgeting ensures proper vertical communication between top, middle and operational management with respect to the organization objectives to be achieved within a time frame and the possible practical problems to encounter when implementing these objectives. With the budget, agreed plans are communicated to all staff involved. It also ensures horizontal communication between line managers of functional areas which fosters co-ordination. For instance, there must be a strong relationship between sales and production functions in order to ensure that their budgets are carefully developed and co-ordinated.
- Budgeting provides information about the costs of undertaking a specific activity, projects, programme, etcetera.
- Budgeting enables future operations to be quantified, which makes it possible for the allocation of limited resources that will provide huge degree of benefits to the organization.
- Corporate budgeting leads to the motivation of staff. With the involvement of both lower and middle management in budget preparation and establishment of realistic targets upon which performance is judged provides enough motivation on the part of lower and middle management level.

Key Purposes of Budgets

In a broad sense, a budget reflects a resource constraint under which managers of corporate organizations must operate for the budget period ahead, so that the budget can be utilized as the basis for controlling activities and applying resources. There are three key functions which budgets are intended to serve: <u>planning</u>, <u>controlling</u> and <u>administering</u>, and <u>reporting and evaluation.</u> All other purposes revolves around these planning relates to determining the activities an economic entity wishes to undertake; the controlling and administering function is achieved as budgets help assure that scarce resources are obtained and applied as planned;

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and lastly, in relation to reporting and evaluation, budgets lay the foundation for comparison of budgeted values against actual results and by this facilitates assessments of efficiency and effectiveness.

Omolehinwa (2006) citing Shillinglaw (1982) itemized the potential tasks of budgeting to include:

- To force managers to analyze the organization's activities critically.
- To direct management's attention from the present to the future.
- To enable management to anticipate problems or opportunities on time and to deal with them effectively.
- To give managers a continuing reminder of the actions they have decided upon.
- To provide a reverence point for control purposes.

He further added the co-ordination of the activities of the various segments or sub-units of the organization.

Problems Associated with Budgeting

Critics of budgeting have canvassed that budgeting is normally beset with some problems but, it does not necessarily follow that they will occur in any given situation. Lucey (2009:205) catalogued problems associated with budgeting as:

- There may be too much reliance on the technique as a substitute for good management.
- The budgetary, perhaps because of undue pressure or poor human relations, may cause antagonism and decreased motivation.
- Variances are just as frequently due to changing circumstances, poor forecasting or general uncertainties as due to managerial performance.
- Budgets are developed round existing organizational structures and departments which may be inappropriate for current conditions and may not reflect the underlying economic realities.
- The very existence of well documented plans and budgets may cause inertia and lack of flexibility in adapting to change.
- There is a major problem in setting the levels of attainments to be included in budget and standards.
- The inherent lags and delays in the system.

The Method

All the manufacturing organizations in Nigeria constituted the population of the study. Therefore, the researchers decided to limit the target population to ten (10)selected manufacturing companies in Delta State. The companies are located in Asaba, Agbor, Warri, Sapele, and Ughelli and the data used for the study were randomly selected. The research was purely a survey of the budgetary systems of the selected organizations. Kerlinger and Gilbert in Esene (2009) were unanimous in their views that survey design is one which involves the assessment of public opinions, beliefs, attitudes, motivations, and behaviour using questionnaire method. The survey design was adopted in this study because it involves the assessment of the opinion of the subjects on corporate budgeting and its impact on organizational success using questionnaires to seek information from respondent.

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The identity of the sampled companies has been concealed for reasons of strategy and confidentiality. A total of 100 copies of the questionnaires were distributed among the ten (10) firms selected and 10% of the organizational population was taken as sample size for the different companies. The questionnaire included items adapted from previous researches as well as current ones formulated by the researchers.

Table 1: Distribution of Samples

Companies	**Population**	**Sample @ 10% of population**
Co.1	110	11
Co.2	90	9
Co.3	70	7
Co.4	120	12
Co.5	60	6
Co.6	80	8
Co.7	150	15
Co.8	130	13
Co.9	100	10
Co.10	90	9
		100

Source: Field Trip, 2014

Note As identities of the companies are concealed, name of each company is represented by Co. 1 … Co. 10.

A sample size of 80 was selected from a population of 100 using the Yaro Yamere's formulae which is given as:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = Sample size sought

e = Level of significance = 0.05 or 95%

N = Population size = 100

$$n = \frac{100}{1 + 100\,(0.05)^{2}}$$

$$= \frac{100}{1+0.25} = \frac{100}{1.25}$$

= 80 respondents at 95% confidence level.

Applying the formula, the sample size from a population of 100 is 80 respondents at 5% confidence level. Simple random sampling method was used to select the respondents. The data used in this study were obtained from both primary and secondary sources of data. The instrument of primary data collected was the questionnaire and face-to-face interview. The instruments were validated by experts to authenticate the relevance of the instrument. Secondary data were collected from journals, monographs, and textbooks on business budgeting. Data collected were collated and analyzed using percentages. In addition, the hypotheses formulated were tested using the Pearson Product Moment Correlation Coefficient and the t-test at 0.05% level of significance.

Data Presentation

The tables presented below contain the analytical details relating to my findings from the respondents:

Table 2: Companies Studied with Number of Respondents

Companies	No. of Respondents
Co. 1	9
Co. 2	8
Co. 3	6
Co. 4	10
Co. 5	4
Co. 6	8
Co. 7	12
Co. 8	9
Co. 9	8
Co. 10	6
	80

Source: *Field Trip, 2014*

Hypotheses Testing and Results

Hypothesis 1

H_1: There is no significant relationship between corporate budgeting in enhancing organizations accountability and control.

The instrument was a likerate–type 5 point rating scale designed to attract the followings:

SA (Strongly Agree) --- 5 points
A (Agree) --- 4 points
Und (Undecided) --- 3 points
SD (Strongly Disagree) --- 2 points
D (Disagree) --- 1 point

The formula for the Pearson Product Moment Correlation Coefficient is represented below as:

$$r = \frac{N\sum X Y - \sum X \sum Y}{\sqrt{(N\sum X^2 (\sum X)^2 - [N\sum Y^2 - (\sum Y^2)]}}$$

Table 3: Calculation of Pearson Product Moment Correlation Coefficient

Options	X (Points)	Y (Responses)	XY	X^2	Y^2
Strongly Agree	5	40	200	25	1600
Agree	4	25	100	16	625
Undecided	3	9	27	9	81
Strongly Disagree	2	4	8	4	4
Disagree	1	2	2	1	4
Total	15	80	337	55	2326

Source: *Field Survey, 2015*

$$r = \frac{5(336) - (15)(80)}{\sqrt{(5 \text{ X } 55) - (15)^2 (5 \text{ X } 2326 - (80)^2}}$$

$$\therefore, r = 0.9484$$

The above result shows that there is positive and significant relationship between corporate budgeting and enhanced organizational accountability and control. To further justify the above result, the hypothesis is tested for significance as follows:

$$T_{cal} = \frac{r}{\sqrt{\frac{1 - r^2}{n - 2}}}$$

$$= \frac{0.9484}{\sqrt{\frac{1 - 0.9484}{5 - 2}}}$$

$$T_{cal} = 5.1808$$

$$t_{tab} = n - 2, \alpha\ 0.05 = 5 - 2, \alpha\ 0.05 = 3\ \alpha\ 0.05$$

$$\therefore, t_{tab} = 2.35$$

Hypothesis 2

H_2: There is no significant relationship between corporate budgeting and the achievement of corporate plans and organizational success and stability.

Table 4: Computation of Pearson Product Moment Correlation Coefficient

Options	X (Points)	Y (Responses)	XY	X^2	Y^2
Strongly Agree	5	38	190	25	1,444
Agree	4	26	104	16	676
Undecided	3	7	21	9	49
Strongly Disagree	2	5	10	4	25
Disagree	1	4	4	1	16
Total	15	80	329	55	2,210

Source: *Field Survey, 2015*

$$\sum X = 15, \sum Y = 80, \sum XY = 329, \sum X^2 = 55, \sum Y^2 = 2210$$

$$r = \frac{5(329) - (15)(80)}{\sqrt{(5 \text{ X } 55) - (15)^2 (5 \text{ X } 2210 - (80)^2}} = 0.9228$$

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From the above analysis, the result implies that there is significant and positive relationship between corporate budgeting and achievement of corporate plans and organizational success and stability. In the same vain, to justify the hypothesis a test of significance is employed as follows:

$$T_{cal} = \frac{r}{\sqrt{\frac{1 - r^2}{n - 2}}}$$

$$= \frac{0.9228}{\sqrt{\frac{1 - 0.85155^2}{5 - 2}}} = 4.1492$$

$$T_{tab} = n - 2, \alpha\ 0.05 = 5 - 2, \alpha\ 0.05 = 3\ \alpha\ 0.05$$

Therefore, $T_{tab} = 2.35$

RESULTS AND DISCUSSION

The results of H_1 shows that t_{cal} is > t_{tab} and therefore H_1 is rejected. This connotes that there is a positive and significant relationship between corporate budgeting in enhancing organizations and control. This is supported by the view of Lucey (2009) who stressed that budget serves as the basis of making budgets account for what they have done by the end of the budget period. Accountability leads to the establishment of a pattern of control over receipts and expenditure that permits a determination of whether funds have been used for the purpose for which they are meant or not. Accountability is achieved through specific allocation of funds and responsibilities and ensuring that all laws, rules and procedures established are obeyed and followed to the latter. Budget is an instrument of checking the excesses of officials through various control measures.

Similarly results of H_2 indicates that t_{cal} is > t_{tab} and so H_2 is rejected which implies that there is a positive and significant relationship between corporate budgeting and achievement of cooperate plans and organizational success and stability. This is supported by the views of Omolehinwa (2008) and Horngren et al (2004) who stressed that forecasts and estimates as to what resources should be mobilized and utilized are made in the budget. Planning is, therefore, central in budgetary process. Planning involves the determination of objectives, evaluation of alternative courses of action and the authorization for selecting programme. The planning purpose of budgeting is very central to the realization of budget objectives.

CONCLUSION

The study examined corporate budgeting and its impact on organizational success: An empirical study of selected manufacturing firms in Delta State, Nigeria. The study revealed that there is positive and significant relationship between corporate budgeting in assisting organizations in enhancing accountability and control. There is also a significant relationship between corporate budgeting in assisting organizations in achieving corporate plans and eventual success. To conclude, corporate budgeting is imperative for the development and growth of manufacturing organizations in Nigeria.

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RECOMMENDATIONS

Based on the findings of this study, it is expected that each manager's budget reflects his responsibilities. Accordingly, the following recommendations are, therefore, proposed for effective implementation of corporate budgeting in manufacturing organizations:

1. Sincere efforts should be made by top management to address budget-gaps and consider as a matter of necessity thorough investigation of deviations arising from the comparison of budgeted figures against real outcomes since the overall objective of budgeting is to help organizations achieve their group goals.
2. An organizational structure which clearly defines responsibilities and authority should be put in place.
3. There should be top management involvement and support in budget preparation and implementation.
4. A clear definition of the short–term and long term– objectives within which budgeting operates
5. Employees of various subunits should be co-opted in the target setting, as their involvement will produce an attainable budget and target for which they may be called to questions where unacceptable variance emerges.
6. Full acceptance and involvement of line managers.
7. Regular revision of budgets and targets in line with evolving circumstances.
8. An effective accounting information system that is supported with:
    - Expenditure / performances reports relating to responsibility
    - Timely and accurate reporting system
    - Ability to provide additional information upon request.

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