



The Imperatives of Budgetary Control in Enhancing Business Survival: An Empirical Study of Selected Banks in Delta State

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Abstract

This study was carried out to investigate the imperatives of budgetary control in enhancing business survival - An empirical study of selected banks in Delta State. A set of structured questionnaire with a five point likert scale was used as the instrument of data collection and administered on 45 respondents randomly selected from five commercial banks in Warri, Delta State. Data analysis was made using simple percentage tables and the hypotheses tested using the Pearson product moment correlation co-efficient and the t-test at 0.05% level of significance. The findings showed, that there is a statistically significant relationship between budgetary control and business survival. The study concludes that for a business to succeed, budgetary control is a necessary ingredient. The study however, recommended among others, continuous budget education, support of top management, adequate accounting system, participation by top executives and clearly defined organization for the success of budgetary control in organizations.

Key words: Imperatives; Budgetary Control; Enhancing; Business Survival

Introduction

Everybody is familiar with the idea of a plan. Not only in business, but in private life also, people make plans, though there are considerable differences in the way in which they plan. Some people do their planning entirely in their heads, others do it on rough papers and still others formally express their plans in quantitative terms. The process engaged in the latter group is called "budgeting". A budget is a plan relating to a period of time, expressed in quantitative terms.

Budgetary control is a system of controlling costs which includes the preparation of budgets. Budgeting is thus only a part of the budgetary control. In the terminology of cost accounting of Chartered Institute of Management Accounting London, budgetary control is "the establishment of budgets relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action the objective of the policy or to provide a basis for its revision". The following characteristics of budgetary control should be noted.

- ✓ Establish a budget or target of performance.
- ✓ Record the actual performance.
- ✓ Compare the actual performance with that budgeted.
- ✓ Calculate the difference and analyze the reasons for them.
- ✓ Act immediately, if necessary, for corrective actions to be taken.

The principles involved in budgeting have been likened to those followed by the captain of a ship. Before the voyage, he will plan his route, taking into account such factors as shipping hazards, tides and possible adverse weather forecasts. During the journey, he will record details of progress and frequently check actual progress with that planned. Though trying to keep to the plan, he may have to deviate from the plan if prevailing circumstances requires it. On completion of the journey, he will compare the conditions he encountered with those he expected. The experience so gained will be used. by him in planning similar voyages in the future. This simple analogy serves to illustrate the basic practice used in budgeting and budgetary control.

The technique of budgetary control is now widely used in the business world. Many business fail because of lack of efficient planning which could have revealed that the business should not have been started or that one should have been prepared to face serious dangers ahead.

The research hypotheses formulated in the null form for this study would be tested and they are firstly, efficient budgetary control measure has no significant relationship with planning in the firms under study and secondly, efficient budgetary control measure has no significant relationship with effective co-ordination of efforts of managers in the firms under study.

Statement of the Problem

The level of activity at which business can operate will very seldom be unlimited.

Limitations may be imposed, for example by:

- (a) Market demand for its products or services.
- (b) The number of skilled employees available.
- (c) The availability of material supplied.
- (d) The space available either as a working area or for the storage of goods.
- (e) The amount of each or credit facilities available to finance the business.

Some of these limitations may be due to natural causes .which will eventually be modified (for example an exceptional crop failure) and most of them can be overcome or avoided by planning decisions. The time necessary for the fruition of such plans, however, will vary, and in many cases will be longer than the forthcoming budget period.

When starting to prepare a budget therefore each manager should review the elements in the budget and identify where

limiting factors or governing factors exist. They will not all be equally significant, but where one particular limitation is of major importance, it may be necessary to budget for the item first and to construct the rest of the budget around it. This can happen not merely in one department but for the company as a whole, when the item concerned maybe referred to as the principal budget factor.

It is essential to identify the principal budget factor and any other limited factors at an early stage in the budgeting process so that management may consider whether; It is possible to overcome the limitation should they impose e.g. finding new markets for sales or obtaining alternative suppliers or substitute raw materials, or the limitations impose must be accepted and the business budgets must be produced within those limitations.

Objectives of the Study

The two main objectives of the study are:

1. To identify the extent to which budgetary control enhances business planning.
2. To find out whether budgetary control contribute to effective co-ordination of managers in business organizations.

Research Questions

The following two questions were raised to guide the study

1. To what extent does budgetary control enhances business planning?
2. Does budgetary control contribute to effective co-ordination of managers in business organization?

Research Hypotheses

For the purpose of this study, the following hypotheses are considered relevant.

1. Budgetary control significantly helps in business planning
2. Budgetary control contribute to effective co-ordination of managers in business organization.

Scope of the Study

The scope of this study comprised of selected banks in Warri, Delta State.

Literature Review

Conceptual Framework

Budgetary control could be defined as "the establishment of budgets relating the responsibilities of executives to the requirement of a policy, and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a basis for its revision" (C.I.M.A. London). Pandey (2002) views budgetary control as a system of controlling costs which includes the preparation of budgets. Budgeting is thus only a part of the budgetary control. The objectives of budgetary control can be summarized under the following,

Arora (2005).

- To communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented;
- To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals;
- To coordinate the activities and efforts in such a way that the use of resources is maximized;
- To provide a means of measuring and controlling the performance of individuals and units and to supply information on the basis of which the necessary corrective action can be taken;
- To state the firm's expectations (goals) in clear, formal terms to avoid confusion and to facilitate their attainability.

Budgetary control provides the following advantages, Ibitoye (2004).

- Budgetary control coordinates the activities of various departments and functions of the business;
- It increases production efficiency, eliminates waste and controls and costs; It pinpoints efficiency or lack of it;
- Budgetary control aims at maximization of profits through careful planning and control;
- It provides yardstick against which actual results can be compared; It shows management where action is needed to remedy a situation;
- It ensures that working capital is available for the efficient operation of the business;
- It directs capital expenditure in the most profitable direction;
- Budgetary control system creates necessary conditions for the introduction of standard costing technique;
- Budgetary control creates cost consciousness and introduces an attitude of mind in which waste and inefficiency cannot thrive.

The two principal weaknesses of fixed budgetary control include, Aborode (2005).

- Lack of flexibility. Some budgets are prepared without adequate flexibility to allow for unexpected situations which may arise during the currency of the budget. They are so fixed and tight that they become an end in themselves rather than a means to an end. In short, rather than serving as a means of controlling operations, the budgets control the manager;

- Resistance to controls. Some managers regard budgetary control as unnecessarily restrictive and an indirect way of curtailing their authority. Rather than seeing budgets as a means of improving performance and achieving corporate objectives they regard budgeting as a witch-hunting exercise. They adopt a protective stance on their budget centre and resist anything which attempts to bring it into harmony with other centers.

Methodology

The study population are all the commercial banks in Delta State. Five commercial banks were selected at random for the study. The data for this research was collected through primary source by the use of questionnaire. Forty-five questionnaires were administered and were fully completed and returned. Responses were presented and two hypotheses tested using the pearson product moment correlation co-efficient and the t-test at 0.05% level of significance.

Findings and Discussions

Table 1: Banking institutions studied with number of respondents in Delta State

S/No	Organizations	No. of Respondents
1.	UBA Plc, Warri	7
2.	Wema Bank Plc, Warri	11
3.	Unity Bank Plc, Warri	8
4.	Zenith Bank Plc, Warri	9
5.	First Bank Plc, Warri	10
	Total	45

Source: Research Data, 2015

Research Hypotheses

HO₁: There is no positive and significant relationship between budgetary control and helping in business planning, in the organizations under study.

Table 2: Calculation of pearson product moment correlation co-efficient.

Options	X points	Y responses	XY	X ²	Y ²
Strongly Agree	5	18	90	25	324
Agree	4	13	52	16	169
Undecided	3	8	24	9	64
Strongly Disagree	2	4	8	4	16
Disagree	1	2	2	1	4
Total	15	45	176	55	577

Source: Research Data, 2015

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

$$r = \frac{880 - 675}{\sqrt{(275 - 225)(2885 - 2025)}}$$

$$r = 0.9886.$$

The above result shows that budgetary control has significant relationship between business planning. But there is a greater need to test further to justify the stated hypothesis. In doing so, a test of significance will be employed.

$$T_{cal} = \frac{n-2}{1-r^2} \sqrt{0.98}$$

$$= \frac{5-2}{1-0.98^2} \sqrt{0.98}$$

$$T = 8.5298$$

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

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

The decision rule here is to reject H₀ if t_{cal} is > t_{tab}. Since t_{cal} is > t_{tab}, H₀ is rejected which means that budgetary control has significant relationship in helping business planning. This finding is in support of the view of Eferakeya (2012) who stated that budgetary control provides a formal planning framework which enables people to decide future actions through production of detailed operational plans for each department or functional areas of an organization.

HO₂: There is no positive and significant relationship between budgetary control and co-ordination of managers in organizations.

Table 3: Calculation of pearson product moment correlation co-efficient.

Options	X points	Y responses	XY	X ²	Y ²
Strongly Agree	5	20	100	25	400
Agree	4	10	40	16	100
Undecided	3	8	24	9	64
Strongly Disagree	2	5	10	4	25
Disagree	1	2	2	1	4
Total	15	45	176	55	593

Source: Research Data, 2015

$$\sum X = 15, \sum Y = 45, \sum XY = 176, \sum X^2 = 55, \sum Y^2 = 593$$

$$r = \frac{5(176) - (15)(45)}{\sqrt{(5 \times 55) - (15)^2 (5 \times 593) - (45)^2}}$$

$$\frac{205}{\sqrt{50 \times 940}} = \frac{205}{\sqrt{47000}}$$

$$\frac{205}{\sqrt{216.75}} = 0.9456.$$

In the above analysis, the result implies that there is significant relationship between budgetary control and co-ordination of managers in the organizations under study. this finding is in agreement with the view expressed by Ogiedu (2013) which stated that budgetary control fosters co-ordination of activities and departments of an organization so that each department or facet of operations contributes meaningfully towards the entity overall plan.

Conclusion and Recommendations

The major purpose of this study was to identify the imperatives of budgetary control in enhancing business survival - An empirical study of selected banks in Delta State. The result obtained showed that there is significant relationship between efficient budgetary control measures with planning and effective co-ordination of efforts of managers in the study area. Based on the findings/conclusion of the study, the following recommendations are necessary for more efficient budgetary control measures in organizations.

- Support by top management. If the budgetary control system is to be successful, it must be fully supported by every member of management and the impetus and direction must come from the very top management. No control system can be effective unless the organization is convinced that the top management considers the system to be important. Thus the top management must be committed to the budget idea as well as to the principles, policies and philosophy underlying the system.
- Participation by responsible executives. Those entrusted with the performance of the budgets should participate in the process of setting the budget figures. This will ensure proper implementation of budget programmes.
- Clearly defined organization. In order to derive maximum benefits from the budgetary control system, well defined responsibility centres should be built up within the organization. The controllable costs for each responsibility centres should be separately shown.
- Continuous budget education. The best way to assure the active interest of the responsible supervisors is continuous budget education in respect of objectives, potentials and techniques of budgeting. This may be accomplished through written manuals, meetings, etc, whereby preparation of budgets, actual result achieved etc maybe discussed.
- Adequate accounting system. There IS close relationship between budgeting and accounting. For the preparation of budgets, one has to depend heavily on accounting department for reliable historical data which necessarily forms the basis for many estimates. The accounting system should be well designed so as to set up accounts in terms of areas of managerial responsibility. In other words, responsibility accounting is essential for successful budgetary control.
- Constant vigilance. Reports comparing budget and actual results should be promptly prepared and special attention should be focused on significant exceptions - figures that are significantly different from those expected.
- Cost of the system. The budgetary control system should not cost more than it is worth. Since, it is not practicable to calculate exactly what a budget system is worth, it only implies a caution against adding expensive refinements unless their value clearly justifies them.
- Maximum profits. The ultimate object of realizing [he maximum profit should always be kept upper most.

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