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Budgetary Control, Budget Reward and Organizational Performance among Listed Manufacturing Companies in Nigeria

MUBARAQ SANNI (PhD); ADEBOWALE OGUNSOLA AND MUHAMMED KAMALDEEN USMAN*

Abstract

Thisresearch work explored how business performance in manufacturing sector is influenced by the use of budgeting for control and rewards in Nigeria. In this empirical investigation, the researchers adopted survey design, and all manufacturing businesses in Lagos State which are publicly traded as at 2018 constituted the study population. The study selected 185 respondents from the population, through purposive sampling technique. The research used primary data, while questionnaire was the main instrument employed in collecting the data. After the data collection, the study analyzed the data through the application of regression analysis. It was empirically reflected that the use of budgeting for operation control is directly and strongly associated with business performance. Moreover, it was reflected that performance is directly and strongly influenced by the use of budgeting for rewards determination in majority of the manufacturing firms that were investigated. It is concluded that budget as a control mechanism and budget reward system tend to improve organizational performance, if the system is effectively operated. It is therefore, recommended that organizations should be using budget in a more effective way to control their activities and to serve as a basis for rewarding managers and other employees for good performance.

Keywords: Budgetary Control, Budget Reward and Organizational Performance

Introduction

In every business organization, it is the system of control that is available at the disposal of top level management that determines the efficiency of business operations and these operations are linked with one another in a manner that influences goal attainment in business (Aruna, 2016). In support of this, for business resources including materials, manpower, funds and machines to be efficiently and effectively distributed among different business activities, budgeting is an important instrument (Olagunju *et al.*, 2014). In manufacturing firms, budgeting is the most popular device which management deploy to ensure that costs are within the set limits. This is called cost control, a process which involves an investigation or examination of how various resources are being used in different business operations

* Mubaraq Sanni (PhD., FCA., ACTI., MBA., FSM, FCPDM) is a lecturer; Adebowale Ogunsola (M.Sc., ACA) and Muhammed Kamaldeen Usman (M.Sc., ACA) are in the Department of Accounting and Finance, Kwara State University Malete, mubaraq.sanni@kwasu.edu.ng; Ogunsola.adebowale@gmail.com and usmankamal22@gmail.com

in pursuing the actualization of business objectives. In order to achieve this end, there is need to have actual expenditure compared with the industrial average.

Meanwhile, the amount of benefits that an organization will derive from budgeting is influenced by the extent of the use of budget in determining employees' bonuses, compensations and rewards. It has been identified at different occasions that performance is linked to employees' rewards. When employees are well compensated and rewarded through bonuses, praises, recognition and other means, they naturally have a sense of belonging, with a feeling that they are valuable in the face of their employers. Besides, it can make them feel that their employers have a serious concerns for their well beings and career development which makes them to be more willing and ready to give more to their organization in terms of their commitments to the attainment of organizational goals (Sajuyigbe *et al.*, 2013).

One of the factors that can be linked to poor and unsatisfactory performance of many manufacturing businesses in Nigeria is inappropriateness in the use of budget for control. To give more evidence, Obigbemi (2013) submitted that majority of the firms operating in the manufacturing industry have record of failure from their activities in most of their budget periods, and this is due to inability to effectively design and apply budgeting for the control of business activities in the firms concerned. This situation might have been responsible for low profitability and poor productivity in most of the businesses in the sector.

Moreover, most companies find it so difficult to motivate their employees' through budget based reward system. There are still companies using old fashion of management. The failure of management in organizations to efficiently and effectively use budget as a means and basis to determine employees' bonuses and other forms of reward has negatively impacted on job satisfaction among employees. This leads to high labour turnover, negative behavior towards works and consequently their poor performance, with the same effect on the firms' performance (Nduro, 2012).

However, most of theempirical evidences in the previous related research works indicated that the use of budget for control in organizations has a positive and direct link with business performance, such as Marcormick and Hardcastle (2011); Nickson and Mears (2012); Siyanbola and Trimisiu (2013); Knneth and Ambrose (2013); Agbenyo *et al.* (2018), while little research works indicated that control through budget does not have a clear relationship with business performance, such as Qi (2010). Similarly, results of most past research works on budgeting revealed that budget reward and organizational performanceare directly related such as, Khawaja *et al.* (2012); Gebremedhin (2015); Noreen and Faiza (2015); Muhammad and Owais (2015), meanwhile, Vera and Peter (2015)indicated in their studies that organizational

performance and budget rewards are not clearly associated. The disagreement in the results of different studies on budgeting and business performance, overtime, points to lack of conclusiveness on how business performance is influenced by the use of budgeting to achieve control and for rewards determination in organizations. Besides, none of the past research works on budgeting in Nigeria has investigated howthe use of budget for control together with the use of budget as reward basis impacts on organizational performance. This empirical research work thereby attempted to bridge the gap that exists in literature.

Based on the background above, the hypotheses stated below were tested to achieve the study main objective:

H01: The influence of budgetary control on businessperformanceis not significant among manufacturing business entities that are publicly traded in Nigeria.

H01: The influence of budget rewards on business performance is not significant among manufacturing business entities that are publicly traded in Nigeria.

Literature Review

Conceptual Review

Budgetary Control, Budget Reward and Organizational Performance

Budgetary control has been described by many budgeting scholars and authors from different perspectives overtime. Amala (2015) was of the opinion that managers in different organizations employ budgeting in their operations for control purpose which serves as aids to achieving growth and development in every economy.Budgetary control in organizations is a system which involves creating expenditure plan for a well defined time period mostly by senior managers and having actual spending compared with the planned expenditure to determine whether there is any adjustments needed to be made to keep spending on the track (Ifrah *et al.*, 2015). It was explained further that in businessesmanagement use budgeting as a medium to keep operating costs within the set limits. Meanwhile, according to Paul and Robert (2017), budgetary control is a managerial technique which management deploy to establish future cash requirements and how the needs will be met. Besides, they argued that it is a device which identifies responsibility centre manager with the expenses incurred in the centre and holds the manager responsible for such expenses.
For an organization to achieve its set objectives, actions must be taken to ensure that planned activities are properly monitored. That is, management must make sure that things are flowing in line with the plan. The whole of this process is what is known as control. Before the start of every operational period, it is necessary for senior managers to see that standard of performance is established and communicated to the

operational managers and subordinates. This will serve as a guide to them in proceeding with their allocated jobs. In most organizations, the commonly used tool for control is budget. Management in corporate entities use budgeting to determine what is expected of an individual officer and each department to achieve during a particular period, and at the end of the period, the actual results achieved are measured against the standard in the budget to ascertain whether there is efficiency or inefficiency on the part of every individual and unit concerned. In a situation where the actual performance is below the standard contained in the budget, management mostly investigate the variance in order to unravel the possible factors that may be responsible for such deviation. This will of course assist the firms to take corrective measures that will actually remedy the situation and prevent the future occurrence of such deviation. Control is very important for any business enterprise to flourish in its operations. Budgetary control helps firms to minimize waste in the use of available resources, which reduce operating costs and thereby leads to profit maximization for the firms.

Moreover, Sajuyigbe *et al.* (2013) claimed that the use of budget in organizations to determine managers' and employees' rewards has the capacity to make managers and employees to be more productive and this can translates into good organizational performance.When employees are fairly rewarded for their outstanding performance, it gives them a sense that their employers have concerns for their wellbeing and value their efforts. This in turn will propel them to be willing to give more to their organizations in terms of their commitments to the organizational assignments. Employeesare likeengine in organizations, while reward can be taken as a fuelthat powers the engine. Organizations achieve their established goals and objectives through their manpower. Sajuyigbe *et al.* (2013) linked low productivity of employees in Nigerian to lack of good rewarding system and inability of most employers to fairly reward their employees for good performance.

The use of budgeting as a basis to reward managers in business organizations is something that cannot be overemphasized, if businesses must succeed in their activities and move forward. Reward serves as a compensation to managers and subordinates for their commitments towards the realization of the business objectives in organizations. It can also be perceived as a means by which employees are appreciated for being more productive in their official engagement. In most places, rewards are usually given to employees when they perform more than the targets set for them during a specific time. The general philosophy of budgeting rewards is that for employees to be motivated for greater productivity, they need to be given bonuses, allowances or any other form of reward each time their performance is above the expectation. Lack of rewards or inadequate rewards for outstanding employees in organizations can make people settle for less performance, with no or little concern

for hard work. As a direct consequence, the organizations may not be able to realize the performance targets they set for themselves.

However, for an organization to survive and remain in business, ability to combine its resources in an efficient and effective way is a crucial factor. This implies maximization of business outcome in terms of profit with a given level of resources or attainment of a given performance target at a minimum cost. Ability of a business to make profit from its operations and remain on that track is an indication of good performance and evidence that the organization will be able to continue in its business activities in the future. For this purpose, organizations need budgeting as it has been argued that budgeting makes organizations to be efficient. Performance can also be measured in terms of liquidity. This is the ability of a firm to discharge its shot term obligation as at when they fall due for payment. It is usually measured through current ratio which is the ratio of current assets to current liability. Return on capital employed (ROCE), net asset (NA), dividend per share (DPS) and earning per share (EPS) are also performance indicators which business organizations employ to determine their performance of time.

Theoretical Framework

This study is premised on management theory. Raymond (2018) argued that the theory of management was propounded in 1900s by Henri Fayol. The feelings of the theorist that it is of great importance for managers to have a line of principles that will serve as a guide to them in performing their traditional management functions informed the development of the first version of management theory. Fayol's philosophy emanated during boom period when organizations in the private and public sectors were witnessing rapid growth and development, that made position of management a necessity. In order to make management discipline grow and develop, there was a need for scientific knowledge, that is, knowledge acquired through scientific researches. Fayol wrote a book on general and industrial managementpublished in 1916 and 1949, in French and English respectively. The management theory has four elements including organizational operations, functions of management, management principles, and methods for implementing principles (Tompkins, 2005).

Fayol postulatedthat effective control system is a necessary requirement for an organization to be successful in its operations. According to the theory, control system is an integral part of management that borders on evaluation and it has to do with the employees' performance being compared with the budgeted outcomes (Raymond, 2018). Besides, the proponent of the theory argued that for business organizations to grow and develop, management must be monitoring and evaluating actual performance in every area of business and identifying possible or actual variance or

deviation from the budgeted outcomes and ensuring improved performance,while ensuring that operating atmosphere is free from any problematic issuesthat may hinder the organization to succeed in its operations (Raymond, 2018). Control system must be implemented in organizations to eliminate or reduce the chances for losses that may arise from any form of irregularities such as fraudulent practices, theft and technological malfunction (Raymond, 2018).

Empirical studies

The previous empirical studies that were conducted in the area related to the current study are discussed below.

In Europe, Marcormick and Hardcastle (2011) investigated how performance in government establishment is influenced by control through budgeting. The researchers used forty government organizations as a sample for the study. For the data collected to be analyzed, the researchers used regression analysis, while the empirical evidence shown by the analysis was that performance is directly influenced by control. Meanwhile, in Boston Massachusetts, Nickson and Mears (2012) studied budget control and performance of state ministries. Results revealed that budgetary control in the selected state ministries is directly and strongly related to performance, using regression analysis as major analytical tool.Whereas, Khawaja *et al.* (2012) investigated how job satisfaction is related to rewards and motivation in Saudi Arabia amongsome selectedbanks. Five hundred and sixty eight employees were selected from the study population as sample. With the use of regression model, findings from the analysis reflected that both rewards and motivation positively and significantly influence job satisfaction in the sampled banks. Results also reflected that motivation is directly linked to rewards, while motivation was found to mediate the association between rewards and job satisfaction. Meanwhile, in Nigeria, Friday and Friday (2012) did a study on how performance of manufacturing firms is influenced by budgetary control. All the manufacturing business outfits that are publicly traded in Nigeria formed the study population. However, to select sample from the target population, the study adopted purposeful sampling method. The data used for the research work were secondary data, obtained from accounting records of the sampled firms. To ascertain how performance is explained by budgetary control, the study used correlation coefficient and the empirical evidences obtained from the analysis indicated that the influence of budgetary control on performance is strong and direct. Moreover, in Pakistan, Noreen and Faiza (2015) examined how job satisfaction is influenced by rewards through sense of fairness and work life balance, as mediators in banking sector. The study used questionnaires to gather the required data and the data were majorly analyzed withregression analysis. Statistical findings reflected that rewards and job satisfaction is strongly related among the studied banking staff. Besides, it was shown that rewards improve sense of fairness of staff and help them to

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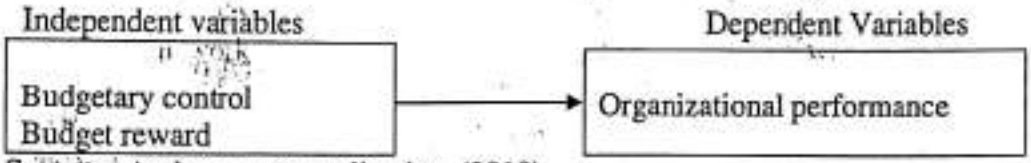
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balance their work life which make them to be more satisfied with their job.Besides, Vera and Peter (2015) carried out a study in Ghana on how reward and recognition are related to job satisfaction andmotiyation. The study adopted survey design and data were collectedfrom 157 teaching staff members, from 7 private institutions of higher learning that were selected, using stratified sampling technique. However, both convenience and purposeful sampling were employed by the researchers for sample determination and selection.For data analysis, the researchers employed the use of Analysis of Variance. Empirical results showed that rewards and motivation are strongly and positively associated, while the influence of rewards on job satisfaction is negligible.

Figure 2.2Conceptual Framework



Source: Author conceptualization, (2018).

Methodology

Research Design, Population of the Study and Sampling

The study employed the use of descriptive survey research design because this research design enables researcher to measure the perception of respondents on a particular phenomenon through their responses to the questions given to them.The research population comprised mainly manufacturing business outfits in Lagos State that are publicly traded.The choice of Lagos State was informed by the fact that majority of publicly traded manufacturing firms in Nigeria have head office in Lagos State. However, thirty seven firms were selected for the study, and this sample size was determined with the application ofTaro Yamane formulae. From the initial 37 companies determined, 5 respondentswere selected through judgmental sampling technique premised on the rules determined by the researchers to be assured that the respondents are more knowledgeable in budgeting, thereby making the number of the respondents to be 185.

Data Collection, Validity and Reliability Tests

The data used for the study were gathered through the administration of five-point Likert scale questionnaires to the respondents for completion. This method of data collection was considered most appropriate for the study because it allows study objects (participants) to choose from a large number of options provided, the one that

mostly suits their perception about the study phenomenon (Abogun & Fagbemi, 2012). However, to ensure the wide coverage of the instrument,and to ensure that it really measures the constructs of the study to a greater extent, the researchers employed the use of content validity.Before the actual administration of the instrument in the study filed, copies of the questionnaires were given to budget experts in academics, with experience in manufacturing. Meanwhile, the researchers employed Cronbach's alpha coefficient to measure and gain sufficient assurance about the internal consistency of the research instrument.

Measurement of Variables and Model Specification

Budgetary control and budget reward are independent variables. The study measured budgetary control with modified questions from previous related works. In the same way, budget reward was measured with questions adapted from past research works related to the present study. However, the study used organizational performance as dependent variable which was also measured with questions adapted from past related studies.

The research adapted model used by Melek (2009) to ascertain how performance is influenced by budgetary control. The specification of the model is depicted below.

$OPC=\beta 0+ \beta 1BCR+ \beta 2BRD+ \mu$
BCR=budgetary control
BRD=budget reward
β=coefficient of independent variable

As a priori expectation, it was expected that performance would be directly and strongly influenced by control and rewards among the firms involved in the study.

Results and Discussion of Findings

The study used maximum, minimum, mean and standard deviationas descriptive statistics, while regressionanalysis formed major inferential statistics employed to determine the relationship that subsists between the study variables. Meanwhile, before the main analysis was carried out, Cronbach's alpha coefficients were ascertained to gain sufficient assurance about the internal consistence of items used to measure each of the study constructs. Besides, the study determined Pair-wise correlation coefficients for all independent variables to ensure nonexistence of multicollinearity that may constitute a threat to the research findings.

Descriptive Statistics of all Measurement Items

The descriptive statistics concerning budgetary control, budget reward and organizational performanceare depicted in the below table. As reflected in the table, the average score of budgetary control is 3.93, and this carries a standard deviation of 1.24 approximately. The result is a reflection of the importance attached to budgeting as a medium of control in majority of th firms that were involved in the study. Moreover, it is revealed in the table that budget reward has an average score of 4.15 with 0.90 asstandard deviation, by approximation. This implies that among the sampled firms, the use of budget reward is a critical factor for performance improvement. For organizational performance, mean score is 3.40 approximately with standard deviation of 1.13. The results indicate improvement in the performance of the studied companies.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Budgetary Control	164	1.00	5.00	3.9268	1.23627
Budget Reward	164	1.00	5.00	4.1524	0.89713
Organizational Performance	164	1.00	5.00	3.9817	1.13220
Valid N (listwise)	164				

Source: Author's computation (2019)

Preliminary Tests

Both skewness and kurtosis tests were carried out in the study by the researchers to confirm the normality of scores distribution. Results obtained from the tests are displayed in the below table. The recommended values for skewness to be acceptable is -2 and +2, while -3 and +3 threshold are suggested for kurtosis.Based on this, it is sufficient to make a conclusion that the data gathered and used for the study were normally distributed to a greater degree, as all the values of skewness and kurtosis fall within the acceptable ranges.

Table 2: Normality Test

Variables	N	Skewness	Kurtosis
Budgetary Control	164	-1.388	1.534
Budget Reward	164	-1.497	1.043
Organizational performance	164	1.646	1.324

Source: Author's computation (2019)

However, to avoid the inclusion of two independent variables with high correlation which may cause multicollinearity problem, the researchers determined pair-wise correlation coefficients for all the independent variables used in the study. As it is reflected in the below table, the coefficients of pair-wise correlation between the variables are all below 0.70, as suggested by Tabachnick and Fideil (2007). This is a reflection that the issue of multicollinearity is not a threat to this study.

Table 3: Pearson Correlation Matrix for the Two Independent Variables

Constructs	Budgetary control	Emphasis on budget reward
Budgetary control	1	.314**
Budget reward	.314**	1

Note: **. Correlation is Significant at the 0.01 Level (2-Tailed).

In addition, the study ascertained Cronbach's alpha coefficients for each set of items used to measure individual construct on the research instrument, with a purpose of gaining adequate assurance that each set of items are consistent in measuring the construct they are purported to measure. Results obtained from the test conducted in this regard are displayed in the below table. It is reflected that all the coefficients are greater than 0.60, recommended by Cheok *et al.* (1989). This provides a greater assurance that there is internal consistence in each set of items used to measure different constructs.

Table 4: Cronbach's Alpha coefficients for all the Study Constructs

Constructs	No of Items	Cronbach's Alpha
Budgetary Control	5	0.893
Budget Reward	5	0.766
Org. Performance	5	0.836

Source: Author's computation (2019)

Regression Analysis Results

The empirical outcomes of regression analysis on how performance is predicted by budget use for control and reward determination are presented here as follow:

The table below reflects 0.286 as the R^2 of the regression model. This is an indication that budget use for control and reward determination jointly predict 28.6% of variation in performance of the firms involved in the study. The value of F-statistics as depicted in the table is 32.262, which is significant at $p<0.05$. This is anevidence that the regression model well predicts how performance is related to budget use for control and reward determination. Besides, the value of Durbin-Watson statistics is

2.136, as shown in the table below, which is greater than the threshold, therefore, it can be concluded that there is absence of autocorrelation of model residuals.

Table 5: Results on Regression Analysis

Variables	Coefficient	T-stat	Prob
Constant	1.098	2.854	0.104
Budgetary control	0.362	5.204	0.000
Budget reward	0.302	4.331	0.000
R	0.535		
R Square	0.286		
Adjusted R Square	0.277		
Std. Error of the Estimate	0.963		
F-stat	32.262		
Prob (F-stat)	0.000		
Durbin-Watson	2.136		

Source: Author's Computation (2019)

Discussion of Findings

Based on the results obtained from the regression analysis that are reflected in table 5 above, budget use for control and reward determination are directly and strongly related to performance. As it is revealed in the table, coefficient of budget use for control is 0.362 and it is significant at $p<0.05$. This informs that a unit change in budget use for control is expected to bring about 36.2% direct change in performance. These results are confirmed by the prediction of management theory which establishes direct relationship between performance and control.According to the theory, control system is an integral part of management that borders on evaluation and it has to do with the employees performance being compared with the budgeted outcomes (Raymond, 2018). Besides, the proponent of the theory argued that for business organizations to grow and develop, management must be monitoring and evaluating actual performance in every area of business and identifying possible or actual variance or deviation from the budgeted outcomes and ensuring improved performance,while ensuring that operating atmosphere is free from any problematic issuesthat may hinder the organization to succeed in its operations (Raymond, 2018). Moreover, findings on this study align with the empirical results obtained by majority of the past researchers in the related fields. For example, Hansen and Van der Stede (2004); Nickson and Mears (2012); Koech (2015); Tracy (2017) obtained direct and strong association between budget use for control and performance.

Besides,it is shown in the table that budget reward has a coefficient of 0.302 and it is significant at $p<0.05$. This means that organizational performance is likely to increase by 30.2% when budget reward goes up by one unit.The result matches agency theory

prediction that the use of budget to reward managers for good performance would make managers to be more committed to the goals of the organizational and this is expected to translate into enhanced organizational performance. The results are also in line with most of the previous empirical research works. For example, Khawaja *et al.* (2012); Muhammad and Owais (2015) revealed that performance is directly and strongly influenced by budget use for reward determination in their respective studies.

Conclusion and Recommendations

The study determined how budget uses for control and reward determination contribute to performance among manufacturing firms publicly traded in Nigeria. Findings provide evidence that variation in performance is jointly predicted by budget use for control and reward determination. Based on the researchfindings, it is concluded that the use of budget for control in business organizations is directly related to increased performance among the studied manufacturing companies.In addition, it is concluded that budget use for reward determination has direct and strong influence on performance among the firms involved in the study.

Based on the findings and conclusions made above that the use of budget for control and reward determination for employees are directly linked to improved organizational performance,it is thereforerecommended for a better performance in business organizationsthat organizations should make more use of budget for responsibility assignment and performance measurement. It is also recommended in relation to the findings that budget use for reward determination has a direct and strong influence on performance, that organization should increase the use of budget reward and compensate managers and other employees for meeting budget target and good performance. This is expected to enhance performance of the organizations.

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