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**An Analysis of an Organization's Budgetary Control System and its Link with
Performance Management and Decision Making**

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Abstract

Purpose: the purpose of this study was to analyze the impact of an organization's budgetary control system on performance management and decision making.

Methodology: The study population consisted of top management and middle level management of SDV Transami in Kenya. The choice of the top management and middle level management was because budgetary control is mostly influenced by these two management levels. The study sample was 46 departmental heads. A census methodology was taken since the population was small enough. Primary and secondary data were collected. Secondary data sources were used to supplement primary data to enable the researcher get in-depth information concerning the topic of research. The information was mined from scholarly works on budgetary control found in text books, magazines, management reports, operations guidelines and previous researches. Statistical Package for Social Sciences (SPSS) was used to generate the descriptive statistics and also to generate inferential results. Regression and correlation analysis was used to demonstrate the relationship between the variables. The results were presented in form of charts, graphs and tables.

Results: Results show that the managers rely on budgets to make decisions and further went to indicate that budgetary control was highly important in making managerial decisions. Budgetary control also influenced decision making in the organization in regards to decision on performance indicators. Trend analysis reveals that budgetary control affects decision making positively. Correlation and regression results revealed that there is a positive and significant relationship between budgetary control and decision making.

Unique contribution to theory, practice and policy: Since a positive and significant relationship was found to exist between budgetary control and performance management and decision making, it is recommended that budgetary control should be upheld. In addition, there should be involvement of staff in coming up with budgets. Furthermore, the organization should ensure that it continues with the practice of involving top management in coming up with budgets.

Keywords: *budgetary control, performance management, decision making*

1.0 INTRODUCTION

Budget and budgetary control serves as a guide in financial planning and ensures effective and efficient use of an organization's resources. Budgetary control as a managerial activity has gained prominence over the years. The ACCA (2010) notes that budgetary control has impacted positively on the performance of organization by serving as a basis for setting performance standards and measuring targets and corrective measures where there are deviations. The objective of this paper is to establish the impact of budgetary control on the performance of an organization and its decision making.

Bititci, Carrie and McDevitt (1997) define performance management as a process by which the company manages its performance in line with its corporate and functional strategies and objectives. Performance management centers on enhancement of an organization's performance by employing behavior analysis in business and is used in all types of organizations. Performance management borrows heavily from budgetary control simply because budgetary control requires that performance indicators are set, performance targets established, recording of actual performance and the evaluation of variances between budget and actual figures. Corrective actions from this enhance performance since whatever is measured gets done. This is also in line with goals setting theory. The end point of effective performance management is effective employee and organization performance. Therefore, this forms the rationale of choosing organization performance to operationalize performance management. Ultimately, this research was seeking to establish whether a well-executed budgetary control is a reliable tool for performance management and decision making.

Modern business environments are very dynamic causing difficulties in assessment of performance which then presents challenges in decision making. When budgetary control is employed, a positive variance in the budget could mean better performance and therefore a motivation to follow through the strategies employed to further enhance the results. However, a negative variance could mean that management would need to review the parameters on which it relied on to make decisions that resulted into the retrogressive results.

SDV Transami Kenya Limited is a private company based in Nairobi Kenya and is in the logistics, freight and forwarding business. Its services include custom clearance, warehousing, supply chain management and transportation. It operates in 5 regions namely; Africa, Europe, Middle East & South Asia, Asia-Pacific and Americas.

Budgetary control is an important process in SDV Transami and is used in laying down departmental targets as a means to achieving organization goals.

As an accountant, my motivation for choosing this topic of research was to broaden my knowledge in budgetary control, performance management and decision making.

1.2 Problem Statement

The role of budgetary control in organization performance management has been highlighted by scholars and practitioners alike. Budgets facilitate decision making in profit, not-for-profit and governmental organizations.

SDV Transami, is a leading clearing and forwarding agent in Kenya and has witnessed steady growth in turnover and profitability over the last two decades. Its growth has happened despite the crests and troughs of economic cycles the country has gone through during those years.

The business' budgetary control is such that it monitors performance of an employee's effort from small team to a departmental level all the way up to the organization a whole. As such, budgetary control is cascaded down from the organization through departments up to an employee level, making it a tool for enhancement of performance with a view to increasing shareholders' value.

Therefore, it was the interest of this research to conclusively determine whether budgetary control had any influence on the performance management and decision making of SDV Transami resulting to increased shareholder's value

1.3 Study Objectives

1. To establish the influence of budgetary control on performance management.
2. To establish the influence of budgetary control on decision making.

2.0 LITERATURE REVIEW

2.1 Theoretical Literature Review

Goal Setting Theory to Performance Management

Performance management involves all the initiatives whereby managers strive to guide and motivate high performance by employees. Such initiatives have traditionally focused on providing formal performance appraisals, rewards and recognition for high performance, as well as taking remedial action to address performance deficiencies. Performance management can also facilitate adaptability and continually improve performance in rapidly changing contemporary workplaces. To do so, however, traditional periodic performance appraisal initiatives need to be supplemented by ongoing performance coaching (London, 2003). A key ingredient for effectively coaching employees is the prudent use of goal setting. Goal setting can be achieved through budgetary control. The prime axiom of goal setting theory is that specific, difficult goals lead to higher performance than when people strive to simply do their best (Locke & Latham, 1990). Working to attain valued goals relieves boredom by imbuing work with a greater sense of purpose. Even though setting high goals sets the bar higher to obtain self-satisfaction, attaining goals creates a heightened sense of efficacy (personal effectiveness), self-satisfaction, positive effect, and sense of wellbeing – especially when the goals conquered were considered challenging (Wiese & Freund, 2005). By providing self-satisfaction, achieving goals often also increases organizational commitment, which in turn positively affects organizational citizenship behavior (Organ, Podsakoff, & Mackenzie, 2006), which negatively affects turnover (Wagner, 2007), and increases the strength of the relationship between difficult goals and performance (Locke & Latham, 1990). Specific challenging goals do not, however, necessarily lead to such advantageous private and organizational outcomes. Rather, the results from goal setting depend significantly on issues pertaining to goal assurance, task complexity, goal framing, team goals, and reaction.

Theory of Budgeting

Budgets solves an organization's need to plan and consider how to deal with future impending risks and opportunities by establishing a well-organized structure of control, a detector of variances between organizational objectives and performance (Anthony & Govindarajan, 2007; Davila & Foster, 2007; Innes, 2005 Sandino, 2007; Coltman & Jagels, 2001).

2.2 Empirical Literature Review

Participative budgeting approach has unconstructive impact on performance (Stedry 1960; Cherrington & Cherrington, 1973). On the other hand other scholars are of a different opinion, for instance, Blocher *et al.* (2002) who express disagreement with the former statement and states that budgets assist to allocate assets, organize operations and provide a way for performance Measurement. This argument is seconded by Brownell (1982) who found an affirmative connection between budget contribution and performance. Hilton *et al.* (2002) concurs with this analysis and claim that the budget is the most widely used technique for planning and control purposes. Conventionally, budgeting is well thought-out to be one of the most important management gears to guide the organization, evaluate its performance and motivate its people. Budgets are still important and can, for example, be included as part of performance determination (Clarke & Toal, 1999).

Management professionals point out that budgets constitute a challenge to the distribution of organizational resources to their most optimal use. In addition, management professional note that budgets lead to narrow minded decision-making (Fraser and Hope, 2003). Hope and Fraser, 2003) Hansen *et al.* (2003) Wallander (1999) criticized budgetary control and argued that budgetary control has a negative effect on decision making. This is because budgets consume too much time, lead to bureaucracy and rigidity in the organization structure and control, lead to lack of decentralized decision-making, suppress initiative and inventiveness. Further, budgetary control emphasizes on reducing costs instead of emphasizing on the creation of value. In addition, budgets creating vertical, command and-control and responsibility centre-focused budgetary controls are incompatible with flat, network, or value chain-based organizational designs and impede empowered employees from making the best decisions.

Budgetary controls assists managers bring and keep short-range steps in line with all long-range goals. Budgets assist managers adjust their operations and plans to unexpected changes by providing a framework or measure against which to evaluate the consequences of the change (Hall, 2003).

3.0 RESEARCH METHODOLOGY

The study population consisted of top management and middle level management of SDV Transami in Kenya. The choice of the top management and middle level management was because budgetary control is mostly influenced by these two management levels. The study sample was 46 departmental heads. A census methodology was taken since the population was small enough. Primary and secondary data were collected. Secondary data sources were used to supplement primary data to enable the researcher get in-depth information concerning the topic of research. The information was mined from scholarly works on budgetary control found in text books, magazines, management reports, operations guidelines and previous researches. Primary

data was collected using a self-administered questionnaire as a data collection tool. Secondary data was obtained from SDV Transami database. Statistical Package for Social Sciences (SPSS) was used to generate the descriptive statistics and also to generate inferential results. Regression and correlation analysis was used to demonstrate the relationship between the variables. The results were presented in form of charts, graphs and tables.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The number of questionnaires that were administered was 46. A total of 32 questionnaires were properly filled and returned. This represented an overall successful response rate of 69.5% as shown on Table 1.

Table 1: Response rate

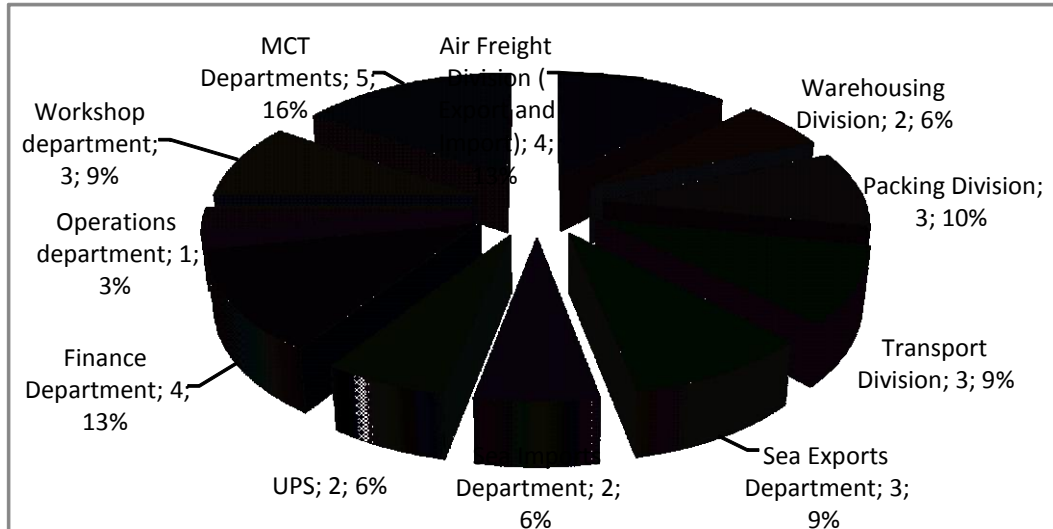
Response	Frequency	Percentage
Returned	32	69.5%
Unreturned	14	29.5%
Total	100	100%

4.2 Demographic Characteristics

4.2.1 Respondents Departments

The respondents were requested to indicate their departments. Results in figure 1 illustrate the highest number of respondents were from MCT Department (16%) followed by Air Freight Division (13%). The lowest percentage of respondents came from the Operations Department. The rest of the respondents were spread across the various departments. The results implied that the respondents were well distributed across the departments and this further implied that the results were representative.

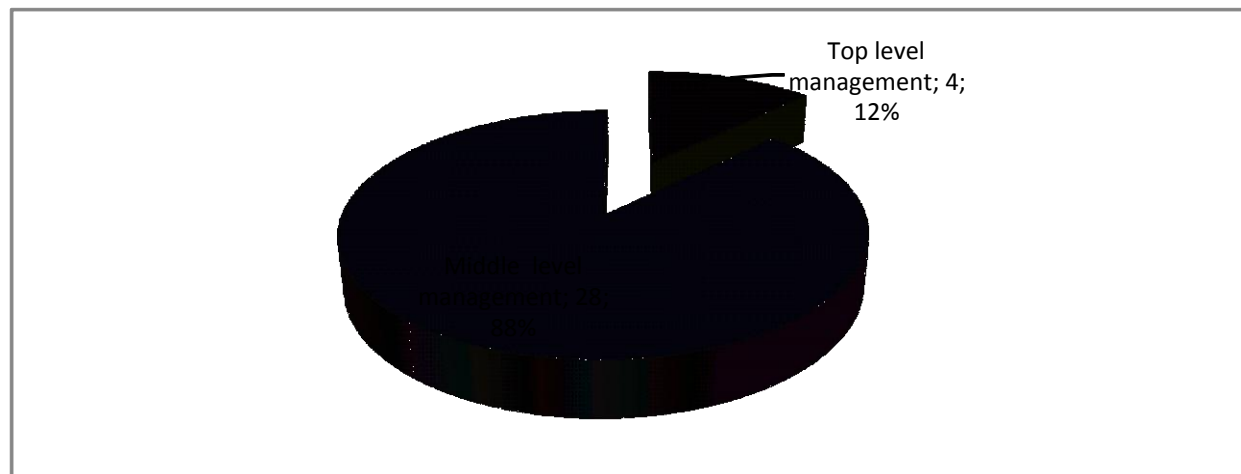
Figure 1: Departments



4.2.2 Position in the Organization

The respondents were requested to indicate their position. Results in figure 2 revealed that middle level management were majority (88%) and the rest were top level management (12%). These results could be explained by the reality on the ground that top level management is usually fewer than other levels of management.

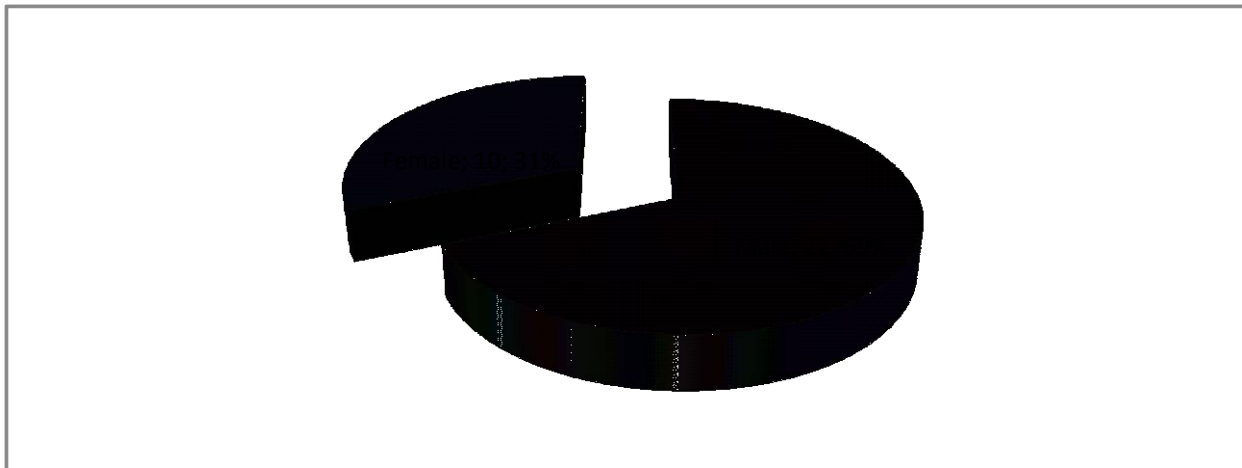
Figure 2: Position in the Organization



4.2.3 Gender of Respondents

The respondents were requested to indicate their gender. Findings in figure 3 show that majority of the managers in SDV Transami were males at 69% and females at 31%. This could imply the existence of gender imbalance in the engagement of senior managers at SDV Transami. As noted in the Constitution of Kenya (2010), gender balance requires having at least 1/3 (33.3%) of the positions being assigned to a gender category. The gender imbalance may have an implication on budgeting control, performance and decision making at SDV Transami.

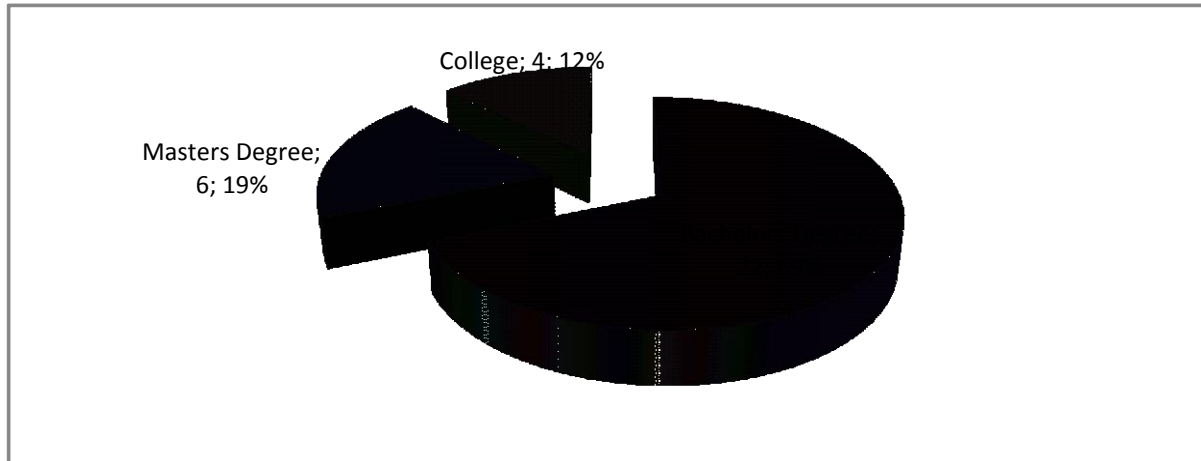
Figure 3: Gender of Respondents



4.2.4 Level of Education of Respondents

The respondents were requested to indicate their level of education. Results in figure 4 indicated that a majority (69%) of respondents had a Bachelors Degree while another 19% had a Masters degree as the highest level of education. Meanwhile, 12% had college Diploma as their highest level of education. The findings show that SDV has a highly educated workforce and this forms a key strength which may have facilitated budgetary control, performance management and decision making.

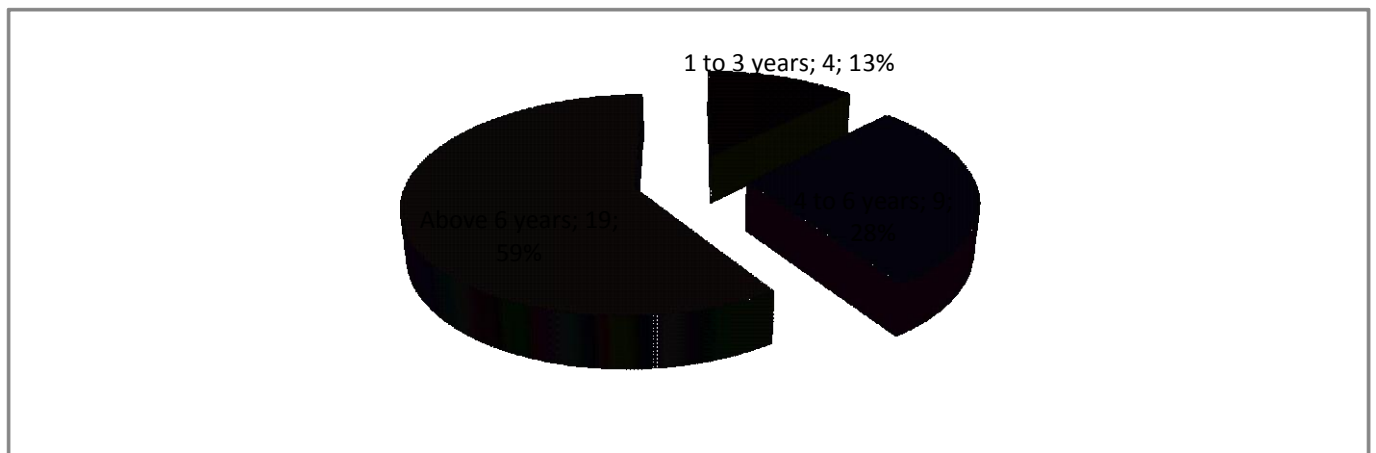
Figure 4: Level of Education



4.2.5 Period worked with SDV Transami

The respondents were requested to indicate the period worked at SDV Transami. Results in figure 5 show that majority of respondents (59%) had worked in the organization for more than 6 years while 28% had worked for 4 to 6 years. Thirteen percent (13%) had worked for 1 to 3 years. The findings imply that respondents have adequate experience in the organizational matters and this may have impacted on budgetary control, performance management and decision making.

Figure 5 : Period worked with SDV Transami



4.3 Descriptive Statistics

4.3.1 Performance Management

The respondents were requested to indicate their opinion on whether or not budgetary controls contribute positively to the performance of SDV Transami. Results in table 2 which sought the opinion of respondents/managers on the positive contribution of budgetary controls to the performance showed that 91% of the respondents agreed, 6% were unsure while 3% said no to the positive contribution of budgetary controls on performance. The results concur with those of Merchant (1981) and Brownell (1982) who found a positive relationship between budget participation and performance. The researchers' arguments are seconded by Brownell (1982) who found an affirmative connection between budget contribution and performance. Hilton et al (2002) concurs with this analysis and claim that the budget is the most widely used technique for planning and control purposes.

Table 2: Contribution of Budgetary Controls to Performance of SDV Transami.

	Frequency	Percent
Yes	29	91%
No	1	3%
Not Sure	2	6%

The respondents were requested to indicate their opinion on significance of budgetary control in performance measurement for the next five years. Results are presented in Appendix IV. Findings in table 3 in regards to opinions of respondents on significance of the role of the budgetary controls in performance measurements in the next five years tabulated that 91% of the respondents said the significance was high while 9% said the significance was moderate. These findings concur with those of Hilton et al (2002) who agree with this view and claim that the budget is the most widely used technique for planning and control purposes.

Table 3: Role of Budgetary Control in Performance Management

	Frequency	Percent
High Significance	29	91%
Moderate significance	3	9%

4.3.2 Decision Making

The respondents were requested to indicate the extent to which they rely on budgets to make decisions. Results are presented in Appendix V. Results in Table 4 indicate that majority respondents 53% said to a larger extent, 12 % said moderate extent while 3% said low extent. The results imply that budgets are an important tool in determining performance and decision making.

Table 4: Reliance on budget

	Frequency	Percent
Large extent	17	53%
Moderate Extent	12	38%
Low Extent	3	9%

The respondents were requested to indicate the importance of budgetary control to given managerial decisions(Appendix II, Section C. Question 10). Results in table 5 indicate that majority (59%) of the respondents view decisions about hiring staff as highly important, (38%) as important and (3%) as lowly important. Sixty nine percent (69%) rated decision making on investing on bigger fleet as highly important, (31%) as important and (0%) as lowly important. On decisions about exiting from a certain services, majority (63%) of respondents rated it as highly important, 34% as important, 3% as lowly important. Ratings on decision about closing a department show that (66%) rated it as highly important, 34% as important and 0% as lowly

important. On decisions about rolling a new service, majority (59%) rated as highly important, 38% as important and 3) as lowly important. This implies that budgetary control is highly important on managerial decisions. The findings of this research agree with those of Hall (2003) who emphasizes that budgets assist managers adjust their operations and plans to unexpected changes by providing a framework or measure against which to evaluate the consequences of the change. This is because budgets consume too much time, lead to bureaucracy and rigidity in the organization structure and control, lead to lack of decentralized decision-making, suppress initiative and inventiveness.

Table 5: Budgetary Control on Managerial decisions

	Lowly Important	Important	Highly Important
Decision about Hiring of staff	3%	38%	59%
Decision about investing in a bigger fleet	0%	31%	69%
Decision about divesting/exiting from a certain service	3%	34%	63%
Decision about closing a department	0%	34%	66%
Decision about rolling a new service	3%	38%	59%

4.4 Inferential Statistics

4.4.1 Regression Analysis

Table 6 below shows the fitness of the regression model in explaining the variables under study. The results indicate that the model goodness of fit was satisfactory. This conclusion is supported by the R square of 0.887. This further means that the independent variable (budget control) can explain 88.7% of the dependent variable (Performance Management).

Table 6. : Model Fitness

Indicator	Coefficients
R	0.942
R Square	0.886833
Adjusted R Square	0.854499
Std. Error of the Estimate	29306359

ANOVA statistics presented on Table 7 indicate that the overall model was statistically significant. This was supported by a probability (p) value of 0.000. The reported p value was less than the conventional probability of 0.05 significance levels thus its significance in the study. These results indicate that the independent variable (budget control) is good predictor of performance management.

Table 7 : Analysis of Variance (ANOVA)

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	47113102521917200.000	2	23556551260958600.000	27.428	0.000
Residual	6012038581101070.000	7	858862654443010.000		
Total	53125141103018300.000	9			

Regression of coefficients results in Table 8 show that there is a positive relationship between budgetary control and performance management (beta=97.92, 3913.277). Performance management is statistically significant variable in the study with a p value of 0.004 and 0.023 which is lower than the conventional probability of 0.05. These results indicate that performance management is determined by budget control.

Table 3: Regression Coefficients

Variable	Beta	Std. Error	t	Sig
(Constant)	-1973188537	663388341.75	-2.974	0.021
Training Cost iBudgeting	97.92	22.721	4.273	0.004
Value of Man Hours used in Preparing Budgets per year	3913.277	1347.625	2.904	0.023

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

It can be inferred from this study and findings that indeed majority respondents/managers agree that budgetary control contribute positively to the performance of SDV Transami. Findings further indicated that significance of budgetary controls in performance management in the next five years was rated highly. Majority of the respondents indicated that all the performance indicators were above budgeted. Trend analysis reveals that budgetary control affects decision making positively. Trend analysis reveals that budgetary control affects performance management positively. Correlation and regression results revealed that there is a positive and significant relationship between budgetary control and performance management.

The results concur with those of Blocher *et al.* (2002) who stated that budgets assist to assign assets, arrange operations and provide a way for performance measurement. This argument is seconded by Brownell (1982) who found an affirmative connection between budget contribution and performance. Hilton et al (2002) agree with this analysis and claim that the budget is the most widely used technique for planning and control purposes. Conventionally, budgeting is well thought-out to be one of the most important management gears to guide the organization, evaluate its performance and motivate its people. Budgets are still important and can, for example, be included as part of performance determination (Clarke and Toal, 1999).

The study concluded that decision making at SDV Transami is influenced by budgetary control. This conclusion was arrived at from the responses gathered from the respondents/managers in the various departments in the organization. Results show that the managers rely on budgets to make decisions and further went to indicate that budgetary control was highly important in making managerial decisions. Budgetary control also influenced decision making in the organization in regards to decision on performance indicators. Trend analysis reveals that budgetary control affects decision making positively. Correlation and regression results revealed that there is a positive and significant relationship between budgetary control and decision

making. These results are supported by Hall (2003).who stated that budgeting controls assists managers bring and keep short-range steps in line with all long-range goals.

These findings however differ with Hope and Fraser (2003) Hansen *et al.* (2003) and Wallander (1999) who criticized budgetary control and argued that budgetary control has a negative effect on decision making. This is because budgets consume too much time, they cause bureaucracy and rigidity in the organization structure and control, lead to lack of decentralized decision-making, suppress initiative and inventiveness. Further, budgetary control emphasizes on reducing costs instead of emphasizing on the formation of value. In addition, budgets lead to creation of vertical, command and-control and responsibility centre-focused budgetary controls are incompatible with flat, network, or value chain-based organizational designs and impede empowered employees from making the best decisions.

5.2 Recommendations

Since a positive and significant relationship was found to exist between budgetary control and performance management and decision making, it is recommended that budgetary control should be upheld. Specifically, recording of previous period accounting and non-accounting information for budget generation should always be done. In addition, there should be involvement of staff in coming up with budgets. Furthermore, the organization should ensure that it continues with the practice of involving top management in coming up with budgets. It is suggested that periodic review of performance against budgets, regular investigation of the source of variances budgets, implementation of recommendations for correcting variances and implementing of a reward structure or incentives consistent with budget culture are important considerations for the organizations. Also, the company should look at other factors that directly affect performance. These include availability of qualified personnel to implement the budget, the level of technology applied and the effect of changes in demand. The process of budgetary controls in the company should be very comprehensive covering all departments and sections as this will enable management to effectively implement budgetary controls. Additionally, the budgets should also be realistic by not only putting much concentration on past performance but also reflect how the future is likely to be, given the current conditions.

5.3 Areas for Further Studies

It is a known fact that there is no such thing as a perfect research. Any form of research has its merits and demerits. It is from this research that I came across various limitations such as having to use one organization to draw my conclusions. Possibly if I had tackled more organizations, it would have gathered extra results as to the influence of budgetary control on decision making and performance management. This would have given more insight and criticisms on the case in point. Another shortcoming I experienced was the cooperativeness of the respondents. It was difficult to take on the managers owing to their busy schedule. However, the many trips to the organization though tedious and expensive were worth the effort.

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