

Nigerian Brewery Company's Financial Performance and Budgetary Control System

By

Adegbite, Yetunde Abie
Department of Accounting,
Faculty of Business Studies,
Ignatius Ajuru University,
Port Harcourt, Nigeria

and

Edheku Ochuko Joy
Department of Accounting,
Dennis Osadebay University, Asaba
Delta State Nigeria

Abstract

This study looks at how the beer industry's financial performance is affected by its budgetary control system.. The study considers the budgetary control that can be used to check the financial performance aspect of the industry. Since budget is a financial statement that spills out the financial activities of a company from January to December and the expenditure, it is important therefore that some control mechanism be put in place to have a balance in the in-flow and out-flow of income in the company.

Keywords: Budget, Budgetary Control, Financial, Financial Performance

Introduction

Budgeting is one systematic mechanism of maximizing profit. Budgets are management control systems that influence the behaviours and decisions of managers and owners of organisation in translating business objectives into a plan of action as well as providing benchmarks to assess their firm's performance at the end of the business year (O'Grady & Akroyd, 2016). Budgeting is an advanced accounting instrument used periodically by management of organisations to prepare detailed performance expectations and results of the performance for different activities geared towards achieving performance targets (Onduso, 2013). Budgeting, as opposed to business planning, emphasizes forecasting and financial future quantification as well as forecasting future financing requirements (Maduekwe & Kamala, 2016).

Effective budgeting cannot take place in business organizations without budgetary control system. As important as cash itself, budgetary control is essential; any theft, waste, overuse, or stock out could result in subpar performance for the company. Koech (2015) defines

a budgetary control system as a method of cost management that uses budgets. It involves creating a spending plan and then routinely comparing actual spending to the plan to see if any changes to the spending patterns are necessary to keep the spending patterns on track (Dunk, 2009). Before it's too late, steps can be taken (Nwoye, 2015)

Both public and private organizations use budgetary control systems as a management tool to efficiently manage their limited financial resources and report strong financial performance. Since it determines their survival in a cutthroat marketplace, financial performance is the top priority for business organizations. A company's performance in Nigeria and throughout Africa can be evaluated from both an organizational and financial standpoint (Onuongha, 2014). Financial indicators like growth, productivity, returns, and even customer satisfaction is used to gauge financial performance (Roussy & Brivot, 2016). Although there are many ways to measure financial performance, profitability was the main focus of this study. The degree to which a company makes money from its three main production inputs—labor, management, and capital—is measured by its profitability.

Brewery businesses can achieve their corporate vision and mission in the business world by increasing profits and reducing costs and unnecessary spending through effective planning and forecasting, which is made possible by the budgeting process. Brewery companies can benefit greatly from budgetary control and their recognition of its role in the process. However, there is paucity of research works on the relationship between budgeting control system and financial performance of brewery companies in Rivers State. This study therefore seeks to bridge this gap in knowledge by examining the impact of budgetary control system on financial performance of brewery companies in Rivers State.

Research Questions

In order to guide the study, the following research questions were raised:

1. What is the relationship between budget planning and financial performance of brewery companies in Rivers State?
2. What is the relationship between budget monitoring and control and financial performance of brewery companies in Rivers State?
3. What is the relationship between budget evaluation and financial performance of brewery companies in Rivers State?

Null Hypotheses

In line with the research questions the following null hypotheses formulated for the study were tested at the 0.05 level of significance:

1. There is no significant relationship between budget planning and financial performance of brewery companies in Rivers State
2. There is no significant relationship between budget monitoring and control and financial performance of brewery companies in Rivers State
3. There is no significant relationship between budget evaluation and financial performance of brewery companies in Rivers State

Components of Budgetary Control System

In this study, budgetary control system is focused on budget planning, budget monitoring and control and budget evaluation

Budget Planning

A budget provides a detailed plan of action for a business over a definite period of time. For effective budgetary control, business organization needs to prepare a detailed plan in both financial and quantitative terms for the coming financial period (Robinson & Last, 2009). According to Premchand (2004), the first step in budget process is planning for budget preparation and setting out goals and timelines for its production. Budgeting in business organization starts from identifying departmental needs by departmental heads. It is a hierarchical process that starts from each department of an organization and ends at the apex of the hierarchy. The basic reason for requiring estimates from subordinates is that higher officials do not have enough detailed information, time or specialized skills to prepare the plans that would promote the growth of the organization (Lewis, 2005). Detailed plans relating to production, sales, raw material requirements, labour needs, advertising and sales promotion performance, research and development activities and investment fund among others are formulated in budget planning.

Budgeting Monitoring and Control

Once budgets have been implemented, monitoring and controlling measures are taken into consideration. According to Drury (2006), budgetary monitoring and control process is a systematic and continuous one which is characterized by the following stages; establishing targeted performance or level of activity for each department of the organization by way of setting targets to be achieved. Communicating details of the budgetary policy to all the stakeholders for easy appreciation of the set targets and objectives. This is done by comparing actual performance with the budgeted performance and regular reporting of variances to the responsible officers. This helps in asserting the reasons for the differences between actual and budgeted performance and taking the suitable corrective actions.

Budget Evaluation

Evaluation is the systematic collection of relevant data, analyzing the data using appropriate statistical tools and using the information obtained from the analysis of data to make informed decision or judgment. In this study, evaluation aims at determining the fulfillment of objectives, efficiency, effectiveness, impact and sustainability of business organizations. Nicoleta (2017) indicated that business organizations monitor and evaluate actual results against approved budgets to guide current and future decision-making and hold manager's accountable for the fate of the organization. Marcomick and Hardcastle (2011) opined that budgets are the basis of performance evaluation as they reflect realistic estimates of acceptable and expected performance. Most managers are interested to know what is expected of them so that they evaluate their own performance. It is more accurate and reliable to measure current performance against a budget rather than against results of previous year when conditions might have changed.

Financial Performance

Financial performance can be described as the extent to which financial goal of a firm has been accomplished. Financial performance is used to assess the financial strength of business organizations (Kipkemboi, 2013). It is the process of measuring the results of an organisation's

policies and operations in monetary terms. It measures the overall financial health of a firm over a given period of time. According to Abata and Migiro (2018), financial performance can be represented by profitability, growth and market value. These three aspects complement each other. Profitability measures a firm's past ability to generate returns (Otieno, 2019). Growth demonstrates a firm's past ability to increase its size (Amjad, 2019). Increasing size, even at the same profitability level, will increase its absolute profit and cash generation. Larger size also can bring economies of scale and market power, leading to enhanced future profitability.

In an attempt to measure financial performance, current ratio was used for the study.

Current ratio

Current ratio is one of the measurements of the financial performance which provide the best single indicator which the claims of short-term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims (Olaniyan & Efuntade, 2020). This is the most commonly used ratio in the analysis of financial performance. The current ratio of a firm measures the short-term solvency. Current ratio is a measure of liquidity calculated by dividing the firm's current assets by its current liabilities (Gitman, 2012). It gives a general picture of the adequacy of the working capital of company and of the company's ability to meet its day to day payment obligations. Current ratio is not only the measure of the company's liquidity but also is a measure of the margin of safety that management maintains in order to allow for the inevitable unevenness in the flow of funds through the current asset and liability accounts (Anthony, 2010).

Empirical Review

Marcormick and Hardcastle (2011) carried out a study on budgetary control and organizational performance in government parastatals in Europe. A sample of 40 government parastatals were used for establishing the relationship between budgetary control and organizational performance, secondary data was used and a period of ten years was reviewed. A regression model was used for data analysis and the results of data analysis revealed a positive relationship between budgetary control and organizational performance of government parastatals. Adongo and Jagongo (2013) investigated the relationship between budgetary control and financial performance of State Corporations in Kenya. A descriptive survey design was used to gather data from managers of the sampled state corporations. 14 corporations were selected from a population of 138 to participate in the study. Purposive sampling was used to select 42 corporate services managers, finance managers and budget officers from each corporation to participate in the study. The findings indicated a positive significant relationship between budgetary controls and financial performance of state corporations.

Koech (2015) assessed the effect of budgetary control on the financial performance of selected manufacturing companies in Kenya. A descriptive research design and stratified sampling technique was used. In this study, 10 largest companies from each subgroup of the manufacturing companies were selected. The respondents were the head of the finance department or an equivalent. Hence the sample size was 50 respondents. Primary and secondary data were used for data collection. The study showed that there is a significant relationship between financial performance in manufacturing companies and the three variables (planning, monitoring and control and participative budgeting). Pimpong and Laryea (2016) assessed the impact of budgeting on financial performance of non-bank financial institutions in Ghana. Their findings revealed that, there is a positive relationship between budgeting and firm performance.

They further asserted that, firms made use of established budget processes to a greater extent and that budgeting coordination has a statistically moderate positive relationship on firm performance.

Nickson and Mears (2012) examined the relationship between budgetary control and performance of state ministries in Boston Massachusetts, a sample of five ministries were examined to test the relationship between budgetary control and performance of state ministries, secondary data was used and a review of 10 years was used, a regression model was used for data analysis and a statistical positive relationship was found between budgetary control and performance of state ministries. The results of the regression analysis concluded that proper budgetary control measures led to performance of state ministries.

Methodology

The study adopted correlation survey research design. A correlational survey research design determines the degrees of relationship that exists or not between two or more quantifiable variables. Purposive sampling technique was used to select three brewery companies in Rivers State. The population comprised 34 accounting officers in the three companies. A structured and validity questionnaire containing 15 items was used to determine the budgetary control system of brewery companies with response options of Strongly Agree (SA), Agree (A), Disagree (D) and Strongly Disagree (SD). Cronbach alpha method was used to generate an overall reliability coefficient of 0.83 for the questionnaire. Out of the 34 questionnaires administered, 30 questionnaires were retrieved which represents 88 percent of response rate. Secondary data was extracted from the published annual reports and accounts of the brewery companies to measure their financial performance. Pearson Product Moment Correlation was used for data analysis. All analyses would be done using Statistical Package for Social Sciences (SPSS Version 23).

Results

Research Question 1: What is the relationship between budget planning and financial performance of brewery companies in Rivers State?

Hypothesis 1: There is no significant relationship between budget planning and financial performance of brewery companies in Rivers State.

To determine the degree of relationship that exists between budget planning and financial performance, Pearson product-moment correlation coefficient was to provide answers to research question, while the coefficient of determination indicates the percentage of variation in the budget planning that is explained by current ratio using for measuring financial performance. Also to test this null hypothesis, the data were collected and related to obtain correlation coefficient (r) to establish the significance level (calculated p -value). The results obtained are shown in Table 1.

Table 1: Correlation coefficient for relationship between budget planning and financial performance

N	cal. r	df	p-value	cal. p-value	Decision
30	+0.862	28	0.05	0.000	S

S = Significant.

It is evident that there is a strong positive correlation between budget planning and financial performance of brewery companies represented by 0.862 and the critical value of relationship at the 0.05 level of significance was 0.000. The result in Table 1 showed that the relationship between budget planning and financial performance of brewery companies in Rivers State ($r = +0.862$, $0.000 < 0.05$) is significant. Therefore, the null hypothesis was rejected. Thus, there is a significant relationship between budget planning and financial performance of brewery companies in Rivers State.

Research Question 2: What is the relationship between budget monitoring and control and financial performance of brewery companies in Rivers State?

Hypothesis 2: There is no significant relationship between budget monitoring and control and financial performance of brewery companies in Rivers State.

To test this null hypothesis, the data were collected and related to obtain correlation coefficient (r) to establish the significance level. The results obtained are shown in Table 2.

Table 2: Correlation coefficient for relationship between budget monitoring and control and financial performance

N	cal. r	df	p-value	cal. p-value	Decision
30	+0.901	28	0.05	0.000	S

S = Significant.

It is evident that there is a strong positive correlation between budget monitoring and control performance of brewery companies represented by 0.901 and the critical value of relationship at the 0.05 level of significance was 0.000. The result in Table 2 showed that the relationship between budget monitoring and control and financial performance of brewery companies in Rivers State ($r = +0.901$, $0.000 < 0.05$) is significant. Therefore, the null hypothesis was rejected. Thus, there is a significant relationship between budget monitoring and control and financial performance of brewery companies in Rivers State.

Research Question 3: What is the relationship between budget evaluation and financial performance of brewery companies in Rivers State?

Hypothesis 3: There is no significant relationship between budget evaluation and financial performance of brewery companies in Rivers State.

To test this null hypothesis, the data were collected and related to obtain correlation coefficient (r) to establish the significance level. The results obtained are shown in Table 3.

Table 3: Correlation coefficient for relationship between budget evaluation and financial performance

N	cal. r	df	p-value	cal. p-value	Decision
30	+0.736	28	0.05	0.001	S

S = Significant.

Conclusion

The financial performance of brewery companies and budget evaluation have a clear positive correlation, as indicated by the figure 0.736. At the 0.05 level of significance, the relationship's critical value was 0.001. Table 3's result demonstrated a significant correlation ($r = +0.736$, $0.000 < 0.05$) between the financial performance of Rivers State's brewing companies and their budget evaluation. Consequently, the null hypothesis was disproved. As a result, there is a strong correlation between Rivers State brewery companies' financial performance and their budget evaluation.

References

- Abata, M. A., & Migiro, S.O. (2018). Capital structure and firm performance in Nigerian-listed companies. *Journal of Economics and Behavioral Studies* 8(3), 54-74.
- Amjad, I. (2019). *Examining the relationship between the distribution of profits and the market capitalization and book value of shares traded on the Palestine Securities Exchange*. Unpublished master's thesis, Accounting and Finance Department, Faculty of Commerce, Islamic University, Gaza
- Adongo, K., & Jangongo, A. (2013). Budgetary Control as a measure of Financial performance of State corporations in Kenya. *International journal of Accounting and Taxation*, 1(1), 32 – 41
- Drury, C. (2006). *Cost and Management accounting*. Boston: McGraw-Hill.
- Dunk, A.S., (2009). Budget emphasis, budgetary participation and managerial performance: A note. *Accounting, Organization and Society*, 14(4), 321-324
- Gitman, L.J. (2012). *Principles of Managerial Finance*. England: Pearson education Limited.
- Hansen, D., & Mowen M. (2005). *Management accounting*. UK: Thomson Wadsworth Publishers

- Kipkemboi, S. (2013). Effect of budgetary control on performance of non-governmental organizations in Kenya. *Unpublished MBA Project*, University of Nairobi
- Koech G.M. (2015). *Effects of budgetary control on the financial performance of selected manufacturing companies in Kenya* (Unpublished MBA Project). University of Nairobi, Kenya.
- Lewis, C., (2005). *The field of public budgeting and financial management*. UK: CRS Press.
- Maduekwe, C.C., & Kamala, P. (2016). The use of budgets by small and medium enterprises in Cape Metropolis, South Africa. *Problems and Perspectives in Management*, 14(1), 183-191.
- Marcomick, G., & Hardcastle, N. (2011). Budgetary control and organizational performance. *Journal of Finance and Accounting*, 2(1), 1-8.
- Nicoleta, K. (2017). *Determinants of effective budget implementation among local authorities in Kenya: A case study of City Council of Nairobi*. Unpublished MBA Project, University of Nairobi
- Nwoye J., (2015). Budgeting and budgetary control as the metric for corporate performance. *International Journal of Sustainable Development*, 3, 1 – 12
- O’Grady, W., & Akroyd, C. (2016). The MCS package in a non-budgeting organization: A case study of Main freight. *Qualitative Research in Accounting & Management*, 13(1), 2-30
- Onduso, E.O. (2013). *The effect of budgets on financial performance of manufacturing companies in Nairobi County*. Unpublished master’s thesis, University of Nairobi, Kenya.
- Olaniyan, N.O., & Efuntade, L.O.(2020). Budget and the budgetary control system in tertiary institution’s financial performance in Nigeria. *KIU Interdisciplinary Journal of Humanities and Social Sciences*, 1(2), 281- 302
- Onuongha, S.M. (2014). The analysis of profitability of Kenya’s top six commercial banks: internal factor analysis. *American International Journal of Social Science*, 3(5), 11-19.
- Otieno, O.L. (2019). *The Relationship between capital structure, performance and replacement of CEO in firms listed on the Nairobi Securities Exchange*. Unpublished Doctor of Commerce Thesis, University of South Africa. Pretoria
- Premchand, A. (2004). *Government budgeting and expenditure controls: Theory and practice*. Paris: International Monetary Fund.
- Pimpong, S., & Laryea H. (2016). Budgeting and its impact on financial performance: The Case of non-bank financial institutions in Ghana. *International Journal of Academic Research and Reflection*, 4(5), 12-22.

Robinson, M., & Last, D. (2009). Budgetary control model, the process of translation. *Accounting, Organization and Society*, 16(5/6), 547-570.

Roussy, M., & Brivot, M. (2016). Internal audit quality. A polysemous notion? *Accounting, Auditing and Accountability Journal*, 29(5). 714-738.