

THE ROLE OF BUDGETING IN PRIVATE SECTOR MANAGEMENT

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Abstract

The global depression and rationing of foreign exchange which has been the great concern of business men and women in Nigeria has called for the need for economic replanning both in the public and private sectors. The paper examines the role of budgeting in the private sector. The use of budget in both the public and private sectors of the developing economy is discussed in the literature. The research work is focused on determining the roles, types of budgets, the personnel responsible for preparing budgets and the conditions enhancing successful budgeting. A survey was conducted among the management cadre of companies in the private sector of the Nigerian economy. Based on the result of the findings, conclusions were made that budgets are used in the private sectors for planning, co-ordinating, communication of responsibility and control of the entire activity of the organization. It is, therefore, recommended that to achieve effective and functional budgets, appropriate accounting and communication system should be in existence to enhance budgetary performance.

Introduction

Nigeria as a developing country is faced with economic difficulties at a time of global economic downturn when inflation seemed to become part of life. This has called for the need of economic replanning and restructuring. Private business enterprises in Nigeria are different from others in terms of need to sell its goods and services in order to maximize profits. These profits are shared among the investors based on financial contribution.

The use of budget in the public sector is widely known because at the beginning of the fiscal year, state governors and the president will make broadcast of their Financial plans. In advanced countries, private enterprises' budgets are open to members of the public through business literature. The preparation and use of budgets involve the development of a set of estimates of future costs and revenues in a form, which will co-ordinate the activities of the company in accordance with selected objectives and strategies, and will serve as a standard for financial control. (Sizer, 1989). Adeniyi , (2002), viewed it as a monetary statement, a financial statement or a quantitative course of action, prepared and approved prior to a defined period of time. It contains the goals and aspirations of a business outfit. The roles that budgets play in the private sector need to be ascertained.

Purpose of the Study

The purpose of this study is to find out the roles of budgeting in Nigerian private sector management. The category of personnel responsible for preparing budgets and time interval for budget performance evaluation in the public sector administration. Findings would enable the researcher to make recommendations that would enhance budgetary performance in the private sector management.

Review of Literature

David, (1999) viewed business as organized effort of individuals to produce and provide goods and services to meet the needs of the society. The aim of setting up any business is focused on profitability. For business to thrive there is need for proper planning and co-ordination of all activities of the organization. These activities are usually subject to changes, hence the need for appraisal and planning. To make certain that the whole affair works properly, there has to be control system. This is part of management functions in an organized private sector.

In order to achieve organizational goals, various units within the organization should be co-ordinated by the preparation of budget plan (Drury, 1990). Budgets are planning and control devices. They involve processes of decision-making and choice between alternatives, whereby the managers define, co-ordinate and communicate objectives. They ensure that resources available are used effectively and efficiently so that objectives and goals are achieved through planned performance (budget) and control.

Budgetary process usually includes formation of a budget committee, determination of the budget period, specification of budget guidelines, preparation of the initial budget proposal, negotiation, review and approval of budget.

The preparation of the budget is normally the responsibility of a budget committee usually headed by the Managing Director/Chief Executive officer (MD/CEO) of the Company. It is the duty of the budget committee to set the general guidelines that the company is to follow in budget preparation. Other duties include: co-ordinating the different budgets prepared by the various units, resolving any differences among them and submitting the agreed budget to the board of Director for approval.

Membership of Budget Committee

Most organizations have a budget committee that oversees all budget matter. It is made up of senior management cadre. A typical budget committee includes the Chief Executive Officer, heads of strategic business units, and the chief financial officer. The size of the committee depends on the size and management style of the Chief Executive Officer of the Company. The budget committee is the highest authority in an organization for all matters related to budgeting. Its major task is to ensure that budgets are realistically established and that they are co-ordinated satisfactorily (Drury, 1990). Drury went further to outline six reasons for producing budgets.

- To aid the planning of annual operations.
- To co-ordinate the activities of the various parts of the organization and to ensure that the parts are in harmony with each other.
- To communicate plans to the various responsibility centre managers.
- To motivate managers to strive to achieve the organizational goals.
- To control activities.
- To evaluate the performance of managers.

Functional Classification of Budgets

This classification is based on the function a particular budget will perform and integrated with the master budget. The functional budgets include:

- a) Sales Budget: This budget represents the quantity of each product that the company plans to sell and the intended selling price. It provides the estimated total revenue from which cash receipts from customers are predicted.
- b) Production Budget: A forecast based on sale, production capacity and requirement of inventories.
- c) Selling and Distribution Cost Budget: This is the estimate of the cost of selling and distributing goods to the final consumers.
- d) Cash Budget: It is a sum-total of cash requirement in respect of various functional budgets as well as of anticipated cash receipts. The objective of the cash budget is to ensure that sufficient cash is available at all times to meet the level of operation that are outlined in the various budgets. Liquidity and cash flow management are key factors in the successful operation of any organization.
- e) Personnel Budget: This kind of budget gives estimates of manpower utilization in production activity and it is split - up into direct and indirect labour.
- f) Flexible Budget: Lucey T. (2003), has noted that, flexible budget is one, which is designed to adjust the budgeted cost levels to suit the level of activity actually attained. This is achieved by analyzing each item of cost contained in the budget into fixed and variable cost.
- g) Master Budget: This co-ordinate all the functional projections in the organization's individual budgets in a single organization wide set of budgets for a set time period (Horngren Datar and Foster 1997). It embraces the impact of both operating decisions and financial decisions. Hilton (1999), noted that, the master budget is the principal out of a budgets system. It is a comprehensive profit plan that ties together all phases of an organization's operations. The master budget is comprised of many separate budgets, or schedules that are interdependent.

Conditions for Successful Budgeting

According to Blocher, J. (1999), there are many characteristics common to successful budgets. Most important among them is that a successful budget is accepted and supported by the key managers. A budget is more likely to be successful if employees perceive it as planning and coordinating tools to help

them to do better job, not as a pressure device to squeeze the last drop of their energy out of them.

From this study, five conditions for successful budget were identified. These include:

- Involvement and support of top management.
- Appropriate accounting system.
- Administration of budgets in a flexible manner.
- Organizational structure.
- Clear definition of corporate objectives.

Methodology

The ascertainment of the role of budgeting in the private sector management was obtained through a survey conducted. Two hundred (200) questionnaires were administered to personnel in the management cadre of selected companies located in Lagos. Samples were drawn from manufacturing, commercial and service organizations.

Out of two hundred questionnaires distributed, only one hundred and eight (108) questionnaires were completed and returned. Out of the returned only 80 questionnaires were useable for analysis in this study.

The items in the questionnaire were close - ended requiring definite responses of yes and no, agreeing, or disagreeing with statements as well as the supplying of very short information.

Results

The analysis of the returned questionnaires and result obtained using simple statistical table and percentages for the basis of recommendation and justification to this research. Table I: Personnel incharge for preparation of annual budget.

Category Of Personnel	Frequency	% Of Frequency
Senior Manager/Top Mgt.	42	61
Managers /Head of Units	18	26
Supervisor/Foreman	7	10
Others	2	3
Total	69	100

Data in table 1 above, indicate that 61% of senior managers and top management cadre are the only personnel involved in preparation of budget, only 26% stated that it was only manager / head of units that prepared the budget. While 10 percent of respondents supported that supervisors/foremen are incharge of preparing budget and others score 3%, which is the list of the frequency.

Table 2: The role of budget in the private sector

Role	Yes Frequency	% Of Frequency	No. Frequency	%
Used for planning annual operations	48	70	21	30
Used for communicating company's plan	20	29	49	71
Used for controlling operational activities	55	80	14	20
For motivating workers	18	26	51	74
Used for clarification of responsibility	20	29	49	71
Evaluating performance	30	43	39	57

From the analysis in table 2, it was observed that respondents that supported that budget is used for planning annual operations score 70% while only 30% of the respondents disagreed. In the case of controlling operational activities, 80% of respondents are in support of it while only 20% of respondents are against it. For motivating works, 74% disagreed that budget is not used to motivate workers while 26% of respondents are in support.

However, more respondents admitted that budget is used for controlling operational activities, 55 (80%) while 14 (20%) disagreed.

Table 3: The time interval taken by private sector to carry out budget performance evaluations.

Time Interval of Comparism	Frequency	% Of Frequency
Weekly	2	3
Monthly	35	51
Quarterly	26	38
Bi - annual	4	6
Yearly	2	3
Others	-	-
Total	69	100'

From the analysis of the data, 35(50%) of respondents agreed that most Nigerian Companies carry out its budget evaluation on monthly/quarterly basis while 26(38%) indicated that it is done quarterly. Only 3% of respondents agreed that budget performance evaluation is done weekly. It was also agreed by the 38% respondents that budget evaluation is done quarterly while 3% of respondents agree that it is done yearly. '

Discussion

From the analysis in table 2, it was observed that majority of respondents agreed that budgets are used for controlling operational activities in the organization as indicated by 55 (80%) while 51(74%) disagreed that budgets are not used for motivating workers in table 3. According to respondents monthly and quarterly checks are mostly practiced among Nigerian companies as indicated by 35(51%) and 26(38%) respectively. This result may be to enable organization to adjust when variances are noticed.

This analysis attests to the fact that budgeting plays a vital role in private sector management. The above finding agreed with the observations of (Ogunjimi, 1995), that budget plays a vital role that no organization can do with making use of budget. He emphasize that, budget is a steering that controls every activity of the organization.

Recommendations

1. Management of private sector must ensure that there is conducive environment in their organizations that will guarantee appropriate accounting and information system that will aid achieving objectives of the budget.
2. Workers should be given adequate training concerning the organizational budget plan. Budget motivational factors or benefits should be communicated to staff.
3. Government, Federal, State and Local should encourage the private sector by creating conducive business environment to enable them actualize its budgeting objectives that will boost profitability of the company.
4. Establishment of proper internal control system to ensure that delegation of authority and responsibility are clearly specified. The internal control varies significantly from one organization to the other depending on such factors as their size nature of operations and objectives. However, satisfactory internal control measures include the control environment, risk assessment, the accounting information and communication system, control activities and monitoring to achieve organizational goals and objectives.

Conclusion

The findings of this study and the research carried out by Ogunjimi (1995) and other advanced countries proved that budgets are generally accepted as a management tool. The study confirmed that in Nigeria, budget performed the following functions:

1. Budgets are used in the private sector management for planning and control of activities of the organizations.
2. Personnel in the management cadre are responsible for preparation of budgets and also, they give full support to its implementation.
3. Almost 90 percent of private sector companies use flexible budgets.
4. Performances are usually checked against the budget monthly or quarterly in most of the private sector companies.

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