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BUDGETARY CONTROL SYSTEM AS PREDICTORS OF FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN SOUTH-WEST, NIGERIA

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Abstract
The study focused on budgetary control system as predictors of financial performance of manufacturing companies in South-West, Nigeria. Two null hypotheses were tested. Correlational survey research design was adopted for the study. The population comprised 44,082 budgetary control personnel in 18,666 manufacturing companies in South-West Nigeria. Proportionate stratified random sampling technique was used to select a sample size of 4409 budgetary control personnel. The instrument for data collection was a structured questionnaire. The instrument was validated by three experts. Cronbach Alpha method was used to obtained reliability co-efficient internal consistency and the values obtained were 0.91 and 0.90. Simple regression analysis was used to test the null hypotheses at 0.05 alpha level. The findings revealed that variance analysis budgetary control and responsibility accounting budgetary control significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience. The study concluded that manufacturing companies' failure to use variance analysis budgetary control and responsibility accounting budgetary control and financial budgetary control effectively could result to the company being financially unsuccessful and inability to invest to make profit.

Keywords: Budgetary Control System, Financial Performance, Manufacturing Companies

Introduction

Budgetary control is a system where budgets are used as a means of planning and controlling all aspects of producing and or selling commodities or services. This is true as they are used to preparing revenue and expenditure variance analysis to be able to deduce areas of divergence for which the management needs to watch to avoid embarrassment as any adverse variance will translate into inability to meet the corporate objective which will eventually lead to disagreement with stakeholders. Mohamed, Evans and Tirimba in Adegbite and Edheku (2022) defined budgetary as a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management. It is a process of preparing in advance of the period to which it relates summary statements of plans expressed in quantitative terms, which if utilized with sophistication and good judgment, would enhance the attainment of an organization's objectives. Therefore, the success of organizations depends mostly on excellent budget plan preparation work and effective budgeting controls.

This means that, when organization's goals are properly planned and put into operation, conditions prevail which tends to cause deviation from the plan and corrective measures are always taken into consideration through budget and its control. Therefore, to lend credence to goal congruence, suitable systems be applied to specific areas that need special attention, hence, effective implementation of budget in the organization. Thus, many organizations apply as many of the systems as possible in the cost control regardless of whether they are eventually used for initial trial in the business. Odetoyinbo, Adeyemi, Hassan, Adebisi and Adegbola (2020) opined that the systems of budgetary control include revenue and expense, time, material, and product, capital, expenditure, cash, variable, variance analysis, responsibility accounting, zero based budgetary and among others. Ifrah, Kerosi and Ondabu in Uthayakumar and Yapa (2023) stated that budgetary control systems which include variance analysis, responsibility accounting, adjustment of funds is useful tool to predict financial performance of manufacturing companies and increases the goodwill of the business.

Businesses use these systems to set financial plans (budgets), monitor actual performance against those plans, and take corrective action to improve operational efficiency, cost-effectiveness, and achieve organizational goals across various areas like departments or product lines This is why, Odetoyinbo et-al. (2020) averred that budgetary control entails a predetermined plan, in financial terms to cover all phases of business activities and the operation of that plan in such a way that anticipated profit is as near as possible to realize profit achieved. This means that budgetary control system is a planning tool as well as a control tool. The authors says that budgetary control system encompasses a variety of methods for monitoring and managing an organization's finances, including variance analysis, responsibility accounting, zero-based budgeting, financial budgetary control, and non-monetary budgetary control; essentially, it's a system to ensure that spending aligns with planned objectives and resources are used efficiently. Thus, in this study, budgetary control systems used composed of two constructs namely, variance analysis budgetary control and responsibility accounting budgetary control are considered crucial components of a budgetary control system as they provide a comprehensive framework for managing and allocating resources effectively within a business organization by allowing for close monitoring of actual performance against planned budgets and identifying areas for improvement through targeted corrective actions based on individual responsibility centers.

Variance analysis budgetary control is a system prepared for individual departments used by organizations to compare actual financial results against budget predictions for individual departments, identifying discrepancies and their causes to improve financial management and accountability. used by organizations to compare actual financial results against budget predictions for individual departments, identifying discrepancies and their causes to improve financial management and accountability. used by organizations to compare actual financial results against budget predictions for individual departments, identifying discrepancies and their causes to improve financial management and accountability. used by organizations to compare actual financial results against budget predictions for individual departments, identifying discrepancies and their causes to improve financial management and accountability. Within the business enterprises. In variance analysis, *a comparison is made between the actual and estimated accounting figures (*Aruomoaghe and Agbo, 2017). With the help of this system, variances are found. Variance analysis compares actual accounting figures to determine whether the variances are favourable or unfavourable. For instance, the difference between the actual production cost and the estimated production cost will be denoted by production variance. Mubaraq and Adebowale (2019) reported there is significant positive effect on managerial performance, while the effect of evaluation and budget variance on managerial performance is not significant.

Responsibility accounting budgetary control, according to Sawabe (2015), is a system that creates cost center, profit center and investment center which are just like departments of any organization after which all the employees operate within these centers, each with specific targets and performance expectations. Tuan (2017) added that it is a good system for budgetary control. Adeniji, Akintoye and Folajimi (2020) revealed that responsibility accounting had significant influence on corporate investment decisions based on years of work experience. Thus, the performance of the employees is manually or electronically recorded, and their accountability is fixed regarding certain goals that might be quantitative or qualitative. In responsibility accounting, manager controls and evaluates activities conducted by departments of a firm and evaluate different levels of management responsibilities. This also helps manager to have valuable information in making decisions for achieving general objective, strengthen sustainable development of enterprise. This system also helps the enterprises *to take decision regarding promotion or demotion* based on employee's performance.

Budgetary control systems are necessary for controlling spending and meeting financial goals. This system is used by manufacturing companies to manage spending activities, and also by the public and private sectors and individuals, such as heads of households, to ensure they live within their means Ifrah et-al., in Odetoyinbo et-al., 2020). Ali-Momoh, Ogedengbe, Orisamoka, Igbodo and Fagbamila (2022) noted that management department uses departmental services to estimate the

expenditures and revenue of business under the normal conditions of business. Therefore, acknowledging effects of company characteristics on firms' performance is paramount, whether the returns on investments, equity, assets or profitability.

Financial performance is an indication of how efficient an organization can generate income using the capital accessible in the market. A firm's financial performance reflects its capability to make profit from all its business lines which is evidenced by consistent growth in earnings. In an aggressive marketplace, a firm need to determine how to attain an optimal level of financial position, which comprises defining the result of firms' policies and operations in monetary terms (Babalola in Adeniji et-al., 2020). Financial performance is the potential of a firm to be financially successful, the ability of an investment to make profit or the state or condition of yielding a financial profit or gain. However, profit could either be normal or supernormal. Normal profit is that minimum amount of profit which a firm must acquire in order to induce the firm to remain in operation. Basically, the issue of financial performance is a continuous issue that a company has to consistently make, because it is essentially concerned with the level of turnover that must be achieved in order to cover costs and make surplus. Tybout (2017) noted that in developed economies, the manufacturing sector is viewed as a leading edge of modernization and skilled job creation as well as a fundamental source of positive spillovers. Furthermore, Handania (2017) noted that manufacturing companies plays a prominent role in economic growth of developing countries by accelerating robust and inclusive growth.

Considering the Nigerian economy, Oyedokun, Tomomewo and Owolabi (2019) opined that quite a good number of manufacturing companies in Nigeria have ceased to operate, and more prominent companies have acquired many or at best, merged with other more prominent manufacturing companies. Few manufacturing companies that are still operating within the Nigeria market have resulted in performing at a suboptimal level due to managerial inefficiencies, internal control failures, fraud and weak corporate governance system. Similarly, Abdul and Isiaka in Ukutegbe and Ehiedu (2025) noted that the growth of the manufacturing sector in Nigeria has been stagnant over the years due to institutional challenges caused by internal control lapses, managerial inefficiencies, fraudulent activities and high-profile corporate accounting scandals.

The development of manufacturing companies therefore is of paramount importance for any country, irrespective of their level of development. Manufacturing company is defined as industry that is involved in the turning of raw materials into new products by mechanical or chemical process at home or in the factory (Fapohunda, Ogbeide and Igbinigie, 2017). It is viewed as companies that turns or convert raw materials into finished goods. Going by this definition, there are a lot of manufacturing companies in Nigeria and South-West in particular such as Dangote Group Plc, Unilever Nigeria Plc, Nestlé Nigeria Plc, Nigerian Breweries Plc, PZ Cusson Nigeria Plc, Flour Mills of Nigeria, Dufil Prima Foods Limited, United Africa Company of Nigeria, Guinea Nigeria Plc, Lafarge Cement Wapco Nigeria Plc to mentions but few. Some produce in small scale while others produce in large scale. They are classified into three groups such as **l**ight companies; that produce relatively light weight goods like matches, television sets, electric fans, books, among others; another one i**s c**onsumer goods companies which turn raw materials into consumable goods and heavy companies that produce heavy or bulky goods. For the purpose of this study, the researchers utilized registered firms that manufacture in large scale within South-West, Nigeria because the area has numerous manufacturing companies and budgetary control personnel that need to apply budgetary control system in the courses of performing their office functions.

In manufacturing companies, budgetary control personnel usually perform the budgetary control or financial tasks of the companies. Egbunike and Unamma (2017) revealed that budgetary control personnel plan future directions and dimension of resources needed to attain selected goals of manufacturing companies. The budgetary control personnel in this study refers to finance managers, internal control managers and general manager of the company. The opinions of budgetary control personnel were considered in this study as they are experts in the business with varying length of work experience and educational qualifications. Odetoyinbo et-al. (2020) reported that finance managers

and internal control managers are in good position to achieve effective control of budgeting than the managers of manufacturing companies. As managers at the helm of budget control or financial management of the company, their decision to apply budgetary control system in their companies may be influenced by their years of work experiences.

Years of work experiences could influence budgetary control systems as predictors of financial performance of manufacturing companies. Years of work experience in the context of this study refers to number of years in practice as budgetary control personnel. Kerosi (2018) reported that there was consensus in finance managers', internal control managers' and managers' opinions on budgetary control in Nigerian manufacturing companies irrespective of their years of working experience. Egbunike and Unamma (2017) revealed that manufacturing companies who has more finance managers with 6-10 years and above 10 years of work experience had better results on budgetary control effectiveness in achieving organizational goals than those with below 11 years of work experience. This assumption needs to be supported by empirical evidence in South-West, Nigeria which necessitated for this study.

In the presence of highly competitive business environment, education and experiences play an exceptional important role in facilitating improvements in productivity and competitiveness. Adequate work experience helps to reduce the number of errors and mistake which in turn enhance manufacturing performance (Lawal, 2020). Years of work experience of budgetary control personnel are important for the co-ordination of the activities and departments of the manufacturing companies so that each aspect of the operations contributes towards the overall plan to achieve effective and efficient budgetary control. Thus, the decision on how to distribute limited financial and non-financial resources, in an effective and efficient manner, is an important challenge in all organizations and manufacturing companies in South-West Nigeria. The failure rate of the manufacturing companies in Nigeria particularly in South-West could be attributed to ineffective budgetary control system. Many of the manufacturing companies encountered various financial problem due to finance managers, internal control personnel and general managers' inability to apply budgetary control system appropriately for improved performance. Poor budget control system may be attributed to overlapping of duties, indiscriminate use of fund meant for more viable activities which in most cases result to bankruptcy. Poor budgetary control system could lead to several consequences such as liquidity, shortage of stocks and shut down.

Again, the inability of many companies to plan and accomplished budget goals is traceable to their inability to apply controls in their budget system. Budgetary goals are not realized due to low level of understanding of the budget system by middle and low-level management staff. These deficiencies can therefore be addressed through the use of budgetary control system such as variance analysis and responsibility accounting. From the above scenario, the researchers considered it worthwhile to further determine whether difference exist in the respondents' opinions on budgetary control as predictors of financial performance of manufacturing company in South-West, Nigeria based on the budgetary control personnel's years of work experiences. This study is timely, necessary and a right-step in the right direction especially now that many manufacturing companies are facing serious issues which necessitated this study.

Statement of the Problem

Budgetary control refers to a system where budgets are used as means of planning and controlling all aspects of producing and or selling commodities or services in the manufacturing companies. Budgetary control system is very important for efficiency and effectiveness of manufacturing company's operations. In recognizing the role of budgetary control has led some organizations to establish departments for implementation. Thus, the decision as to how to distribute limited financial and non-financial resources, in an effective and efficient manner, is an important challenge in all organizations and manufacturing companies in South-West Nigeria. The failure rate of the manufacturing companies in Nigeria particularly in South-West could be attributed to ineffective budgetary control system. Many of the manufacturing companies encountered various financial problem due to finance managers, internal control personnel and general manager's inability

to apply budgetary control system appropriately. Again, the inability of many companies to plan and accomplished budget goals is traceable to their inability to apply controls in their budget system. Budgetary goals are not realized due to low level of understanding of the budget system by middle and low level management staff. These deficiencies can therefore be addressed through the use of budgetary control system such as variance analysis and responsibility accounting. The need for appropriate budgetary control system by manufacturing companies remains pivoted for their liquidity, profitability and sustainability of their companies. Considering the importance of budgetary control system above, contributions of manufacturing companies to the employment of youths and nations economy in particular, the researcher became worried at the rising cases of poor performance and collapse of manufacturing companies in South-West, Nigeria. Budgetary control system is not a substitute for administration or executive decision-making, nor does it guarantee favorable results or eliminate the need for human judgment. It's a tool for planning, coordination, and control that compares actual performance against planned budgets to identify deviations and inform corrective action, rather than an infallible solution for every business challenge. It also doesn't eliminate interdepartmental conflict or the need for realistic data. Considering the importance of budgetary control system above, contributions of manufacturing companies to the nation's economy in particular, the researcher became worried at the rising cases of poor performance and collapse of manufacturing companies in South-West, Nigeria. The problem may not be unconnected with the budgetary control system as predictors of financial performance of manufacturing companies since no study was found to have been carried out in this regard in South-West, Nig

Hypotheses

The following null hypotheses were tested at 0.05 level of significance:

1. Variance analysis budgetary control does not significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience.
2. Responsibility accounting budgetary control does not significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience.

Method

The study adopted correlation research design. The population of the study comprised 44,082 budgetary control personnel in 18,666 manufacturing companies in South-West Nigeria. A sample of 4409 budgetary control personnel in registered manufacturing companies was used through proportionate stratified random sampling techniques.

The questionnaire was validated by three experts - two in business education and one in measurement and evaluation: all from Nnamdi Azikiwe University, Awka. Their comments enhanced the face validity of the instrument. To establish the internal consistency of the instrument, a trial-test was conducted. Data collected in the pilot test were analyzed using Cronbach Alpha to determine the internal consistency. Reliability coefficient values of 0.91 and 0.90 respectively. Out of the 4409 copies of the questionnaire distributed to the respondents in their institutions through direct approach which facilitated the response rate, 4387 copies (representing 99 percent) were retrieved with an attrition rate of 12 copies (representing 1 percent) and used for data analysis Data collected was analyzed using simple regression to test the null hypotheses. The decision to reject or accept a null hypothesis is based on the probability value (p-value) and the 0.05 significance level. Where the p-value was less than or equal to 0.05, the null hypothesis was rejected but where it was greater, the null hypothesis was accepted. All analysis was done using Statistical Package for Social Sciences (SPSS) Version 23.0.

Results

Hypothesis 1: Variance analysis budgetary control do not significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel year of work experience.

Table 1. Test of significance of simple regression analysis with budgetary control as predictor of financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel year of work experience

	R	R^2	Adj.R^2	*F*	*P*
Constant					
	.73	.54	.54	597.92	.00
Budgetary Control					

As shown in Table 1 above, the simple regression coefficient (R) is .73 while the R^2 is .54. The F-ratio associated with these is 597.92 and the *P*-value = .00, since the *P*-value is less than the stipulated 0.05 level of significance, it was decided that budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies in South-West, Nigeria.

Hypothesis 2: Responsibility accounting budgetary control do not significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience.

Table 2. Test of significance of simple regression analysis with responsibility accounting budgetary control as predictor of financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel year of work experience

	R	R^2	Adj.R^2	*F*	*P*
Constant					
	.47	.22	.21	140.53	.00
Responsibility Accounting Budgetary Control					

As shown in Table 2 above, the simple regression coefficient (R) is .47 while the R^2 is .22. The F-ratio associated with these is 140.53 and the *P*-value = .00, since the *P*-value is less than the stipulated 0.05 level of significance, it was decided that responsibility accounting budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies in South-West, Nigeria.

Discussion

The result of the first hypothesis on simple regression coefficient revealed that budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies. It followed therefore that result revealed the null hypotheses were rejected. The results revealed that years of work experience was significantly predicting variance analysis budgetary control on financial performance of manufacturing companies. The finding is in line with that of Mubaraq and Adebowale (2019) who reported there is significant positive effect on managerial performance, while the effect of evaluation and budget variance on managerial performance is not significant. This implies that budgetary control personnel need to set standards on variances analyzed for each responsibility center for sound variance analysis.

The result of the second hypothesis on the simple regression coefficient revealed that responsibility accounting budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies. The result also revealed that budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies. It followed therefore that result revealed the null hypotheses was rejected. The results revealed that years of work experience was significantly

predicting responsibility accounting budgetary control on financial performance of manufacturing companies. The finding agrees with that of Adeniji, Akintoye and Folajimi (2020) who revealed that responsibility accounting had significant influence on corporate investment decisions based on years of work experience This implies that the similarities were because of sensitization of management and employees of state corporations on the importance of budgetary controls in enhancing financial performance, avoidance of political interference in the budgetary process and use of budgets as tools for management efficiency.

Conclusion

Based on the findings of the study, it is concluded that variance analysis budgetary control and responsibility accounting budgetary control significantly predict the financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience. Finally, it was concluded that manufacturing companies' failure to use variance analysis budgetary control, responsibility accounting budgetary control and financial budgetary control effectively could result to the company being financially unsuccessful and inability to invest to make profit.

Recommendations

Based on the findings and conclusion of the study, the following recommendations are made:

1. Management of manufacturing companies in South-West Nigeria particularly should put up a strategy or policy that will make finance managers, internal control personnel and general managers to apply budgetary control system appropriately by reducing overlapping of duties, indiscriminate use of fund meant for more viable activities which in most cases result to bankruptcy. This should be done to improve performance in terms of liquidity, profitability and growth among others.
2. Agency should organize workshop/seminars on the various budgetary control systems needed by manufacturing companies in South-West Nigeria for effective performance of financial tasks. This is to remedy the course of responsibility accounting budgetary control being a weak predictor of financial performance of manufacturing companies.

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