

## **BUDGETARY CONTROL AND FINANCIAL PERFORMANCE: AN OBSERVATION (A CASE STUDY OF NEPAL OIL CORPORATION)**

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### **Abstract**

The main purpose of this paper is to examine the relationship between budgetary control and financial performance of Nepal Oil Corporation (NOC) while presenting the real scenario of the organization. Therefore, to test the practice of budgetary control and financial performance, a descriptive survey design, as a sample of the study, was used to gather data through structured questionnaire distributed to 60 respondents from Account, Finance, Administration, Engineering and Project Department. The findings of this study emphasize that a practice of budgetary control leads to increased profitability but for that management commitment is indispensable. The study concludes that budgetary control process shows a significant positive bearing on the financial performance of NOC through the influences on financial objectives, allocation of funds as well as investment ventures. The study recommends a sensitization of management and employees of NOC along the lines of the importance of budgetary controls in enhancing financial performance, avoidance of unnecessary interference in the budgetary process and use of budgets as tools for management efficiency.

**Keywords:** Budgetary control, Practice, Performance, Management, Nepal Oil Corporation.

**JEL Classification:** G31, H5, H7.

### **1. Introduction**

Budgetary control is the process of developing a spending plan and periodically comparing actual expenditures against that plan to determine if it or the spending patterns need adjustment to stay on track. This process is necessary to control spending and meet various financial goals. Organizations rely heavily on budgetary control to manage their spending activities, and this technique is also used by the public and private sectors (Dunk, 2009). Budgetary control is system which uses budgets as a means of planning and controlling all aspects of producing and selling commodities or services. This is true as we tend to prepare revenue and expenditure variance analysis to be able to deduce area of divergences for which management needs to watch to avoid embarrassment as any adverse variance will translate in to inability to meet the corporate objective which will eventually lead to disagreement with stakeholders (Batty, 1982). Although many people complain about budget and its process, budgets are indispensable in a large modern organization as the benefit that occurs from budgets and its control is much greater than the cost involved. In view of this, the fact that resources are scarce, coupled with high competition that permeate most business, budgets when rightly applied, would be an effective tool for planning and control, especially large organization as Nepal Oil Corporation (Pandey, 1985). Performance refers to the extent of which an organization's goals and objectives are achieved effectively and efficiently while financial performance is general measure of a firm's overall financial health status over a given period of time. Financial performance can be measured by using variable such as firm's cash flow, working capital, cost base, borrowing as well as firm's growth (San and Heng, 2011).

Organization's Performance (OP) is partly dependent on its technology, processes, systems and employees. It is concerned with efficiency and effectiveness of operation. It is an indicator which measures how well an enterprise achieved their objectives (Hamon, 2003). Blair (1995) puts forward major areas in which performance can be examined. These include: liquidity, profitability, efficiency and debt repayment capability. Empirical studies by Fonjong (2007) show a positive link between budgetary control and financial performance and have a good motivational impact by involving managers in the budgeting process and by providing incentives to managers to help achieve the business's goals and objectives. It can be said that budgetary control is one of the key tool which leads to the realization of benefits in the financial performance in the organization. Budgetary control involves the preparation of a budget, recording of actual achievements, ascertaining and investigating the differences between actual and budgeted performance and taking

suitable remedial action so that the budgeted performance may be achieved effectively (Kinyua, 2015). By implementing proper budgetary control planning, the firm is able to reduce costs and improve on quality of its services based on its budgetary allocations. This helps to reduce on costs and achievement of goals is enhanced thus organizational effectiveness. By budgeting, managers coordinate their efforts so that objectives of the organization harmonize with the objectives of its parts. Control insures that objectives as laid down in the budgets are achieved (Churchill, 2001).

The use of budgetary control in profit planning to improve the financial performance of the organization is tremendous. It can be used in matching expenditure and income in order to make some profits. And to the extent that budgetary control is frequently applied in profit planning, its contribution to the realization of profits and improve financial performance cannot be doubted. In recent years, budgetary control has been frequently examined to find out its relationship with financial performance of the organizations. The existence of many organizations at present can only be justified in terms of their financial performance. Therefore, to such organizations, anything, which improves their financial performance, is worthwhile. The literatures mentioned above clearly depicts that budgeting is a useful tool that guides firms to evaluate whether their goals and objectives are achieved. Many research and studies has been conducted internationally and indicated that a positive significant relationship exists between budgetary control and financial performance of state corporations. However, very rare studies have been conducted in similar topics in Nepalese context. Therefore, this study is intended to present the real scenario of NOC and also seek to examine the relationship between budgetary control and financial performance of the NOC in Nepal.

## **2. Rationale of the Study**

In many profitable companies, budget is actually a key to their success (Horngren, Datar and Forster, 2012). Budgeting is critical to financial success. Studies of differences between successful and unsuccessful new businesses consistently find that businesses that carefully develop and follow budgets increase their chances of survival and success. Budgeting is the process of compiling budgets and subsequently adhering to them as closely as possible (Batty, 1970). The terminology used to describe budgets varies among companies. Some companies refer to budgeting as targeting and many companies refer to the budget as a profit plan (Horngren, Datar and Forster, 2012). Effective budgeting depends on a sound organizational structure. In such a structure, authority and responsibility for all phases of operations are clearly defined. Budgets based on research and analysis should result in realistic goals that will contribute to the growth and profitability of a company. In addition, the effectiveness of a budget program is directly related to its acceptance by all levels of management (Pretabh, 2010)

Budgeting is most useful when it is integrated with a company's strategy. After organizational goals, strategies and long-range plans have been developed, companies prepare budgets. In developing the budget, each level of management should be invited to participate. Budgets are probably the most widely used control devices. The benefit of budgetary control as profit maximization; a budgetary control aims at profit maximization of an organization through proper planning and coordination of different functions, proper control over various capital and revenue expenditures and putting resources in to best use. Coordination; achieved through working of different department and sectors (Preetabh, 2010).

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. In most large and complex organizations, this task would be nearly impossible without budgeting. Without effective budget analysis and feedback about budgetary problems, many organizations would become bankrupt. Some of the problems arise from inadequate data to formulate and implement a proper budget; and non-existence of well-defined structure, which leads to overlapping of duties. Therefore, these deficiencies can be addressed through the use of budgeting technique. Based on the above mentioned research findings, it can be noticed that the proper plan and its effective utilization should be accordance to the need and requirement of the organization. Therefore, the need of understanding about budgetary control practice and financial performance has become very much essential for every type of organizations who wants to sustain and make profit in this globalized business world and NOC, Nepal is not far from its effect. Thus, this study is motivated to find out the solution of followings issues:

- What is the practice of budgetary control in the NOC?

- Whether there is any relationship exist between budgetary control and financial performance of the NOC or not?

### 3. Methods of Analysis

The study has used a descriptive research design to investigate budgetary control practice and financial performance in Nepal Oil Corporation in Nepal. A convenient sampling design for the primary survey has been used to obtain the respondents' opinions. Structured questionnaire as a major instrument for data collection was used to obtain information from 60 different level employees who have knowledge with budgetary work of NOC in Nepal. The results are drawn upon the sources of data from open-ended questionnaire, organizational documentation and personal observation. Finally, the questionnaire concerning the practice of budgetary control and financial performance of NOC, Nepal were based on a comprehensive review of previous literatures. Therefore, valid questionnaire have been based on 5 point likert items with 1 to 5 scales have been developed that the objective of the study is fulfilled. Thus, to get the answer of the stated objectives, the mean, standard deviation, frequency, correlation analysis and Chronbach's Alpha of all items have been used for reliability test. For detail data analysis SPSS version 23 and Microsoft excel was used. The values of Cronbach's Alpha are presented in table 1.

**Table 1: Reliability Statistics**

Statements	Cronbach's Alpha	No. of Items
Practice of budgetary Control in NOC	0.76	8
Budgetary Control Features	0.79	8
Human Factors within Budgetary Control	0.83	7

Source: SPSS output

The value of Cronbach's Alpha is 0.73 for statements of practice of budgetary control in NOC, 0.79 for statements of budgetary control features and 0.83 for statements of human factors within budgetary control, which are all together 23 statements. As a general rule, a coefficient greater or equal to 0.70 is considered acceptable and a good indication of construct reliability (Nunnally, 1978). The obtained values of Alpha are greater than 0.70, which indicated that all items related to construct are reliable and acceptable.

The population of the study comprises all the staffs of Nepal Oil Corporation. Questionnaire distributed to 60 employees, all questionnaire were returned which are summarized in table 2.

**Table:2  
Respondent's Profile**

Position of Respondents	Frequency	Percent	Cumulative Percent	Department of Respondents	Frequency	Percent	Cumulative Percent
Section Officer	8	13.3	13.3	Finance	21	35.0	35.0
Officer	32	53.3	66.7	Account	11	18.3	53.3
Assistant I	16	26.7	93.3	Administration	9	15.0	68.3
Assistant II	4	6.7	100.0	Others (Project & Engineering)	19	31.7	100.0
<b>Total</b>	60	100.0		<b>Total</b>	60	100.0	

Source: Survey data 2017

The table shows that all 60 questionnaires were filled and collected out of 60 distributed to staffs of NOC who were involving in budgetary work. The table further shows that 66.7% respondents of the study are from the managerial position which indicated that the involvement of top level employee in budgetary work is higher than lower level employee in NOC. The study found that 53.3% respondents are from the finance and account department and 31.7% are from project and engineering department which mean that account and finance department along with project and

engineering department are highly involved in budgetary work in NOC where involvement of staffs of administration department is lesser in budget preparation and budgetary control related activities.

#### 4. Result and Analysis

In this section, the acquired data are presented in tabular form to keep the study concise and easy to understand, and to simplify the analysis process. For the perceptual analysis of data, the following section presents the practice of budgetary control in NOC, budgetary control features and financial performance and human factors within budgetary control and financial performance in Nepal Oil Corporation.

**Table 3**  
**Practice of budgetary Control in NOC**  
**(Mean & Std. Deviation)**

Statements	N	Min.	Max.	Mean	S.D.
We prepare budget in our organization.	60	4	5	4.53	.503
There is specific budget period in our organization.	60	3	5	4.47	.724
We prepare flexible budget.	60	3	5	3.95	.675
There is involvement of each level employee while preparing budget	60	1	4	2.10	.896
We encounter some problems while preparing budget.	60	1	4	3.50	.701
The employees of organization are well trained and experienced in budget preparation.	60	1	5	3.03	1.104
There are impractical budget estimations in previous year.	60	2	5	3.42	.979
We operate the system of budgetary control in our organization.	60	3	5	3.77	.673

Source: Survey Data 2017

The table shows that most respondents are agree that NOC prepare budget and have specific budget period (M= 4.53 & M= 4.47 out of total score 5). This indicated that NOC has practice of preparing annual or semi-annual or other periodical budget which can be changeable as per the necessity of the organization. The table expose that there is no involvement of each level employee in budget preparation (M= 2.10), which mean that; mostly budgetary plan activities are carried out by top level management. It is found that, average respondents are silent about employee's training and experience in budget preparation (M= 3.03) however there was high fluctuation in responses as shown significantly higher standard deviation (SD=1.104). It means that all the employee are not getting chances of involving in training activities and equally experience in budgetary work due to this, the employees are facing the problem in budgetary work. The result further indicated that there is implementation of budgetary control system in NOC (M= 3.77), though there is some issues in participation of employees in budget preparation but they are following budgetary limitations while carrying out organizational activities.

**Table 4**  
**Budgetary Control Features and Financial Performance**  
**(Mean & Std. Deviation)**

Statements	N	Min.	Max.	Mean	S.D.
Budgetary control has lead to cost effective procurement, thus surplus revenue.	60	3	5	3.93	.578
Surplus revenue is not assured through increased budgetary control.	60	2	5	3.33	.795
Fitness of budgetary control to organization's situation saves cost.	60	3	5	3.93	.446
Accurate budget prediction through budgetary control increase net profit margin.	60	1	5	4.35	.732
A budgetary control provides cash expenditure tracking and reduces operational cost.	60	3	5	4.13	.623
Budgetary control provides an organization's with avenues to invest in income generating ventures.	60	3	5	3.92	.462
As management tools budget facilitate prediction of financial milestones by the organization.	60	3	5	3.85	.755
The budgetary control influence profit plan of our organization.	60	3	5	4.03	.581

Source: Survey Data 2017

The table shows that majority of respondents believes that budgetary control has lead to cost effective procurement which leads to surplus revenue (M=3.93 out of total score 5). This imply that budgetary control plays vital role in effective allocation and mobilization of resources which minimizes unnecessary cost which results increment in revenue generation. However in average it was found that neutral opinion on surplus revenue is not assured through increased budgetary control (M= 3.33). Which indicated that budgetary control is not the only factor that influences profitability of a business organization, there are other factors; price level, efficiency of operations, general economic condition, marketing activities etc which may have also influence in profitability of organization. The table further shows that in average respondents are agree that fitness of budgetary control to organization's situation saves cost, accurate budget prediction through budgetary control increase net profit margin and a budgetary control provides cash expenditure tracking and reduces operational cost (M=3.93, M= 4.35 & M= 4.13). It signifies those budgets which are prepared as per the nature of the organization considering the organizations' and market's real scenario is helpful control unnecessary expenses which increases the financial performance of the organization. The table also shows that average respondents believes that budgetary control provides different methods or means to invest in income generating ventures (M=3.92) by providing different options for using its limited financial resources available within organization. The study found that most of respondents are believe that budget facilitate prediction of financial milestones and budgetary control influence profit plan of the NOC (M= 3.85 & M= 4.03). This indicated that the budgetary control activities are helpful to analyze the organizational performance and set the goal to achieve it. The results of the table point out that element of budgetary control features are closely associated with financial performance of the NOC.

**Table 5**  
**Human Factors within Budgetary Control and Financial Performance (Mean & Std. Deviation)**

<b>Statements</b>	<b>N</b>	<b>Min.</b>	<b>Max.</b>	<b>Mean</b>	<b>S.D.</b>
Management commitment to budgetary controls has increased profitability of our organization.	60	3	5	3.87	.503
Complete acceptance of budgetary control by management has lead to profits.	60	3	5	3.73	.778
Use of budgetary control to pressure employees has lead to mismanagement of funds.	60	1	4	2.97	1.008
Meaningful involvement of employees in budgetary control has ensured increased profitability.	60	1	5	4.12	.783
Use of budgetary control to achieve organizational goals has lead to increased profitability.	60	2	5	3.93	.634
Management values employees in budgetary controls increase revenue.	60	3	5	3.80	.659
Profitability of our organization is affected by degree of top management's preoccupation in technical aspects of the budgets.	60	1	5	3.87	.853

*Source: Survey Data 2017*

The study found that majority of respondents believes that management commitment to budgetary controls and complete acceptance of budgetary control by management has lead to increased profitability and profit of NOC (M=3.87 and M=3.73 out of total score 5). This indicated that practice of budgetary control has lead to increased profitability, but management commitment towards budgetary control is so far required. However in average it was found that neutral opinion on use of budgetary control to pressure employees has lead to mismanagement of funds (M=2.97) but standard deviation on this assertion was significantly high (SD=1.008) which means there was fluctuation on the agreement on this opinion. This indicated that budgetary control provides guidance for effective management and utilization of financial resources. However, some people believe that there can be mismanagement of those resources if there is biasness in budget preparation and its implementation. The table further shows that in majority respondents are agreed that meaningful involvement of employees in budgetary control has ensured increased profitability (M=4.12). Which mean that the participatory budgeting motivate directly and indirectly to its effective implementation which leads better performance. The study found that most of respondents are believe that use of budgetary control to achieve organizational goals has lead to increased profitability (M=3.93), management values employees in budgetary controls increase revenue (M=3.80) and profitability of NOC was affected by degree of top management's preoccupation in technical aspects of the budgets (M=3.87). This expose that predetermined financial target with valued employees by management about their role in budgetary control increases the overall performance of organization. However, the

standard deviation of profitability of NOC is affected by degree of top management's preoccupation in technical aspects of the budgets was comparably higher (SD= 0.853) which shows fluctuation on the agreement of this assertion and others parts of the budgets are equally important along with technical part of the budget.

### Correlation Analysis

Correlation analysis was used to measure the strength and relationship between independent variables budgetary control features and human factors within budgetary control with dependent variable financial performance. The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by r. The Pearson correlation coefficient, r, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases.

**Table 6**  
**Correlations among Component of Budgetary Control and Financial Performance**

Variables	Budgetary Control Features	Human Factors Within Budgetary Control	Financial Performance
Budgetary Control Features	1		
Human Factors Within Budgetary Control	.190	1	
Financial Performance	.765**	.778**	1

Source: SPSS Output

Note: \*\*. Correlation is significant at the 0.01 level (2-tailed).

The study in table shows that all the predictor variables were shown to have a positive association between them at a significant level of 0.01 and hence included in analysis. There was strong positive relationship between the independent and the dependent variables.

The correlation between budgetary control features and human factor within budgetary control was 0.190, the correlation between budgetary control features and financial performance was 0.765 and lastly the correlation between human factor within budgetary control and financial performance was 0.778. The result of table indicated that there was strong positive relation between the attributes of budgetary control and financial performance of the NOC.

## 5. Discussion and Conclusions

The main purpose of this study is to identify whether NOC has practice of budgetary control or not and to examine is there any relationship exist between budgetary control and financial performance of the NOC. The result exposed that there exist positive relationship between budgetary control and financial performance which supported previous studies of Siyanbola (2013). The findings states that due to lack of proper training and experience the NOC employees were encountered different problems in planning and implementation of budget which is similar with the findings of Igbekoyi (2015) who concluded that the need for improvement in traditional approach of budget process is important and timely considering the lingering deficiencies of the process. Particularly, this research study found that budgetary control increases the profitability of business organization and budgetary control helps to achieve a profit plan of corporation which is consistent with study of Lambe, Marry & Theresa (2015) who found that when budget and budgetary control are carefully planned and implemented by any organization (most especially government owned organizations), it can lead to decrease in cost and increase in revenue, which in turn to leads to maximization of profit. It is possible for an organization especially business organizations to control its actual performance through the use of budgetary control.

When budgetary control is continuously practiced by business organizations, it is always easy to anticipated operational changes and reacts quickly for them by making some adjustments. It was observed positive relationship between the practice of budgetary control and financial performance of the NOC which is similar with the study by Kenneth & Ambrose (2013) who found that budgetary control process exhibited a positive significant influence on financial

performance of state corporations through influence on financial objectives, the allocation of funds as well as investment ventures that organization undertakes. The result expose that budgetary control is not the only factor that influences profitability of a business organization. Other factors include: price level, efficiency of operations, general economic condition, marketing activities etc have also influences profitability of organization. Despite the undisputed importance of budgetary control in profit-planning and profit-rating, some clerical and administrative forms includes, and reports which are used in reporting and correcting deviations from budgets. Budgetary Control may be less effective to the benefit of this case organization if there is low awareness about the budgetary control. Hence, this study also concludes that involvement of all stake holders in budget making helps to make efficient budgets which are efficient and effective. Activities such as allowing many people to take part in the process, including all departments and sharing of the approved budgets with everyone in the organization helps to make good budgets. This is similar with the study of Karen & Oluoch (2017) who found that human capital budgetary control had a positive and significant effect on firm's performance.

The study concludes that regular monitoring and proper allocation of resource and continuous budget review of in key attributes to minimize losses leads to increase financial performance in any organization. Lastly, the study notes that budgetary controls have a direct relationship with the level of financial performance. Also the budgetary controls affect the level of financial performance of the NOC. This agrees with a study by Silva and Jayamaha (2012) who found that efficient apparel companies maintain sound budgetary process which contributes to higher levels of organizational performance. Thus there exist a positive relationship between budgetary controls and financial performance. This could be attributed to the fact that budget controls minimizes on cost and thus helps to increase the profits of a firm.

## **6. Future Implications**

Budgetary controls are important in influencing performance therefore more efforts should be made by management of organizations to sensitize the employees on its importance so as to enhance performance. It also recommends that organizations should develop more formal practice in the development of budgetary controls. Many organizations have minimal formal budget controls in their organizations hence they need to develop a clear policy on budgetary control processes. Based on the findings, organizations need to investigate other factors that contribute to better performance apart from budgetary controls, like employees motivation and invest more in staff development in order to enhance their performance. Human factors within budgetary control show the highest contribution towards financial performance. Hence, more training should be given to the staffs on how to conduct budgetary functions more efficiently.

The findings also indicated that budgetary participation has an impact on the organization's performance. Therefore, the budgetary controls should not be top-down in nature, instead the top management should make efforts to elicit feedback from subordinates at different levels in developing the organizational budget. As such, top management needs to understand that the positive impact of budgetary participation. Managerial performance works both directly, as a consequence of management involvement in the budgetary process, as well as indirectly, when managers' commitment to the organization increases due to their participation and involvement in the budgetary control process.

It is now very obvious that budgetary control is of tremendous importance to business organizations such establishments can easily survive if the budgetary control technique is properly implemented in its routine operations. However, budgetary control is not a substitute for the individual performance of the entire staff. Obviously, it has some shortcomings, although those may be minimal. Therefore, the process of implementing budgetary control in business organizations should:

- i. Attempt to revise budget standards when circumstances change to such dimension as to warrant adjustments in operating procedures.
- ii. Ensure that those who have responsibilities for preparing and controlling budgets do not abuse the privilege. They shouldn't be allowed to use the power given to them to victimize individual employees or departments.
- iii. Try to involve each level employee in the preparation of budgets. This will eliminate or at least minimize the problem of obtaining relevant information for the preparation of budgets as well as problems associated with coordinating and implementing the budgets.

For the benefit of scholars who may wish to conduct subsequent researches concerning this topic of this research work, it will be necessary for them to:

1. To deeply understand the relationship between budgetary controls and the financial performance of organizations, the study suggests other similar studies to be done using different financial ratios and financial indicators other than net profit and ROA. This would overcome the limitations of the study and provide more knowledge or confirm the findings of this study.
2. The study has concentrated on only two components of budgetary control in NOC which leaves out other possible ways of controlling the budgets. It recommended that another study be done including other factors of budgetary control to unearth more information on the subject.
3. The study recommends another study to be done in other sectors other than public enterprises so as to generate an all-inclusive view of the relationship between budgetary control and the financial performance of the organizations including other sectors as well.
4. A bigger study in terms of coverage, size and inclusion is desired to come up with generalizable findings on the link between financial performance and the budgetary controls so as help us understand the relationship across the industries.
5. Administer both formal and informal interviews on the randomly (or systematically) selected staff in addition to the questionnaire given to them.

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