

The Effectiveness of Budgeting and Budgetary Controls, and their Role in Promoting the
Financial Performance of Organizations

Course Number and Name

Student's Name

Respectfully Submitted to (Instructor's name)

Institution Affiliation

Date Submitted

Abstract

Budgeting plays an important role in the overall performance and success of businesses. The competitive nature of today's business environment coupled with the limited nature of organizational resources needed to meet unlimited business needs means that it is critical for organizations to ensure that financial resources have been strategically allocated. Budgets are important tools that can be utilized to ensure improved financial performance through better allocation of financial resources. The present study aims to examine the effectiveness of budgets and budgetary controls in improving the financial performance of organizations. The study will utilize a mixed method approach where data will be collected from organizations within the Las Vegas region. Descriptive statistics, Analysis of variance, and regression analysis will be utilized to analyze the collected data.

The Effectiveness of Budgeting and Budgetary Controls, and their Role in Promoting the
Financial Performance of Organizations

Introduction

The issue of financial performance is one that has received tremendous attention from scholars and researchers from various areas of strategic management and business. In all types of organizations, it is one of the most primary concerns for business practitioners and professionals since financial performance is vital to the health, success, and survival of the organization (Onduso, 2013). The term financial performance is basically used to refer to the extent to which the financial goals and objectives of an organization are being met. The financial performance of any given organization is heavily dependent on the effectiveness and efficiency with which the strategic allocation of financial resources is conducted. Budgets are important tools that have been, and are continuously being utilized by organizations to facilitate financial planning and performance. Budgets enable and enhance the financial performance of organization by ensuring the adequate allocation of resources to meet organizational goals.

Background of the Study

The nature of the modern business environment is such that organizations have at their disposal limited resources to meet unlimited goals and objectives. Given the dynamic and competitive nature of the environment that organizations of all types operate in today, only those that are able to properly allocate and manage their resources will be able to stay ahead of the ever-growing market competition. Financial resources are one of the most important organizational resource and the manner in which they are utilized could either promote or derail organizational success and the attainment of goals and objectives. It is therefore paramount for all serious organizations to ensure that financial resources have been strategically and effectively

allocated amongst all the important departments and projects. The efficient allocation and utilization of financial resources demands adequate planning that is in alignment with business objectives and resources.

To facilitate proper planning of financial resources, budgeting, which is a tool for planning and control, becomes an indispensable part of business. For a long time, budgeting has been considered a necessary tool in the management of organizations, and particularly concerning the strategic allocation of financial resources (Tunji, 2013). Budgets are roadmaps that display the manner in which companies plan to spend finite organizational resources. Budgets are important tools for budgetary control within organizations as they facilitate the attainment of the financial performance goals and objectives. As pointed out by Venkatasami (2015), proper budgetary control within organizations is vital to ensure the effective and efficient coordination of organizational operations by setting appropriate and relevant financial goals and providing an account of the actual financial performances.

Problem Statement

Budgets and budgetary control have been an important element of the financial management function within organizations. Budgets facilitate the strategic allocation of financial resources within organizations. Organizations recognize the importance of having comprehensive and properly developed budgetary functions to maximize efficiency and ensure that financial resources have been well allocated and utilized (Bashuna, 2013). However, despite recognizing the importance of budgets and budgetary control in the proper allocation of financial resources and the promotion of enhanced financial performance, many companies still continue to blunder and fail as a result of imperfect and ineffective budgetary processes and functions (Abdullahi, Abubakar, Kuwata, & Muhammad, 2015).

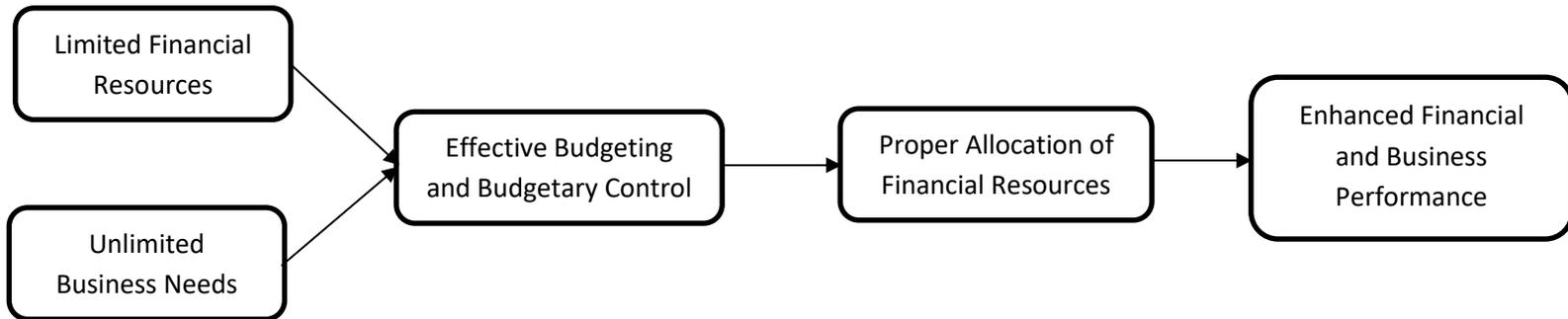
The failure to recognize inefficiencies in budgeting and establish effective budgetary processes and controls is a major problem within organizations as it results in the misalignment of corporate strategy and financial allocation leading to poor financial and overall organizational performance. In addition, there continues to be increased concerns that the rapid and dynamic changes on today's organizational environment have rendered traditional budget inadequate and obsolete as a management and strategic allocation tool (Isaac, Lawal, & Okoli, 2016). It is therefore very vital to examine the effectiveness of current budgetary functions and their role in enhancing financial performance within organizations.

Purpose Statement and Research Questions

The purpose of the current study is to examine the usefulness and effectiveness of budgeting and budgetary control in enhancing the financial and overall performance of organizations through the proper allocation and utilization of financial resources. The research questions that will be addressed within the current study include;

- a. Are budgets and budgetary controls an effective way through which organizations can enhance their financial performance through the proper allocation of limited financial resources to meet unlimited business needs?
- b. Are budgets and budgetary controls within organizations being efficiently optimized to foster enhanced financial performance and the attainment of organizational goals and objectives?
- c. What areas should organizations focus on in order to improve the effectiveness and efficiency of budgeting and budgetary controls in fostering fundamental goals and objectives by facilitating the strategic and proper allocation of financial resources?

Conceptual Framework



Selected Research Approach and Rationale

There are three major research approaches that can be utilized by researchers when conducting research. Researchers can either use the qualitative approach, the quantitative approach, or the mixed method approach. Qualitative research is research that is exploratory in nature and mostly utilized to provide insights into the problem and offer an in-depth understanding of the phenomenon (Creswell, 2014). Quantitative research, on the other hand, is utilized to quantify the problem and the phenomenon through the utilization of numerical data which can be transformed into usable statistics (Creswell, 2014). Mixed method research is a research approach that entails the combination of both the qualitative and quantitative approaches. The research approach that will be utilized for the current study is the mixed method research approach.

As pointed out by Cooper and Schindler (2014), qualitative research is the most appropriate research method in situations where the researcher needs to explore phenomenon and provide a detailed understanding of the problem and related issues. Qualitative research is conducted to provide a comprehension of the research problem from the contexts and settings within which the study participants experience and attempt to address the problem. The

qualitative research approach is suitable for this study as the current study aims to explore and describe the effectiveness of budgeting and budgetary controls in enhancing the strategic allocation of financial resources within modern organizations. Quantitative research, on the other hand, is also suitable to the current study as there is also the need to examine and establish relationships between the variables of budgeting and financial performance. Hence, the most appropriate approach would be the mixed method research as it combines both the qualitative and quantitative methods both of which are relevant to the present study.

Data Collection, Measurement, Analysis, Interpretation and Limitations

The research design refers to the procedures that guides researchers in the process of data collection, analysis, and interpretation. It is the systematic plan that the researcher should follow containing the specific conditions that should be followed in the collection, analysis, and interpretation of data. The current study will utilize a case study approach. Case study is an inquiry that investigates phenomenon within its real-life context (Yin, 2014). It is the most suitable design for this study since the purpose of the study is to provide an in-depth exploration of the phenomenon through a comprehensive examination of cases within a bounded system. 20 organizations within the Las Vegas region, both local and international, from a variety of fields will be randomly selected and two participants obtained from each organization after consent has been sought.

Data will be collected through a combination of survey questionnaires and in-person interviews with the selected participants. The participants will be individuals who possess relevant and sufficient knowledge of the budgeting process and its financial performance. Therefore, the participants will include managers, financial officers, and other appropriate financial and strategic management practitioners. The interview questions, as well as the

questions in the questionnaire will be a mixture of close-ended and open-ended questions. To measure the strength of the responses provided by the research participants, a five-point Likert scale ranging from strongly agree to strongly disagree.

The drop and pick method will be used to administer the structured questionnaires. The questionnaires will be dropped to the participants and picked up once completed. The interviews will be arranged at the convenience of the participants once they have provided informed consent to do so. To attain the specific objectives of the current study, the data will be measured using the various performance indicators as stipulated within the organizations' annual reports. The data received from the questionnaires and interviews will also be supplemented with secondary data sources. The data will be analyzed using both descriptive and inferential statistics. Thematic analysis will be used to determine the effectiveness of the budgeting process while measures of central tendency and ANOVA will be utilized to examine the extent and significance of relationships. The study limitations will include:

1. Financial constraints – Inadequate financial support will slow down the data collection process as well as the production of the final report of the study
2. Another limitation for the study will be time constraints as the study will entail questionnaire distribution to different organizations among individuals who are busy to spare enough time to respond

Expected Contributions of the Research and Expected Outcomes

This study on the effectiveness of budgeting and budgetary control on the proper allocation of resources and its impact on the financial performance of organizations is valuable as it will provide a comprehensive understanding of the role of budgeting in the strategic allocation of financial resources. Through this study, organizational managers will be armed with

sufficient knowledge on the impact that budgets have in strategic allocation and the overall success of the business. As a result, the results of this study will ensure that managers and financial practitioners put in more effort and focus on budgets and the implementation of budgetary control to ensure high financial performance which will enhance the overall success and profitability for the organization.

The study will also be equally important to future academicians and researchers as it will act as a source of relevant information regarding budgetary controls and the impact of budgeting on the financial performance of organizations. The study will also serve to enrich the base of knowledge for future researchers who would be interested in pursuing research in the same field. The results of the study might even ignite interest in the exploration of budgeting and budgetary controls and their impacts within organizations. In addition to encouraging the implementation of measures that will enhance the proper utilization of budgets, the study will also enable the readers to gain vital knowledge concerning the effective use of budgets.

Summary

This paper has examined literature and research related to the issue of budgeting and budgetary control within organizations. An important problem is that there is no comprehensive understanding of the effectiveness of budgeting and budgetary control in enhancing the effectiveness of financial allocation. This paper, therefore, aims to determine the effectiveness of budgeting and budgetary control in promoting the financial performance of organizations. The paper has detailed the problem statement, the purpose statement, and the conceptual framework. In addition, the paper has also provided an extensive overview of the significance of the study, the research questions, the rationale for the research approach, and an extensive description of

the research design including how the data will be collected, measured, analyzed, and interpreted.

References

- Abdullahi, S. R., Abubakar, M. A., Kuwata, G., & Muhammad, T. A. (2015). The Role of Budget and Budgetary Control on Organisational Performance: A Case Study of Tahir Guest House, Kano State, Nigeria. *International Journal of Innovative Research in Information Security*, 4(2), 22–28
- Bashuna, A. (2013). Factors Affecting Effective Management of the procurement Functional Nakuru North Sub-County. *World Academic Journal of Business & Applied Sciences*, 1(7), 262–291

Cooper, D., & Schindler, P. (2014). *Business research methods: 12th edition*. New York: McGraw-Hill Higher Education.

Creswell, J. W. (2014). *Research design: qualitative, quantitative, and mixed methods approaches: 4th edition*. London: SAGE

Isaac, L., Lawal, M., & Okoli, T. (2015). A Systematic Review of Budgeting and Budgetary Control in Government Owned Organizations. *Research Journal of Finance and Accounting*, 6(6), 1–10.

Onduso, E. O. (2013). The Effect of Budgets On Financial Performance of Manufacturing Companies in Nairobi County. *New Business Journal*, 7(4). 46 -54.

Tunji, S. T. (2013). The Impact of Budgeting and Budgetary Control on The Performance of Manufacturing Company in Nigeria. *Journal of Business Management and Social Sciences*, 2(12). 7-16.

Yin, R. K. (2013). *Case study research: Design and methods*. Thousand Oaks: SAGE Publications