

The Global Debate on Budgeting: Empirical Evidence from Nigeria

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Abstract

This study provides that though the budgetary system is not perfect, its usefulness cannot be over emphasized. The primary source of data was used and data were collected through the use of questionnaire. A Non-Parametric test -Chi-square test and the descriptive statistics were used for data analysis. The study reveals that budgeting is perceived by managers a worthwhile exercise and a value creation process. It is recommended therefore that, researches should be directed towards budgetary system improvement rather than its total abandonment.

Keywords: Traditional budgeting, Budget criticisms, Budget desirability, Nigerian evidence

1. Introduction

Budgeting is no new thing in the history of mankind; it is an age long exercise. It is used for virtually all human activities. Most prominent, in an organised economic, social, and political system, the role of budgeting cannot be ignored. Business owners and managers for instance need to budget their resources, which may include everything from raw materials to human resources to facilities and to make the best and most profitable use of what they have to work with. Recent surveys show just how valuable budgets can be (Horngren *et al.*, 2008; Dugdale & Lyne, 2006; Anand *et al.*, 2004). Advocates of budgeting claim that the process of budgeting forces a manager to become a better administrator and puts planning in the fore-front of the manager's mind. Many seemingly healthy businesses have died because managers could not identify problem in advance or because they failed to monitor and adjust budgets to changing conditions (Horngren *et al.*, 2008). Therefore, it is expected that this study would awaken interest in the efficacy of budgeting within the manufacturing sector of the Nigerian economy as this sector often account for a substantial portion of total economic activities of a nation.

It has also been agued that in spite of its wide spread use, the budgetary process is not perfect altogether (Otley *et al.*, 2003). In other word, there are criticisms and debates over the value of budgeting. Recently, a group led by Hope and Fraser in 2001, advocated for what they called "beyond budgeting". In their opinion, managers should look beyond the traditional budgetary system. They noted that the budgetary process is too time consuming and that the resulting annual budgets, operating and financial are not accurate and hence not relevant- especially in industries where market changes are frequent and unpredictable. In spite of its criticism, some hold the opinion that budgeting remains a useful management tool. These two studies present conflicting issues about the efficacy of the budgeting system. This argument has generated a lot of heat in the accounting profession since the last few years. It has attracted various responses and reactions from various quarters, constituting one of the topmost issues discussed in management accounting literatures and conferences, particularly in developed economies. The issue has not been laid to rest as people keep turning in their contributions by providing evidence from Nigeria, an emerging economy. The questions raised in this study are:

1. What is the extent to which companies in Nigeria operate budget?
2. What is the relevance of budgeting in management and its desirability as perceived by managers/users in Nigeria?

The study hypothesised that:

1. Budgeting is not a useful tool for management.
2. Managers are dissatisfied with the budgetary system.

The study observed that most of the researches on this area have emanated from the developed world. The researcher is not aware of any empirical study from this part of the world on the debate over the value of budgeting. This study therefore attempts to fill this gap. The remaining part of this study is divided into three sections. The next

reviews literatures. The third section describes the research methods while the last section was used to analyse data and presents the results.

2. Review of Related Literature

2.1 Conceptual Framework

Horngren *et al.* (1999), state that most people misconstrue the use of budget for limiting spending and that many people associate the word “budget” with the approving, rejecting, or arguing over various estimates. However, Lucey (2000), states that the process of preparing and agreeing budget is a means of translating the overall objectives of the organization into a detailed, feasible plan of action. (see for detail, Polimeni *et al.*, 1991). This valuable use of budgets for translating organizational objectives to feasible plan of action is a major breakthrough against the ordinary use of budgets only for cutting cost, restricting spending and allocating scarce resources. Broadly, CIMA’s official terminology of management accounting defines budget as: “Quantitative statement for a defined period of time which may include planned revenues, assets, liabilities and cash flows. A budget provides a focus for the organization aids the coordination of activities and facilitates control.”

2.2 Arguments over traditional budgeting

Budgeting no doubt is a veritable tool for planning, controlling, coordinating evaluating, directing, communicating and aiding decision making, but the whole process is not perfect altogether. For some years now, there has been movement against budgetary process. As a result, budgeting has evolved leading to the development of techniques like: Activity based budgeting, performance budgeting, value budgeting, process reengineering; balanced score card, Zero based budgeting, IT based budgetary process, and planning programming budgeting system (PPBS) etc. On the other hand, in spite of all the techniques developed to take care of the shortcomings of traditional budgeting, some are calling for total abandonment of budgeting as a whole. For instance, Pilkinton & Crowther, (2007), argue that firms would be better off abandoning budgets altogether.

According to Dugdale & Lyne (2006), there are series of articles in management accounting, calling for organizations to replace budgets with a range of indicators and techniques. They see the use of budgets as part of a performance contract, as a pernicious practice, claiming that it leads to numerous problems which include the following; meeting only the lowest targets, using more resources than necessary, making the bonus-whatever it takes, competing against other divisions, business units and departments, spending what is in the budget, providing inaccurate forecasts, meeting the target, but not beating it and avoiding risks.

Management accountants recognize these problems, but Hope and Fraser (2001), feel that they are now so serious that they are preventing companies from competing effectively in globalized, deregulated markets. They say that, in order to meet modern challenges, companies must dismantle their rigid command and control structures, which means scrapping their budgets. They should instead adopt a policy of radical decentralization and implement appropriate key performance indicators, scorecards and rolling forecasts (Dugdale & Lyne, 2006). Other criticisms according to Bourne (2004) is that budgets are; time consuming and costly to put together, rarely strategically focused and are often contradictory, add little value; especially given the time required to prepare them, encourage gaming and perverse behaviours and make people feel undervalued.

The above wide ranging critiques have drawn the attention of scholars, practitioners and academics; each reacting differently. These have also birthed and prompted a lot of researches. Dugdale & Lyne (2006), in an investigation in response to the critiques by the advocates of beyond budgeting; they affirm that the propositions of the critics were based on the banking sector. A proposition for decentralization and use of only output control for banks may not be recommended for other businesses, especially businesses with all manners of internal complexities. They also find out that budgeting is alive and well. They state:

All the companies in our survey used budgets and generally, both financial and non-financial managers thought that budgets were important for planning, control performance measurement, coordination and communication (Dugdale & Lyne, 2006).

On the other hand, consistent with the argument of the advocates of the “beyond budgeting” concept, Dugdale & Lyne (2006), also pointed out that more than half of the financial managers in their study agree or strongly agree that budgets were problematic in the following ways: budgets are too time consuming; managers might be constrained by budgets and delay necessary actions. However, the shortcomings identified above are not enough reasons to abandon budgeting out rightly knowing its importance and usefulness. Jacob (2004), states that there is no alternative to budgeting and budgetary control. Instead of abandoning budgeting, improvements should be sought (see, Horngren *et al.*, 2008; Wickramasinghe & Alawattage, 2007; Dugdale & Lyne, 2006).

2.3 Empirical framework

Horngren *et al.*, (2008) state that, recent surveys show just how valuable budgets can be. They assert that, a study of more than 150 organizations in North America listed budgeting as the most frequently used cost management tools

and it was also the tool with the highest value to the organization. Further more, they show that, study after study has shown the budget to be one of the most widely used and highest rated cost management tools for cost reduction and control. Highlighting one of the usefulness of budgeting to the users, they maintain that, advocates of budgeting claim that the process of budgeting forces manager to become a better administrator and puts planning in the fore-front of managers' mind. In the same book, Horngren *et al.*, (2008) also point out that the result of a survey carried out in the same place (North America) shows that most managers still agree that budgeting, correctly used has significant value to management. They reported that over 92% of the 150 companies in North America use budget and remarked budgeting as the top among the top three cost management tools. In the same view, in a round table discussions organized by CIMA and ICAEW in 2004 on "The traditional role of budgeting in organization", it is stated that budgeting and the accompanying process are indispensable and that, research in organizations seems to suggest that this is a commonly held view. It was further stated that, traditional budgeting remains widespread. Some claim that as many as 99% of European companies have a budget in place and no intention to abandon it (Kennedy & Dugdale 1999, cited in CIMA-ICAEW, 2004). Consistent with this, Anand *et al.*, (2004) in a survey carried out in India found out that the use of budgets as a part of management control system is wide spread. Precisely, 88.7% of the respondents in their study prepared budgets. They assert that nearly all the companies in Australia, Japan, UK, and USA prepare budgets (see for detail, Asada *et al.*, 1989, Blayney & Yokoyoma, 1991, Chenhall & Langfield 1998 all cited in Anand *et al.*, 2004).

On the contrary, research also shows that over 60% of companies claim they are continuously trying to improve the budgeting process to meet the demands set for management in creating sustainable value (Ekholm & Wallin, 2000, cited in CIMA-ICAEW, 2004). According to Bourne (2004), Cranfield University in 2001 teamed up with Accenture's finance and performance management service line to undertake a large worldwide review of planning and budgeting. They focused on 15 companies in the US and Europe which had already made adjustments to their budgeting practice. In addition, the researchers reviewed over 100 academic and practitioner books on the subject. The result showed a widespread dissatisfaction with the budgeting process (Bourne, 2004). Contrary to this conclusion, Dugdale & Lyne (2004) also argue that there is little or no evidence to support the view mentioned above that there is a widespread dissatisfaction with budgeting process. They affirm that, there seems to be no widespread dissatisfaction with traditional budgeting. Instead, managers generally see budget as important, especially for planning, control and evaluation. More so, one of the criticisms held against the traditional budgeting is that, budgets are rarely strategically focused, but contrary to this opinion, Anand *et al.*, (2004) in an investigation carried out in India, find out that the respondents as a matter of fact used more than one goal in formulating the master budgets. However, empirical evidence from Nigeria on this debate is documented in the later part of this work.

3. Research Methodology

In this study, since the researcher seeks to observe many variables at a point in time (i.e., one-time-only), a cross sectional survey research design was used. Precisely, the descriptive research design (a type of cross sectional survey research design) was used. This design was considered appropriate because all the variables of the study were observed at a point in time and thereby relatively reduced the cost of the investigation.

The target population for this study consists of all the manufacturing companies in the Nigerian private sector. For the purpose of this study, the list of manufacturing companies in Lagos State of Nigeria constitutes the population of study. The choice of Lagos state was based on certain reports on the distribution of manufacturing companies in Nigeria. According to Ajibolade (2008), over 55% of manufacturing companies had their head offices located in Lagos. Therefore, it is believed that the choice of Lagos is appropriate for this study. The choice of manufacturing sector for this study was based on the belief that, budgeting is most widely practiced in the manufacturing sector compared to other sectors. Moreso, Wickramasinghe & Alawattage (2007), posit that the development of standard costing technique and budgeting is traceable to the manufacturing industries.

Few samples were selected from the population for the purpose of this study. This was as a result of the difficulties encountered by the researcher in obtaining an up to date list of manufacturing companies in Nigeria. Consequently, a convenience sampling technique was used. The adoption of this sampling method was based on the fact that the study did not use any sampling frame from which a random sample could be drawn. However, for the fact that budgeting is widely used by most manufacturing companies, there is no reason to suspect any systematic bias in the findings of this study. The list of companies selected for this study is provided in Appendix II.

The instrument used for data collection was the questionnaire. The use of questionnaire was considered appropriate since the data were generated from primary source. A five point Likert-scale was used in designing the questionnaire where respondents were asked to rate their opinion from two extremes, "Strongly disagree and strongly agree". This was to give the respondents the latitude or wide ranging options from which to choose the one that best reflects their opinion. The nature of the data needed requires respondents to have the requisite knowledge and experience about

the subject matter. Therefore, the target respondents for this study were: the staff in the account section; departmental heads; and management staff in each of the sampled companies. A total of one hundred and fifty one (151) questionnaires were administered across the companies sampled but only one hundred and ten (110) were retrieved constituting about 73% response rate.

In this study, both descriptive and inferential statistical procedures were used. The descriptive statistics used include; mean value, standard deviation, simple percentages and frequency counts. For the inferential statistics, the Chi-square test statistics was used to examine how the actual observed frequency differs from expected. The non-parametric test was considered appropriate because the population of this study was distribution free i.e. it does not assume a normal distribution curve. Also, the summated likert scale used is an ordinal scale which is basically appropriate for non-parametric test (Asika, 1991). For the purpose of this test, alpha = 0.05 i.e. 5% level of significance was selected. Here, if the calculated value is equal or greater than the table value, we reject the null hypothesis and accept the alternative and vice versa.

4. Results

In this study, analyses were carried out using the Statistical Package for Social Sciences (SPSS 15.0). For the descriptive analyses, any mean value that is less than 2.0 implies little or no existence of budgetary exercise and control system. For a mean value of 2.0 and less than 3.0 indicates an existence but a weak budgeting and budgetary control system. Mean of 3.0 and above shows that companies prepare budgets and put proper and adequate control system in place. The same principles are applicable for the analyses of other items of the questionnaire.

From table 1, it shows that most of the companies prepare budgets annually as supported by a mean value of 3.51. Items four to eight of the questionnaire contained in appendix 1 are concerned with budget implementation and control. From table 1, the means are: 3.76, 3.75, 3.39, 3.21 and 3.35 respectively. The implication is that, since the means are above 3.0, it shows that budgets were usually implemented and the systems of control put in place by the companies were adequate. Moreso, for item eleven(11) of the questionnaire, the mean of 3.76 in table1 shows that budgeting is considered a useful tool for performing the managerial function of planning, control, decision making, coordinating, and communicating. Finally, the mean of 3.84 in table1 for item twelve of the questionnaire shows that respondents considered the budgetary system a worthwhile exercise.

4.1 Hypotheses Testing

In this study, two null hypotheses as stated in section one were tested. The test statistics was the chi-square test. To test hypothesis one, item 11 of the questionnaire was used. The item is: "I consider budgeting as a useful tool for planning, control, decision making, coordinating communicating and value creation." However, the hypothesis is stated below as:

H₀₁: Budgeting is not useful to managers for performing their tasks.

To test this hypothesis, the chi-square test (denoted by χ^2) was used.

$$\text{Mathematically, } \chi^2 = \sum \frac{(O-E)^2}{E}$$

Where:

O = Observed frequency

E = Expected frequency.

From Table 2, the calculated χ^2 is equal to 154.075 and is significant at $p < 0.05$. As a result, the null hypothesis is rejected, thereby accepting the alternative. By implication, it means budgeting is useful to the managements in performing their tasks.

To test the second hypothesis, item 12 of the questionnaire was used. The hypothesis is stated below as:

H₀₂: Managers are dissatisfied with the budgetary systems

The χ^2 test was also used for this hypothesis. The null hypothesis was rejected because the calculated χ^2 of 100.132 is also significant at 5% significant level and degree of freedom of 4. This is shown in Table 2. Consequently, the alternative hypothesis was not rejected. In effect, managers are not dissatisfied with the budgetary systems since to them it is valuable, worthwhile and beneficial to their organizations.

4.2 Interpretation of Results

The first research question is: what is the extent to which companies in Nigeria operate budget? The findings indicate that most companies in Nigeria prepare budgets annually. This is explained by mean 3.51 in Table 1.

This finding is consistent with the findings of Sahay *et al.*, (2003). In their study on cost management practices in India, they found that the use of the master budget as a part of the management control system is wide spread. Over 88% of the respondents in their study prepare budgets. In the same vein, Asada *et al.* 1989; Blayney & Yokoyama 1991; Chenhall & Langfield – Smith 1998, all cited in Anand (2004), found that nearly all the companies in Australia,

Holland, Japan, UK and USA prepare budgets. This study however contributes to the existing literatures on the widespread use of budgets by corporate organizations. The findings also show that most of the companies: (1) have a system that keeps proper records of actual results; (2) on a regular basis budgets are compared with actual results for variance analysis; (3) usually take corrective actions on off-standard performance; (4) usually review budget to meet environmental changes. It means therefore that, most companies have control system in place.

The second research question seeks to know empirically whether or not budgeting is a useful tool for effective management of corporate organisations. The findings show that budgeting is considered a useful tool for planning, control, decision making, coordinating, and communicating and that it adds value to organizations. In the same vein, the findings reveal that managers still appreciate budgets and they are not dissatisfied with it. Respondents claim that it is worthwhile and beneficial to their organizations. This finding is consistent with the finding of Callahan and Waymire (2007), who stated that value was identified in the budgetary process. Also, consistent with this is the findings of Dugdale & Lyne (2004), who assert that "There seems to be no wide spread dissatisfaction with traditional budgeting. Instead, managers generally see budgets as important, especially for planning, control and evaluation". In essence, this finding does not support the findings by of Bourne (2004); Hope and Fraser, (2001); Bunce, (2004) and Jensen, (2001).

5. Conclusion

This study achieved its aim of contributing to literature by providing empirical evidence from country other than the developed ones on the value of budgeting in management. The study concludes that most companies in Nigeria operate budgets annually, thereby confirming its wide-spread use. We can also conclude that besides its wide-spread use, budgeting is a veritable tool for planning, control, communicating, decision making and value creation.

It is recommended that efforts through researches should be directed towards improving the budgetary system rather than calling for its total abandonment.

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Table 1. Descriptive Statistics

	Mean	Std Deviation
Sex of Respondents	1.22	.416
Age of respondents	2.87	.803
To which of these management Levels do you belong?	1.52	.604
How long have you been in this Position?	1.43	.677
Are you the head of the department?	1.58	.496
Do you participate in the preparation of budgets?	1.41	.494
Do you work in the Acct/Fin Section?	1.36	.503
Qualification of respondents	2.29	1.177
My Company/Department prepares budgets annually	3.51	1.839
We prepare annual sales revenue budget in my Company/Department	3.57	1.674
My Company/Department prepares expenditure budget annually	3.65	1.573
My Company/Department is committed to budget implementation	3.76	1.545
We have a system that keeps proper records of actual results	3.75	1.617
On regular basis, budgets are compared with actual results for variance analysis	3.39	1.718
Corrective actions are usually taken on off-standard performance	3.21	1.547
Budgets are usually reviewed to meet environmental changes	3.35	1.412
Actual sales revenue is usually in agreement with the budget	2.45	1.212
Actual costs incurred are usually in agreement with the budget	2.79	1.398
I consider budgeting as a useful tool for planning, control, decision making, coordination and communication and value creation	3.76	1.780
I value budgeting because it is a worthwhile exercise and it is beneficial to my organisation	3.84	1.556

Source: Author's computation

Table 2. Chi-square Test Statistics

	UBD	MCBS
Chi-Square a,b,c	154.075	100.132
df	4	4
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is: 21.8.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is: 21.4.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is: 21.2.

Key: UBD - Usefulness of budgeting as a tool for decision making, MCBS - Managers commitment to budgetary system

Source: Author's computation

Appendix I

Research Questionnaire (Extract)

Please indicate the extent to which you agree or disagree with the following statements in respect of each variable stated below. (Ranging from 1 = strongly disagree to 5 = strongly agree).

S/N		1	2	3	4	5
1	My company/department prepares budgets annually.					
2	We prepare annual sales revenue budget in my company/department.					
3	My company/department prepares expenditure budget annually.					
4	My department/company is committed to budget implementation.					
5	We have a system that keeps proper records of actual results.					
6	On a regular basis, budgets are compared with actual results for variance analysis.					
7	Corrective actions are usually taken on off- standard performance.					
8	Budgets are usually reviewed to meet environmental changes.					
9	Actual sales revenue is usually in agreement with the budgeted.					
10	Actual costs incurred are usually in agreement with the budgeted.					
11	I consider budgeting as a useful tool for planning, control, decision making, coordinating, and communicating and value creation.					
12	I value budgeting because it is a worthwhile exercise and it is beneficial to my organization.					

Appendix II

List of Companies Sampled

- Maltex Nig. Plc
- Comet Stars Wires and Cables Manufacturing Company. Ltd.
- Phama Deko Plc
- Evans Medical Plc
- Woollen Sythetic Textile Manufacturing Ltd.
- Vita Malt Plc
- Caring About People (CAP) Plc
- Berger Paints Nig. Plc
- International Paints for West Africa (IPWA) Plc.

Appendix II

Contingency Tables

I consider budgeting as a useful tool for planning, control, decision making, coordinating, and communicating and value creation

	Observed N	Expected N
Strongly disagree	28	21.4
Disagree	5	21.4
Undecided	1	21.4
Agree	4	21.4
Strongly agree	69	21.4
Total	107	

I value budgeting because it is a worthwhile exercise and it is beneficial to my organisation

	Observed N	Expected N
Strongly disagree	16	21.2
Disagree	10	21.2
Undecided	11	21.2
Agree	7	21.2
Strongly agree	62	21.2
Total	106	