

The Role of Budgetary Control System in Indian Listed Companies

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ABSTRACT

Today, accounting standards play dominant role in order to obtain organizational financial objectives. One of the most significant accounting tools by which the financial targets can be attained is budgetary control system (BCS). Besides preventing activities from going into wrong or undesirable directions, budgetary control can also be used to evaluate activities undertaken to achieve organizational goals. Hence, budgetary control system become one of the most vital and critical area of business management. To implement an effective budgetary control system within an organization some important factors must be considered by the top management. The objective of the current study is to investigate the budgetary control system in Indian listed companies.

1. Introduction

Management accounting provides useful information for management to develop strategies. In order to achieve organizational objectives, implementation of internal controls is necessary. One of the components which is important to conduct internal controls is budgetary control system (BCS). Budgetary control is the most common and advantageous standard device of planning and control. Senior management in organizations use budgetary control system for different purposes, it may be used for cost reduction, long-term planning or to maximize the profitability of an organization. Budgetary control is significant for the management to make sure that the strategic goals are achieved. This evaluation is practiced not only for the long term goals but also for the short and medium term goals. It is planned to assist the management in the allocation of responsibilities and authority to aid in making estimates and plans for future, to assist in analysis of variations between estimated and actual results and to develop basis of measurements and standards with which to evaluate the efficiency of operations. Budgetary control system guides the management in planning and formulation of policies. The main objectives of this system are the timely control of activities, the limiting of possible deviations in case they occur, and the prevention of the recurrence of such deviations in the future. It also helps to aid the planning of actual operations by forcing managers to consider how the conditions might change and what steps should be taken now and by encouraging managers to consider problems before they arise. Apart of its advantages, budgetary control system has some difficulties to implement in some organizations since it is time consuming and costly. However, in the present business world that is full of competition and uncertainty, implementation of such control and monitoring system within organizations helps the management to overcome the barriers, and attains organizational success. Hence, the current study has been made an attempt to analyze the budgetary control system in Indian listed companies by interviewing 50 managers.

2. Literature Review

Atefeh Majlesi Koopaei and Farideddin Allameh Haeri (2015) examined the requirements of strict budgetary control in public organization in a study on the requirements of budgetary strict control in State organizations in the face of budgetary turbulence. The study concluded that budgetary turbulent conditions led to increase of strict budgetary control and budgetary deviation and in the turbulent budgetary conditions, the use of the past budgetary distortions led to decrease of budgetary deviations and increase of strict budgetary control.

Edmund Kyei, Collins Kwaning and Donkor Francis (2015) in a study on budgets and budgetary control as a management tool for Ghana metropolitan assemblies examined preparation and implementation of budgets as well as benefits and problems associated with the budgeting. The study pointed out that effective budget and budgetary control is determined by proper monitoring, adequate information, regulatory and legislative framework and information technology.

Baloguan, Mamidu and Owuze (2015), in a study on budgetary control and organizational performance, examined the impact of budgetary control in organizations performance and efficiency. Findings of the study revealed that budgets and budgetary controls are factors that can influence the performance of an organization, as they have very mutual relationship. The study concluded that budgets and budgetary controls help organization to achieve its goals and objectives, and maximizing performance through resource allocation and control.

Abdullahi Sediq Rabi et al (2015), conducted a study about budgeting and budgetary control in the hospitality industry. The role of budget and budgetary control on organizational performance, the study concluded that there is no significant relationship between budget administration and Preparation and organizational performance. The study pointed out that the top level management should maintain appropriate standard on budget administration, preparation, and budget process.

Zeinab Haghverdi, Farideddin Allameh Haeri (2015), in a study on Relations between the budget emphasis, budget and practice planning models, noted that the effectiveness of budgeting as a control tool will depend on budgeting system features and the management attention to the budgeting. The model of the study indicated budgetary planning had a positive and significant impact on organization performance, management performance, and satisfaction. They also concluded that the budget is considered as the most important tool to monitor the performance of the organization.

Thomas Heupela, Sven Schmitz (2015), the impact of managers' mindset on the advantages of beyond budgeting, the study tried to give an answer to the question why Beyond Budgeting did not spread in the knowledge based modern industries and what might be impact factors regarding a successful approach. The study pointed out that implementing Beyond Budgeting might gain a lot of advantages especially for knowledge based organizations, but the system might be difficult to implement as it requires changes in managers and employees mindset.

3. Statement of the Problem

Management of organizations uses various tools and strategies in order to achieve organizational success. To what extent they use, and how they use budgetary control system is the problem to be looked into and hence present study with the following research questions:

- What is the role of budgetary control system in organizational success?
- How budgetary control system helps management to attain their organizational objectives?
- What are the main factors that should be considered while implementing BCS?

4. Objectives of the Study

The objectives of the study are as under:

- To investigate the role of budgetary control system in organizational success.
- To investigate how budgetary control system helps management to attain organizational objectives.
- To investigate main factors to be considered while implementing budgetary control system.

5. Methodology

- ✓ **Method of Study:** method of study is empirical which tests the feasibility of solutions by applying statistical measures.
- ✓ **Data Source:** Both secondary and primary data has been used for the study
- ✓ **Secondary Data:** The secondary data has been collected from the literature survey and annual reports of the companies selected for the study.
- ✓ **Primary Data:** Primary data has been collected by using Purposive Sampling Technique with a total sample of 50 respondents selected 10 each from 5 Companies selected purposively by those companies use budgetary control system in their organization for last five years.

- ✓ **Tools for Data Collection:** The primary data has been collected by using of Questionnaire and Interview Schedule specifically developed for the purpose.
- ✓ **Tools used for Data Analysis:** Simple statistical and mathematical tools like percentages mean and ranking methods are used for analysis of data.

6. Analysis and Interpretation of Data

In the first part of analysis include the socio- economic background of the respondents and the second part analyze the variables.

Part A: Analysis on Socio Economic variables:

1. Gender:

The proportion between male and female of the sample respondents selected for the study are given in Table 1.1.

Table 1.1 : Gender wise Classification

Gender		No of response	Percent
Valid	Male	39	78.0
	Female	11	22.0
	Total	50	100.0

Source: Primary Data

78 percent of respondents are males while other 22 percent are females. It shows that the majority of respondents are male.

2. Age:

Another important personal profile variable is the age of respondents. It also has an impact on determining the efficiency of control system in companies. The age wise classification of respondents is shown in Table 1.2.

Table: 1.2: Agewise Classification

Age		No of response	Percent
Valid	Below 25	11	22.0
	25-35	25	50.0
	Above 35	14	28.0
	Total	50	100.0

Source: Primary Data

Table 1.2 shows that 22 per cent of respondents fall below 25 years of age, 50 per cent fall between 25 to 35 years and 28 per cent are of the age group of above 35 years. It means that majority are from the age group of 25 to 40 years.

3. Educational Qualifications

Education is knowledge and this knowledge increases the skill, maturity and potential of the managers. So the information is collected and the views of respondents on it are depicted in Table 1.3.

Table 1.3 Educational Qualifications

Qualification	No of response	Percent
Valid Professional	28	56.0
Nonprofessional	22	44.0
Total	50	100.0

Source: Primary Data

Table 1.3 indicates educational qualifications of respondents, 56 per cent of the respondents have professional qualification (graduates in MBA, PhD of accounting) and 44 per cent have non-professional education. It means majority have high professional qualifications.

4. Experience

The experience is yet another variable taken for analysis and the collected data are recorded in Table 1.4

Table 1.4 Professional Experience		
Professional Experience	No of response	Percent
Valid 1-5 Years	6	12.0
5-10 Years	14	28.0
11-15 Years	11	22.0
Above 15 Years	19	38.0
Total	50	100.0

Source: Primary Data

Table 1.4 indicate that 12 per cent of respondents have 1 to 5 years working experience, 28 percent have 5 to 10 years experience, 22 per cent have 11 to 15 years experience and 38 per cent have above 15 years experience. Majority of them have experience with 11 to 15 years.

Part B: Variable Analysis

Table 1.5: Role of budgetary control system in organizational success

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total	
	No-Percent	No-Percent	No-Percent	No-Percent	No-Percent	No-Percent	Mean
1.Provides accurate information to management	2 (4.0)	5 (10.0)	3 (6.0)	12 (24.0)	28 (56.0)	50 (100)	84
2.Gives management ability to take proper decisions	4 (8.0)	6 (12.0)	2 (4.0)	14 (28.0)	24 (48.0)	50 (100)	79
3.Maximize profitability and minimize variances	6 (12.0)	3 (6.0)	1 (2.0)	18 (36.0)	22 (44.0)	50 (100)	79
4.Provides financial guidelines to the management	12 (24.0)	10 (20.0)	2 (4.0)	10 (20.0)	16 (16.0)	50 (100)	63
5.Better planning can take place using BCS	4 (8.0)	5 (10.0)	3 (6.0)	15 (30.0)	23 (46.0)	50 (100)	79

Source: Computed from Primary Data

: Figures in brackets show Percentage to total.

As presented in table 1.5, 56 percent of the respondents indicated that budgetary control system provides accurate information to management. The average mean level of satisfaction recorded in this case is 84 percent. 48 percent of the respondents indicated that budgetary control system makes the management able to take proper decisions within organization. The average mean level of satisfaction recorded in this case is 79 percent. 44 percent of the respondents believed that budgetary control system maximizes profitability and

minimize variances and this will lead to organizational success. The average mean level of satisfaction recorded in this case is also 79 percent. Only 16 percent of the respondents declared that budgetary control system provides financial guidelines to the management, and the average mean level of satisfaction recorded in this case is 63 percent. And 46 percent of the respondents indicated that budgetary control system may improve the process of planning within organization.

Table 1.6: How budgetary control system helps management to attain their organizational objectives?

It helps to co-ordinate the activities of the organisation		Motivates employees by participating in the setting of budgets		Improves the allocation of scarce resources		Promotes coordination and communication.		Clearly defines areas of responsibility		Total	
No	per cent	No	per cent	No	per cent	No	per cent	No	per cent	No	per cent
12	24%	8	16%	9	18%	16	32%	5	10%	50	100%
No	Rank	No	Rank	No	Rank	No	Rank	No	Rank	Total	

12	2	8	4	9	3	16	1	5	5	50	
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Source: Computed from Primary Data

As can be seen in table 1.6, 12 of the respondents (24 percent) indicated that budgetary control system can helps the management to coordinate the activities of the organization. 8 of the respondents (16 percent) indicated that budgetary control system motivates employees by participating in the setting of budgets, while 9 of respondents (18 percent) declared that through budgetary control system allocation of scarce resources can be improved. 16 of the respondents (32 percent) believed that budgetary control system can promotes coordination and communication, and only 5 respondents (10 percent) indicated that budgetary control system clearly defines areas of responsibility.

As demonstrated in table 1.6, the fourth variable which is "promotes coordination and communication" obtained highest rank where 16 of the respondents (32 percent) indicated budgetary control system can promotes coordination and communication. Second ranked one by 12 respondents, is "helps to coordinate the activities of the organization". Third ranked variable is "improves the allocation of scarce resources which is ranked by 9 of the respondents. "motivates employees by participating in the setting of budgets which was the second variable, ranked fourth by 8 respondents and only 5 respondents ranked fifth as budgetary control system clearly defines areas of responsibility.

Table 1.7: main factors that should be considered while implementing BCS

Budget controller		Budget manual		Budget committee		Proper accounting system		Coordination with employees		Total	
No	per cent	No	per cent	No	per cent	No	per cent	No	per cent	No	per cent
6	12.0per cent	8	14.0per cent	14	28.0per cent	10	20.0per cent	12	24.0per cent	50	100.0per cent

Source: primary data

Table 1.8: Rank of Responses

Budget committee		Coordination with employees		Proper accounting system		Budget manual		Budget controller	
Rank	per cent	Rank	per cent	Rank	per cent	Rank	per cent	Rank	per cent
1	28.0 percent	2	24.0 percent	3	20.0 percent	4	14.0 percent	5	12.0 percent

Source: primary data

As demonstrated in table 1.8 the first ranked variable by respondents (28 percent) is budget committee, second rank one is coordination with employees (24 percent of respondents), third ranked one is proper accounting system (20 percent of respondents), fourth ranked variable is budget manual (14 percent of respondents), and fifth ranked is budget controller (12 percent of respondents).

7. Conclusions and Suggestions

Today, management plays significant role in business success and organizational performance. One of the components which is significant in internal control system is budgetary control system. The study data analysis indicates that budgetary control system plays vital role in organizational success. BCS is a toll in management's hand to achieve organizational efficiency. As demonstrated in table 1.8 the management should coordinate with employees to implement a proper budgetary control system in order to achieve organizational objectives. The majority of the respondents believed that coordination with employees leads to attain organizational as well as financial objectives. All variables used in the current study carried considerable importance, but their implementation differs in various organizations. As shown in table 1.7, budget committee is one of the most significant

components of budgetary control system which is neglected by some organizations. A budget committee consisting of different executives is formed to assist the budget controller and also it facilitates in securing participation of personnel in the preparation and administration of budgets. Proper accounting system is another significant component in implementation of budgetary control system, hence to implement budgetary control system, the management of organizations should take all aspects of budgetary control system into consideration.

The study recommends that in order to obtain organizational objectives and financial success, senior management should put in place measures to solve deficiencies associated with budgetary control system. Moreover, a defined responsibility is another significant aspect to have a proper budgetary control system.

While this study extends the literature on budgeting control system, more studies in this field are needed. The study recommends further research on budgeting and budgetary control system since it is most significant factor in organizational success.

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