An Assessment of Budgetary Control Problems on Performance of Insurance Companies in Nigeria

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Abstract

This study therefore focused on the assessment of budgetary control problems on performance of insurance companies in Nigeria. As a profit-making business organization, the performance of insurance companies is instrumental to their existence, patronage, attraction to investors, listing on Nigeria Stock Exchange and gaining competitive advantage. This performance can be determined through various means such as budgetary control, market share, productivity, quality of product or services, cost effectiveness etc. Budgetary control, as a reliable measurement of performance is being confronted with many problems which negatively affect the performance of an organization.: The study adopted descriptive research design. The primary source of data was employed and collated through structured questionnaire. A total of 85 copies of the questionnaire were administered and out of this only 65 copies were retrieved from the respondents as at the time of collating the data. Descriptive statistics and chi-square test of significant were engaged to analyze the primary data using Statistical Package for Social Sciences (SPSS) version 24.0. The result of the data analysis showed that budgetary control problems are significant to affect the performance of insurance companies in Nigeria. It was revealed that there is a significant relationship between economic challenges, dysfunctional behavior and budgetary control problems. The study recommended that the Nigeria Stock Exchange should mandate business firms to submit their annual budget and state the control mechanisms in the manner in which their annual reports are being submitted.
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*Keywords*: Budgetary Control, Budgetary Slack, Dysfunctional Behaviour, Performance, Market Share.
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An Assessment of Budgetary Control Problems on Performance of Insurance Companies in Nigeria

Insurance is one of the financial institutions in Nigeria today that aid economic developmental growth. It is a handmade of commerce which plays a vital role in the going concern of humans as an economic animal. (Chikeleze and Echekoba 2008).

In line with the contributions of insurance companies to economic development in Nigeria, the federal government of Nigeria through the ministry of finance had recently embark on recapitalization of insurance company (Zaka, 2017). The success and growth of insurance business in Nigeria today, is a result of many factors. As a profit making business organization, the performance of these insurance companies are instrumental to their existence, patronage, attraction to investors, listing on stock exchange and gaining competitive advantage. This performance can be determined through various determinants or measurements such as budgetary control, market share, productivity, quality of product or service and cost effectiveness. Others are age, size, growth, profitability, and industrial affliction of the business. (Abuh, and Aliyu, 2013).

As a result of increasing needs for protection against financial loss that may arise from risk of specified contingencies such as death, loss or damages the emergent of insurance companies is now prominent in our society. However, the performances of these insurance companies are critical to their sustainability. Insurance companies strive and achieved competitive advantages, improved managerial attitude and improved performance through effective budgetary control
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system (Adebayo and Elegbede, 2019). To this end, the budgetary control problems are enormous and could influence the performance of insurance companies.

Consequently, this research work is focused on problems of budgetary control. Hence, the title of the work reads an assessment of budgetary control problems on performance of insurance companies in Nigeria. This study uses primary data for its analysis. Statistical package for social sciences (SPSS) version 24.0 was employed to analyze the data collated through the questionnaires administered. Instruments like validity and reliability test, descriptive statistics and chi – square test of significant will be applied to analyze the primary data.

The objective of this work is to assess the significance of budgetary control problems on performance of insurance companies in Nigeria. So also, to verify the relationship between economic challenges, dysfunctional behavior and budgetary control problems. The study serves as reference to future researchers and useful to the users of financial statement. This paper was logically arranged with introduction being the first section; review of literature was next and followed by the methods adopted for the study. Section four discussed data presentation, analysis and interpretation. Finally, conclusions and recommendations were discussed to wrap up the findings.

Review of Related Literature

Budgetary controls is generally recognized as the main instrument for allocating resources to specific recurrent and development activities, but many developing countries paid little attention to budgetary controls. It is nevertheless also recognized that a country can have a sound budget
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and financial system and still fail to achieve its intended targets because of lack or weakness of budgetary control (Adongo and Jagongo, 2013).

Budgetary control includes a variety of procedures, obligations and instruments which lead to change the workplace and offer better services and goods. It provides a formal basis for monitoring and controlling, towards the achievement of the objectives specified in the budgeting and planning stages (Bilal, Romile and Ezzat, 2015)

Budgetary control is a financial plan of action which needs to be monitored and controlled to ensure that the actual is close to the budgeted. These controls are exercised through fund control, cash control, revenue control and expenditure control (Idowu, 2003).

Objectives of Budgetary Control

The budgetary process forces the management to look ahead and become more effective and efficient in administering the business operations. It compels the management to carefully plan for future and consequently make a progressive decision making. It helps to co-ordinate, integrate and balance the efforts of various departments in the light of the overall objectives of the enterprise (Yusuf, 2009).

Budgetary control boosts the morale of the employee through their meaningful participation in the formulation of plans and objectives of the company. It assists in optimizing the use of the firm’s capital and human resources. It improves the quality of communication, which results in a better understanding and harmonious relations among managers and subordinates (Abata, 2014).

Economic Challenges of Budgetary Control
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Budgetary controls are confronted with series of economic challenges which makes the system not to be successful, and thus affect the performance of an organization. The economic problems of what to produce, how to produce and for whom to produce are hinderances facing budgetary control success. Other economic challenges like inflation, unemployment, balance of payment deficit, etc are inimical to effective discharge of budgetary control system (Adebayo and Elegbede, 2019).

Dysfunctional Behaviours of Budgetary Control

As a fall out to poor budget planning, ineffective budgetary control system and unrealistic expectations of the management workers attitudes to budget implementations are tends to be negative. This turn has adverse effect on realizing the organizational goals and objectives. This negative behaviour is called dysfunctional behavior of budgeting (Tan and Ameen, 2017).

Dysfunctional behavior of budgeting is the abnormality in an individual attitude towards budgeting that is in conflict with achieving an organizational goals and objectives (Moolchand, Narendra and Koshina, 2012).

Examples of dysfunctional behavior are conflict which arises when managers competes with other managers in order to achieve their target without minding what happens to the overall objectives of the company. Short term pursuant of objectives is a problem which arises as a result of the fact that managers only care about what yields immediate result at the expense of longer-term objective. Concentration on quantitative measures only, this results when
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managers only focus on things that are measureable quantitatively. Poor budget communication among managers is another dysfunctional behaviour of budgeting. This results when budgets are communicated in a clear and concise manner.

Problems of Budgetary Control

Budgetary control system is a reliable measurement of performance of an organization. However, budgetary controls are confronted with many problems which negatively affect the performance of an organization (Stephen, 2019). Some of these problems are

Inaccuracy of the budget. A budget is based on a set of assumptions that are generally not too far from the operating conditions under which it was formulated. If the business environment changes to any significant degree, the company’s revenues or cost structure may change so radically that actual results will rapidly depart from the expectations delineated in the budget.

Rigid decision making. The budgeting process only focuses on strategies during the budget formulation, planning and execution for a fiscal year. For the rest of the year, there is no procedural commitment to revisit strategy except where incremental budgeting is being adopted. Thus, if there is a fundamental shift in the market just after a budget has been completed, there is no system in place to formally review the situation and make changes, thereby placing a company at a considerable disadvantage to its nimbler competitors.

Excessive Time required. It can be very time-consuming to create a budget, especially in a poorly organized environment where many iterations of the budget may be required.
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Blame for outcomes. If a department does not achieve its budgeted results, the department manager may blame any other departments that provide services to it for not having adequately supported his department.

Method uses for allocating expense. The budget may prescribe that certain amounts of overhead costs be allocated to certain departments, and the managers of those departments may take issue with the allocation methods used. This is a particular problem when departments are not allowed to substitute services provided from within the company for lower-cost services that are available elsewhere.

Exhaustive use of allocation. If a department is allowed a certain amount of expenditures and it does not appear that the department will spend all of the funds during the budget period, the department manager may authorize excessive expenditures at the last minute, on the grounds that his budget will be reduced in the next period unless he spends all of the authorized amounts. Thus, a budget tends to make managers believe that they are entitled to a certain amount of funding each year, irrespective of their actual need for the funds.

Budgetary slack and padding. This is a situation where managers either over budgets or under budgets. Most managers when given the opportunity of participating in the budgetary process tend to introduce some elements of slack into the budget. The reason behind this act is to give cushion for the next periods in such a way that the current period’s budget will still be achieved.
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One way of overcoming this is to negotiate budget and agree on reasonable terms- what is reasonable surely creates a problem of its own.

**Gaming.** Managers focus on the easy measures and ignore the ones that are perceived to be hard. This problem can be avoided by having weighted bonus and measures. The more difficult objectives to be achieved should be assigned more weights. This way, managers will have no choice but to place proportional efforts on all facets of performance measures.

**Management fraud.** Common example of this problem is when managers prepare creative and fraudulent accounting. Budgetary systems should be designed in such a way that it will be specific and auditable. The use of information technology in accounting has made it very easy for top management to strive towards design and implementation of accounting information system that leave audit trails.

Unavailability of budgeting software. Budgeting software is any computer program that helps an individual or business firms to design, manage, monitor and alter budget. They assist business to eliminate manual tasks, automating repetitive routine, keeping accounting books accurate, getting timely notifications, etc Examples of these software are spreadsheet, QuickBooks, FreshBooks, Xero, Mint, Budget Maestro, etc

**Theoretical Framework**

**Budgetary Control Theory**
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This theory explains that a good budgetary control system must be able to address the efficiency and effectiveness of the organization’s expenditure. Budgeting can be used an indicator of performance of not only the ruling government but also business enterprises. It is therefore essential for the organization to understand its budgeting system and give priority to urgent matters that require attention to its control tools (Holzer, Ballard, Kim and Deat, 2018).

Accounting Theory

The purpose of developing a theory of accounting is to establish standard for judging the acceptability of accounting methods. Procedures that meet the standard should be employed in practice of accounting. Accounting Theory has assisted in making predictions of the likely outcome of budget action in a given set of circumstance and effect of any change in such circumstances (Likalama and Nyangau, 2017). Accounting theory is aimed towards provision of a coherent set of logical principles that form the general frame of reference for the evaluation and development of sound accounting practices and policy development (Unegbu, 2014).

Agency Theory

Agency theory is developed around the concept of contractual relationship between two groups with conflicting objectives. The objectives of agency theory is to structure the contractual relationship between these groups so that agents take actions to maximize the welfare of the principals It aims at reducing information asymmetry so that both the principal and agent read from the same script (Kamau, Rotich and Anyaongo, 2017).
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As for this research work, budgetary control theory is adopted. This is in line with the benefits of budgetary control theory to budgetary control system.

Gaps in Literature

<table>
<thead>
<tr>
<th>Authors</th>
<th>Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fajinmi (2015)</td>
<td>The Secondary data used was collected from the company’s record, textbooks and journal. This research work used primary data which was administered on eighty five respondents and subjected to statistical package for social sciences (SPSS) version 24.0.</td>
</tr>
<tr>
<td>Ifah, Kerosi and Ondabu (2015)</td>
<td>Data was analyzed by statistical packages of Social Sciences (SPSS) version 16.0. This study’s primary data was analyzed using statistical packages of Social Sciences (SPSS) version 24.0.</td>
</tr>
<tr>
<td>Sammy and Agnes (2015)</td>
<td>The study main objective is to establish the effect of budgetary process on financial performance of NGOs in health sector in Kenya. Meanwhile, the specific objective of this research work is to assess the significance of budgetary control problems on performance of insurance companies in Nigeria.</td>
</tr>
<tr>
<td>Harelimana (2017)</td>
<td>The study used statistical package for social sciences (SPSS) version 16.0 to analyze both primary and secondary data. The study focused on only Kigali Serena hotel to make conclusion on performance of lodging</td>
</tr>
</tbody>
</table>
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business in the whole Rwanda. However, this study employed statistical package for social sciences (SPSS) version 24.0 to analyze primary data. More so, this study focused on assessment of budgetary control problems on performance of insurance companies in Nigeria.

Tan and Ameen (2017) The study focused on behavioural aspects of budgeting. The study conducted a survey for 20 employees. It was revealed that the use of balanced scorecard can help to overcome the behavioural aspect of budgeting. However, this study employed statistical package for social sciences (SPSS) version 24.0 to analyze the primary data administered on 85 respondents. It was revealed that there is significance relationship between economic challenges, dysfunctional behavior and budgetary control problems.

Research Methods.

The study made use of primary data. Questionnaires were structured on a 5 – point likert scale ranging from strongly agree to strongly disagree. The questionnaires were distributed among the eighteen insurance companies sampled. Yamane’s formular \( n = \frac{N}{1+ (e^2)} \) was employed to ascertain the number of questionnaires to be administered. Eighty five questionnaires were administered and distributed. The distribution was based on the convenience of the researcher. Unfortunately, sixty five questionnaires were returned as at the time of collating the response.
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The primary data collected were filtered and transformed through validity and reliability tests. There was a total number of 65 observations for the primary data. Descriptive statistics was employed to analyze the data with the use of statistical package for social science (SPSS).

Model Specification

A multiple regression model was applied to determine the relative importance of each of the variables with respect to problems of budgetary control and performance of insurance companies in Nigeria.

\[ Y = f(x_1, x_2) \]

\[ Y_i = b_0 + b_1x_{1i} + b_2X_{2i} \quad (i = 1, 2, \ldots n) \]

\[ Y_i = b_0 + b_1x_{1i} + b_2x_{2i} + u_i \quad \text{equation 1} \]

Where;

\[ Y = \text{Performance} \]

\[ b_0 = \text{Constant} \]

\[ b_1 \text{ and } b_2 = \text{Regression coefficients of predictors in the model} \]

\[ X_1 = \text{Economic challenges of budgetary control;} \quad X_2 = \text{Dysfunctional behavior of budgetary control;} \quad X_3 = \text{Problems of budgetary control} \]

\[ u_i = \text{error term} \]

Hypothesis Formulated:
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Ho1: There is no significant relationship between economic challenges, dysfunctional behavior and budgetary control problems.

Ho2: Budgetary control problems are not significant to affect the performance of insurance companies in Nigeria.

Analysis and Results

This section discusses the findings of this research work based on the questionnaires administered. A total of 85 questionnaires were distributed but only 65 were returned as at the time of collating the data.

Reliability Test

Case Processing Summary

<table>
<thead>
<tr>
<th>Cases</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>65</td>
<td>100.0</td>
</tr>
<tr>
<td>Excludeda</td>
<td>0</td>
<td>.0</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>100.0</td>
</tr>
</tbody>
</table>

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics
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<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.762</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Copied from SPSS Version 24.0

Interpretation:

Cronbach’s Alpha allows measure of internal consistency of scale, as its value ranges from 0 to 1. A scale is reliable if the coefficient value is more than 0.7 (Chelsea, 2015). The table above shows that the measures in this study are reliable as the scale has coefficient alpha value of 0.762.

Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>St1</td>
<td>65</td>
<td>2.0</td>
<td>5.0</td>
<td>4.492</td>
<td>.7315</td>
</tr>
<tr>
<td>St2</td>
<td>65</td>
<td>3.0</td>
<td>5.0</td>
<td>4.277</td>
<td>.6733</td>
</tr>
<tr>
<td>St3</td>
<td>65</td>
<td>1.0</td>
<td>5.0</td>
<td>3.862</td>
<td>.9334</td>
</tr>
<tr>
<td>St4</td>
<td>65</td>
<td>2.0</td>
<td>5.0</td>
<td>4.200</td>
<td>.8696</td>
</tr>
<tr>
<td>St5</td>
<td>65</td>
<td>2.0</td>
<td>5.0</td>
<td>4.369</td>
<td>.6748</td>
</tr>
<tr>
<td>St6</td>
<td>65</td>
<td>2.0</td>
<td>5.0</td>
<td>4.200</td>
<td>.8139</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Valid N (listwise)</th>
<th>65</th>
</tr>
</thead>
</table>

Source: Copied from SPSS Version 24.0

Interpretation:

Mean: This is a measure of central tendency which measures average of a set of observations. The greater the mean of any variable, the greater the importance of such variable. The mean of each of the statement is valid as the mean is greater than 3.0. This indicates that all the statements made in the questionnaire are valid and reliable for the study. This means that the consideration that there is significant relationship between economic challenges, dysfunctional behavior and budgetary control problems is valid (statement 1-3) and the statement that budgetary control problems are significant enough to affect the performance of insurance companies in Nigeria is also valid (statement 4-6).

Standard deviation explains the extent of spread of data from the mean. The lower the standard deviation to the mean, the more valid the variables. Each of the statement in the questionnaire has standard deviation which is low and far away from the mean. The simple meaning of this is that most of the respondents have common opinion.

Chi – square test statistics
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**Chi – square test of significance.**

<table>
<thead>
<tr>
<th>Variable Attribute</th>
<th>Chi – square</th>
<th>Df</th>
<th>Critical chi.</th>
<th>Level of sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. 1</td>
<td>28.646</td>
<td>2</td>
<td>5.99</td>
<td>0.000</td>
</tr>
<tr>
<td>St. 2</td>
<td>13.508</td>
<td>2</td>
<td>5.99</td>
<td>0.001</td>
</tr>
<tr>
<td>St. 3</td>
<td>48.154</td>
<td>4</td>
<td>9.49</td>
<td>0.000</td>
</tr>
<tr>
<td>St. 4</td>
<td>34.138</td>
<td>3</td>
<td>7.81</td>
<td>0.000</td>
</tr>
<tr>
<td>St. 5</td>
<td>46.815</td>
<td>3</td>
<td>7.81</td>
<td>0.000</td>
</tr>
<tr>
<td>St. 6</td>
<td>27.862</td>
<td>3</td>
<td>7.81</td>
<td>0.000</td>
</tr>
</tbody>
</table>

**Source:** Survey study (2019)

**Interpretation:**

If the chi – square test value is greater than critical chi – square value at 5% level of significant, then, reject the null hypothesis. However, the significant level of each of the variables attributes should be less than 0.05. If this holds, the variables are statistically significant. Otherwise, the variables are insignificant and cannot be used to make hypothetical decision (Gosia, 2014).

From the table above, the chi – square test of each of the variable attribute is greater than the critical chi – square value. Also, the significant level of each of the variable is less than 0.05.
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Meanwhile, statement 1, 2 and 3 stand for the first null hypothesis which stated that there is no significant relationship between economic challenges, dysfunctional behavior and budgetary control problems. This is hereby rejected.

Statement 4, 5 and 6 tested the null hypothesis which stated that budgetary control problems are not significant to affect the performance of insurance companies in Nigeria. This is hereby rejected.

Summary

<table>
<thead>
<tr>
<th>Variables Attribute</th>
<th>Null Hypothesis Tested</th>
<th>Findings</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement 1, 2 and 3</td>
<td>There is no significant relationship between economic challenges, dysfunctional behavior and budgetary control problems.</td>
<td>Significant</td>
<td>H₀ Rejected</td>
</tr>
<tr>
<td>Statement 4, 5 and 6</td>
<td>Budgetary control problems are not significant to affect the performance of insurance companies in Nigeria.</td>
<td>Significant</td>
<td>H₀ Rejected</td>
</tr>
</tbody>
</table>

Source: Survey study (2019).
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Conclusions

The results reinforce the common position of this study which says that budgetary control problems are significant to affect the performance of insurance companies in Nigeria. There is essential relationship between economic challenges, dysfunctional behavior and budgetary control problems. The wide spread of insurance companies as a financial institution in Nigeria is the possibility of its effects on economic growth through the channels of marginal productivity of capital, improved standard of living, technological innovations and savings rate.

Policy Implication of the Study

The study has important policy implication for regulatory agencies and associations such as National Insurance Commission (NAICOM), etc in making policies that would guide the running and operations of insurance business in Nigeria. The significant results of the hypothesis tested serve as a proof that the economic challenges of budgetary control could be spoiler to the performance of insurance business in Nigeria. Hence, the policy maker should be wary of adverse economic policy. This study equally provides adequate knowledge and insight for managers or handlers of insurance business who desire to improve the performance of their firms through the use of appropriate and effective budgetary control system.

Recommendations

Based on the findings of this research work, the following recommendations were made:
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1. The government should be wary of adverse economic policies as these may deter organization performance even with the best budgeting system.

2. Business organisations should have a separate department for budget and budgetary control with distinct staff so as to vigorously monitor budget from planning to implementation, reduce the dysfunctional behaviour of budgeting and limit budgetary control problems such as blame for outcomes, exhaustive use of allocation, budgetary slack or budget padding, management fraud, etc.

3. The study revealed that one of the major reasons for poor performance of some insurance firms is due to lack of proper and effective implementation of the budget in running their operations. To this end, the Nigeria Stock Exchange is hereby advised to mandate business firms to submit their annual budget and state the control mechanisms in the manner in which their annual reports are being submitted. This should be taken as a prerequisite for companies to be listed in stock exchange market.
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References


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