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An Assessment of Budgetary Practices in Timber Companies in Ghana

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Abstract:
Every organization has aim and objective to achieve and these aims and objectives cannot be achieved without an effective planning. Planning therefore serves as the fulcrum upon which organization can succeed whether public or private. The researcher undertook this work to the fore the relation between budget processes and Return on Asset. Companies selected for this work are Logs and Lumber Limited, AD Timbers, Wood Pillar Company Limited and Bibiani logs and lumber company to assess the level of planning. Variables used for this work are Budget administration and preparation, budget process and budget target setting were used as an independent variable to assess its effect on Return on Asset. Questionnaire was used to collect the needed data for this project. The sample was made up of 52 respondents from these four companies who are management members. The result indicated that there is a high correlation coefficient (r) was 92.2% between the variables used on Return on Asset. The R^2 was 85% which means that these variables cause an 85% effect on Return of Asset. Therefore for companies to achieve a greater output, its budget process must properly be looked at.

Keywords: *Budget Process, Correlation coefficient, Return on Asset, Timber Industry, Logs and Lumber Limited.*

1. Introduction

Success cannot be achieved without an effective plan in place and this plan should serve a guide to management. These plans are usually shown as blueprint known as budget. Without a proper budget, there will not be effective planning and control. Budget clearly shows the direction the organisation wish to go to achieve its goal. In addition, budget permits an organization to obtain and commit the resources required to reach its objectives and procedures. Budget helps businesses to select from various alternative course of action.

Mockler (1972), in his view opined to the fact budgetary control enables businesses to compare its actual performance with target. Generally, budgetary control can be effective if the guidelines are followed:

- (a) Establishment of standards and methods for measuring performance;
- (b) Measurement of the performance against these standards;
- (c) Correcting variations from standards and plans.

Budgetary standards serve as benchmark for measure. An effective management must have control measures in place. A well-co-ordinated plan must have an objectives and a motivated staffs plan to achieve such aims and objectives. Most timber companies in the country have been facing financial difficulties over the years. Some of the causes of these financial difficulties are:

- (a) inability to obtain external financing for its operations;
- (b) inability to replace its old equipment/assets for production;
- (c) competitors activities causing low sales turnover;
- (d) overstaffing;
- (e) ever-increasing overheads.

Financial difficulties do not arise overnight it is therefore increasingly difficult to predicted in advance. One of the tools or techniques which can aid in such a prediction is budgetary control system. A lot of researches have been conducted to finds significant and positive relationships between budget and budgetary process (Otley, 1978; Collins et al., 1996), these findings may have been attenuated if managers are playing devious games to obtain extra budget requests in the budgetary process. This work takes a look at the extent of implementation or use of budgetary control system in the planning and control functions in four timber companies (Logs and Lumber Limited-LLL, AD Timbers, Wood Pillar Company Limited and Bibiani Logs and Lumber Company) in Ghana in the Ashanti Region in an attempt to achieve business growth.

The objective of this work is to find out the role of budget and budgetary control system on organizational performance in these four companies.

This main objective is sub-divided into sub-objective as follows:-

(a) To examine the impact of budget preparation and administration, budget target settings and budget processes on organizational performance in these four companies.

1.1. Hypothesis

1) There is significant impact of budget preparation and administration on Return on Asset.
2) There is significance impact of budget Process on Return on Asset.
3) There is significance impact of budget Target setting on Return on Asset

The study in no small way may act as a guide to the management of these four companies in their efforts to minimize the presence of financial difficulty and to prevent a financial failure.

2. Literature

Garrison and Noreen (2000), stated that a budget show in quantitative terms the activities to be undertaken to achieve their aim. Budgets can be prepared for a department or the rganization as whole. It guides the business to compare its performance against actual. It helps decisions to be implemented and reports prepared to determine whether events are going according to plans or not. (Horngren, Foster and Datar, 2000). Horngren et al, (2000), further stated that budget must be incorporated into the whole plan of the rganization. Claret (1988), opined the benefits that would accrue to an rganization when budget are prepared.

Some of these benefits are:

a) To increase performance and record high earning.
b) To select the best alternative course of action to achieve its aim.
c) It guides management in its operations.
d) It guides management to concentrate on its activities.
e) It enables management to implement its plan.
f) It assists the organization to coordinate the various department of the organization.
g) It assist free flow of information across departments its quest to achieve its aim.

To prepare an effective budget the following steps must be followed:

2.1. Budgetary Control

Lockyer, K (1983) stated that the budget can used as a control device. Usually activities can be quantified in monetary terms therefore control becomes easy. Therefore control is a form of responsibility accounting which associate cost and revenue to individuals. The terminology of CIMA (2006) identifies "budgetary control as the establishment of executive the requirement of policy and the continuous comparison of actual with budgeted results, either to secure by individual action, the objectives of that policy or to provide a basis for its revision". It is important to note budgethelps to control performance in accordance with standard. Lucey (2008) opined that budgetary control ensures the comparison of actual with expected and reporting any variance that may arise. It helps to keep expenditure on track with all deviations noted. This enable the rganization to take measure to address the deviations identified. Pogue (1986), also stated that budgetary control enables actual result to be compared with budgeted. Batty (1970) noted that budgetary control performs three major management functions of planning, corporation and control supported by feedback and corrective action. Buyer and Holmes (1984) also said budgetary control enables actual result compared with expected result with any deviations addressed promptly.

3. Methodology

The researchers relied on secondary data (financial statement) of 2006-2015 from these organizations which were used in the calculation of their Return on Asset (ROA). As ROA = Net Profit/ Total Assets. The questionnaire was designed of forty-five items (45) using a 5 Likert scale on how budget administration, budget process and budget target setting to assess the contribution of these processes to Return on Asset. The questionnaire was self administered to selected officers of 52 individuals from the target populations was the main instrument employed in the survey. This was supplemented by data from interview with purposively sampled set of individuals. A stratified and proportional random sampling was adopted with each company providing its representative fraction of the total sample. Senior staffs sampled were considered for this project.

The senior staff population for these four companies is as follows:

Logs and Lumber limited (LLL)	14	27%
AD Timbers	14	27%
Wood Pillars Company Limited (WPCL)	14	27%
Bibiani Logs and Lumber Limited. (BLLC)	10	19%
Total	52	100%

Table 1

After which the convenient sampling method was employed to administer the questionnaire to the targeted population. We visited employers in their offices within the Kumasi Metropolis and it took them two week to respond the administered entire questionnaire, and the retrieval rate was 100%. SPSS was used for the analyses which enabled us give our results.

3.1. Model Specification

Abdullahi et.al., (2015), model in his work at Tahir Guest House in Nigeria Kano was adopted for this research work. Themodel is specified below:

ROA = f (X_1, X_2, X_3) ……………………………………………………… (1)

The above model was transformed into a linear equation and thus be represented as:ROA = λ0 + λ 1 X_1 + λ 2 X_2 + λ3 X_3 + μ i…………………………………. (2)

Where: ROA = Return on Assets (Dependent Variable)

X_1 = Budget Administration and Preparation (Independent Variable)

X_2 = Budget Target Settings (Independent Variable)

X_3 = Budget Process (Independent Variable)

λ0 = the intercept

λ 1, λ 2, and λ 3 = the parameter estimates (coefficients)

μ i = the error term.

The aprio ri expectation is that λ 1 > 0, λ 2 > 0, and λ 3 > 0.

3.2. Model Estimation

The model was estimated using the Ordinary least Square Regression (OLS)

3.3. Method of Data Analysis

Both the primary and the secondary data obtained were subjected to Ordinary Least Square regression using the Statistical Package for Social Sciences (SPSS 16.0), while inferences were drawn.

4. Results and Discussions

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.922[a]	.850	.840	2.27569
Predictors: (Constant), Budget Target Setting, Budget Preparation, Budget Process				

Table 2: Summary of Result from Model used

From table 2 above, there is a high correlation coefficient of 92.2% between budget Preparation, Budget target setting and Budget Process on Return on Asset. This therefore means that any company which wishes to increase its Return on Assets must have Budgeting Process in place and take its budget processes serious to increase profitability. With an R^2 of 85% means that Budget preparation, Budget target setting and Budget process have 85% on Return on Asset whilst other factors not considered in the model constitute 15% on Return on Asset.

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1403.418	3	467.806	90.331	.000[a]
	Residual	248.582	48	5.179		
	Total	1652.000	51			
a. Predictors: (Constant), Budget Target Setting, Budget Preparation, Budget Process						
b. Dependent Variable: Return on Asset						

Table 3: Anova summary of Model

From table 3 above, with a significance value of 0.000 means that Budget preparation, Budget target setting and Budget process have a significance effect on profitability from the four selected companies.

Hypotheses	Variables	Significance
$H0_1$	There is significant impact of budget Preparation on Return on Asset.	Significance
$H0_2$	There is significance impact of budget Process on Return on Asset.	Significance
$H0_3$	There is significance impact of budget Target setting on Return on Asset	Significance

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.409	1.063		.384	.702
	Budget Preparation	.106	.014	.594	7.765	.000
	Budget Process	.096	.014	.553	7.033	.000
	Budget Target Setting	-.046	.017	-.198	-2.671	.010
a. Dependent Variable: Return on Asset						

Table 4: Summary of results showing the coefficients

From table 4, $Y = 40.9 + 10.6X_1 + 9.6X_2 - 4.6X_3$, means that budget preparation and administration has 10.6% on Return on Asset, Budget process has 9.6% effect on Return on Asset whilst Budget target Setting has negative relation of 4.6% on Return on Asset.

5. Conclusion and Recommendations

Based on the findings of this project, the researchers recommend: (i) that the top level management of Logs and Lumber Limited (LLL), AD Timbers, Wood Pillar and Bibiani Logs and Lumber Company (BLLC) should continue to follow the strong budget preparation and administration, Budget process and Budget Target Setting to increase its return on Asset. It means that Ghanaian managers should pay particular attention to their budget and budgetary control systems to increase productivity and efficiency and to ensure organisational are goals are attained.The comparison of current budget with previous budget would help management to evaluate current performance. Thiswill also help management to monitor performance and identify any variance that may arise. This finding agrees with Pogue (1986) that it enables the organisation to take measure to address any deviations identified with its growth. (ii) The staff of these companies should be allowed to participate in the budget target setting and process to further enhance their performance. If the above recommendations are implemented, it will not only increase the organizational performance of these companies but it will also lead to workers giving out their best to increase productivity.

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