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Sustainable Budgeting and Budgetary Control in Public Enterprises in Nigeria

Igbekoyi Olusola Esther
Lecturer, Department of Accounting, Adekunle Ajasin University, Akungba Akoko, Ondo State, Nigeria

Abstract:
The study explored the concept of budget in public enterprises; identify the factors that contribute to the success and failure of the budgetary process in public enterprises; and the incorporation of new business innovations to attain the drive for business practices that is sustainable in government enterprises. The study is a conceptual review of literatures to discuss issues bothering on budget and budgetary control in Nigerian public enterprises. The study concluded that the need for improvement to the traditional approach of the budget process is important and timely considering the lingering deficiencies of the process and it was recommended that the beyond budget approach is incorporated in the Nigerian public enterprise to address weaknesses in the traditional methods and promote quality service delivery in the public sector.

Keywords: *Beyond budget, budgetary control, budget, Nigeria, public enterprises*

1. Introduction

Public enterprises are generally corporate entities other than ministerial department, they derive their existence from special statutory instruments; and engage in business type of activities to provide goods and services for the overall social and economic development of the citizens. These include corporations, authorities, boards, companies and enterprises so owned and operated by government (Jerome 1999). Government is usually the financer of such enterprise by providing funds for the running of the enterprise from the revenue generated from taxes paid by both individuals and corporate bodies allocated to them, and the internally generated funds. The scarcity of these resources (funds) and the unlimited nature of social needs make it necessary for government to prepare a document that will serve as a guide for the disbursement of scarce resources in the best possible way to meet the set out goals and objectives which brings about the preparation of budget.

Olajorin (2012), described a budget as a tool that identifies the work plan for the fiscal year and matches the financial, material and human resources available with the requirement to complete the work plan. It is also stated that it provides information on government and the policy direction under which the budget is prepared. Governments at all levels usually have a work plan in terms of policy statement which is popularly called 'agenda'. It is this agenda that is prepared in monetary terms to explain to the people what the government intends to do with the revenue generated. Akintoye (2008), stated that budget has grown beyond a financial tool but is more of a managerial tool which makes sure key resources are given adequate recognition (Morgan 1997). Olajorin (2012), also stated that budget is often discussed as a financial document but the financial portion of a budget means very little without the policy and administrative information that tells stakeholders what government intends to do with the financial resources.

Budget is a much talked about planning tool in the public sector, but the outcome of activities in the public sector does not show that budgets are actually prepared at the beginning of a given year. Dogo (1990), submitted that Government owned enterprises find it difficult to attain given objectives due to lack of control in the system as the budgetary system relied upon by most public enterprises gives room for slacks that encourages wastage and high running costs.

Kiabel, Agundu and Nnadi (2011), also stated that the Nigerian public sector is characterized by irregularities, fraud, misappropriations and inadequate preparation for the future. These have been blamed on inadequate accounting system, weak budgetary control system, poor marketing system and defective deficit financing system. Budgetary control is the focus of this study as it defined by Shah (2009) as the utilization of the comprehensive system of budgeting to assist the management in carrying out specific functions such as planning, coordination and control, cash management and financial control must be in existence in any organization and the public enterprise is not an exception.

This study seeks to explore the concept of budget in public enterprises, identify the factors that contribute to the success and failure of budgetary practices in public enterprises through the incorporation of innovation in business management in the public sector bearing in mind that the drive for business practices that is sustainable should be keyed into by the government enterprises, and to make recommendations on how public sector budgeting process can be credible and serve the intended purposes.

2. Concept of budgeting in Public Enterprises

In the public sector, because the enterprises are owned and controlled by government, the revenues are generated from taxes levied on individuals and companies and also from the share of revenue generated from export of crude oil. This revenue will then be expended on government expenditures within a given period of time. Budget is prepared to show revenue expected to be generated, and how cost will be allocated to the projects that government plan to execute in a given period.

Gheorghe (2001), defined budget as a financial plan that includes the calculation of the revenues and expenses of a state, social or economic organization for a determined period of time. The budget is the quantitative expression of the plan framed by the administration for a specified period and a support for the coordination of the necessary activities in implementing that plan. This by implication means that budget can be financial or non financial in nature as it involves holistic preparedness for future events.

Lucey (2003), also defined budget as a quantitative expression of a plan of action prepared for the business as a whole or for departments for functions such as sales and production or for financial resource items such as cash, capital expenditure, manpower purchase, etc. the process of preparing and agreeing budget is a means of translating the overall objectives of the organization into detailed feasible plans of action.

Budget, irrespective of the level, sector or department involves financial planning. It represents a set of guideline/ yardstick used in controlling internal operation of an organization. The management can through budget, evaluate the performance of every level of the organization which involves the generation of revenue and the allocation of cost. Morgan (1997), stated that budget, apart from it being a financial tool is above all a managerial tool which explains that it is the best tool that management uses to know when to review plans either because desired results are not achieved, or due to environmental, economic, political or technological changes which no longer corresponds to the assumptions of the budget.

3. Budget Procedure in Public Enterprise

Prior to the commencement of a financial year and at a time designated by the finance directors, Head/General Manager will submit budget proposals for the ensuing year. This will take place after appropriate consultations with budget holders. The budget proposal will normally be prepared in detail by the appropriate finance link and will confirm to a format issued by the finance director. The budget proposal will take account of: proposed business plan, cost improvement targets and guidelines lay down by the board and executives; and expenditure/Income trends in the current and previous years. Budget proposal will be prepared in accordance with the latest known inflation indicators and will include for each detailed budget head the; new year budget sum; value of pay award and price increases included in the new year sum; additions for development and other items; and Staff number in manpower equivalents

Detailed notes must be attached to each budget proposal; these include information agreed level of service with appropriate workload statistics where appropriate, reasons for significant variances is spending/income trends and any other appropriate comments; Detailed working papers, setting out the calculations for each budget heading must be prepared and retained in an easily accessible format; The finance director will hold discussions with each Division/head/ Directorate manager and appropriate lead director prior to submission of the budget proposal to the board of approval; The finance director will summarize the budget in such a way as to demonstrate how the financial targets for the board can be achieved; The Chief Executive will review the delegation of budgets and rules pertaining to the operation of individual budgets prior to approved budgets is been notified to budget holders; The accurate phasing of planned expenditure in each budget is key to maintaining in year financial control. This is the responsibility of the budget holder, supported and advised by the finance link.

The emphasis of management activity is therefore focused upon looking forward, controlling planned expenditure rather than working retrospectively as to why overspending has happened. Each budget has clearly defined phasing representing planned expenditure. This can take many forms, twelve equal monthly payments, month by month specific amounts, quarterly payments or one singly lump sum payment.

4. Budgetary Control in Public Enterprises

Ezzamel (1992), stated that control is considered crucial to the sustainability of enterprises as it acts as a powerful brake on possible deviations from pre- determined objectives and policies. It comprises of the techniques, rules and procedures which promote the smooth functioning of organization and attainment of the fundamental corporate mission. Public enterprises adopts control measures to see that the functioning of the corporations are aligned with the set out mission and vision statement and the control measures depends on its commercial nature. In a Canadian team publication (2002), it is stated that control should be embodied in a formal, open, transparent system accessible by government and the public. The menu of controls, constraints, rules and practices cover several categories: corporate structure and governance, corporate plans, budgeting and capital management, human resources, operational control and reporting and auditing. This is represented in fig 1:

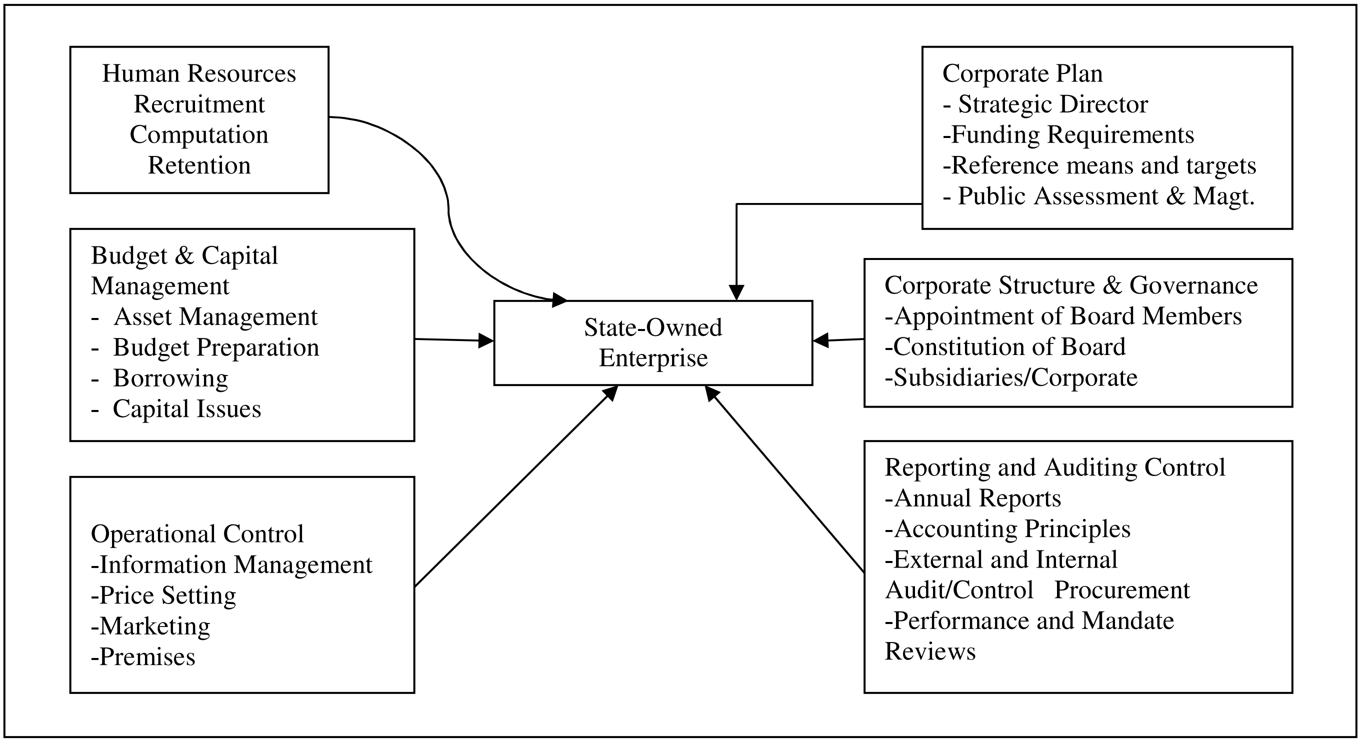

Figure 1: Categories for which control and incentives policies, rules, guidelines and system can be devised. Source: Canadian Team (2002), A taxonomy for Budgetary Control of state owned enterprises, Russian Public Enterprises Project, February, 2002

Braide (2002), stated that budgetary control embraces all precautionary and preventive devices instituted and applied by an organization to ensure that budget proposals are achieved. In order for good governance objective to be achieved, it is important to have a well established system of checks and balances to be put in place as this would enable managements to devote their productive time for improved performance whilst the control mechanism would ensure the smooth functioning of the enterprise.

The budgetary controls that are adopted in public enterprises depends on the commercial nature in that the more commercial the enterprise, the more policy and reporting requirements. This is because the environment is more competitive and it requires flexibility and ability to act more quickly. In order to establish an effective budgetary control system in public enterprises, there has to be some landmark steps that must be followed.

Firstly, the process of budgeting should be developed into a system; this implies that definite plan will be put in place and a budget manual can be prepared where details will be given concerning powers, duties, responsibilities and areas of operation of each executive in the organization.

5. Significance of the budget and budgetary control process in Public Enterprises

The procedure for budgeting as mentioned earlier shows that instituting a procedure for the drawing of budget up to execution promotes the efficiency of the budget and effectiveness of its implementation. If there is no laid down procedure considering public enterprises that are businesses that are instituted by government and they are majorly service providers which makes the scope of work of such enterprises usually large. The benefit that is derived when an organization has a laid down procedure for budgeting as stated by Nicolae and Anne (2012) is that; each manger/ director of the units has the responsibility of coordinating all of its functions which may include supply, production or sales. This therefore means that it will be easy to perform feedback and performance evaluation as this is the major challenge that is experienced in government owned enterprise where directors are not held responsible for the actions of the team under them. The budgeting process also provide conditions under which each unit can achieve the targeted objectives, provide necessary information for setting future actions and allows the comparison of the targeted objectives within the performance of each unit/ department.

Preetabh (2010), stated that budgetary control are the principles, procedures and practices of achieving given objectives through budget. The budgetary control system helps in fixing the goals for the organization as a whole and concerted effort made for its achievement. Some of the advantages of budgetary control are: maximization of profits, co-ordination, specific aims, tool for measurement of performance, economy in spending, determination of weaknesses, corrective action, consciousness, cost reduction and the introduction of incentive scheme.

6. Shortcomings of Budgeting process in Public Enterprises

Public enterprises because of the peculiarities and sensitivity of the sector are characterized by a lot of process and procedures in expending funds and the budget is the tool that is used to plan. Despite the time, efforts and control measures committed to the budgeting process in the public enterprises the problem of inefficiencies and ineffectiveness still lingers which brings about mismanagement and poor performance and low productivity of government owned enterprises (Kiabel, Agundu and Nnadi, 2011). Hope and Fraser (2003), further asserted that corporations are unable to realize new ideas despite investing in IT networks, quality programs, process re- engineering, balanced scorecard and activity accounting because the budget and the command and control culture it supports remains predominant.

In a study conducted by Kiabel, Agundu and Nnadi (2011) on budgetary control in government owned business investments in River State; the conclusion drawn from the study is that poor performance of these enterprises had to do with inadequate control, mismanagement and high depreciation charges necessitated by the intent to provide for obsolete equipments. It was therefore recommended that for government owned enterprises to experience sustainable transformation, the executives should do more in the area of; communication of details of budget and policy guidelines; do a comprehensive determination of key budget factors; proper preparation of sales budget; perform a systematic integration of various functional budgets on a bottom up basis; there should be speedy consideration and approval of final budget and there should be conscientious implementation and periodic retrospection of budget (preferably on monthly basis)

Hensen, Otley and Van der Stede (2003), also stated that the consequences of relying solely on budgeting is that it fails to create a high performance climate based on competitive success because a fixed target is the definitive measure of success. This does not make people accountable for satisfied customers because financial performance dominates and it does not empower people to act by providing them with the resource capabilities because the resources have been committed for budgeting period.

7. Beyond budgeting in Public Enterprises

The shortcoming highlighted are indicators to the fact that new innovation needs to be put into the budgeting process that further away from the traditional budgetary principles that are adopted in public enterprises since they have not brought about significant change in the performances of the enterprises. This innovation and drive for change is timely considering the move for a sustainable development in the economy today where performances are not only measured based on financial performance but also on the non financial aspects. Public enterprises, though are government owned they are still expected to generate revenue for government just as they render services to the citizenry. This makes them to possess some of the characteristics of corporate organizations and as such they need to drive to promote effective competition (Bescos, Cauvin, Langevin and Mendoza, 2003; Daum 2002).

Practitioners in Europe have recently proposed a distinct approach developed by Hope and Fraser (1997, 2000, 2003) to address the shortcoming of the traditional budgeting practices called “Beyond Budgeting approach” (Ostergren and Stensaker 2010). The beyond budgeting round table established in 1998 in response to growing dissatisfaction, indeed frustrations with traditional budgeting. The BB method addresses three major questions: Is there alternative to budgeting? – Yes; Is there a better management model? – Yes; and How should it be implemented? – this is the main focus.

This approach focuses on a situation where management can still control the business activities without preparing the conventional budgets which are: time consuming to put together; constrain responsiveness; often barrier to change and they concentrate on cost reduction instead of value creation. This brought about the agitation for companies to supplement or even replace the budget with an alternative management control system (Hope and Fraser 1997, 2000, 2003; Kaplan and Norton 1992, 2001; Simons 1995; Wallander 1999; Neely, Bourne and Adams, 2003; Marshall, 2003).

In beyond budgeting model, the budgeting process is replaced by three separate processes that is; target setting, planning and resource allocation. The target setting here is dependent on the external expectations and competitive performance, while the planning is based on unit plans and the goal is action oriented and dependent on expected consequences (Ostergren and Stensaker 2010) and resource allocation here is replaces the conventional budgeting process where resources are allocated through budget such practice is exchanged with a dynamic resource allocation where resources are made available to meet the target with the framework that is based on strategy, target and plan, key performance indicator target decision criteria and authorization of resources. This then mean that allocation will no longer be done on yearly basis but rather continuously and dynamically allocated.

For the adoption and implementation of beyond budgeting model in the public enterprises, there are six principles that must be incorporated into the activities of such enterprises as enumerated by Hope and Fraser (2003): goals are based on maximizing performance potential; base evaluation and rewards on relative improvement contract with hindsight; make action planning a continuous and inclusive process; make resources available as required; coordinate cross- company actions according to prevailing customer demand; and base condition on effective governance and a range of relative performance indicators.

Inorder to experience smooth adaptation of the process, there are policy oriented decisions that must be made by the executives. This includes: provision of a governance framework based on clear principles and boundaries; creation of a high performance climate based on relative success; giving people freedom to make local decisions that are consistent with governance principles and the organizations’ goals; placing the responsibility for value creation decision at front line teams; making people accountable for customer outcomes and supporting open ethical information system that provide “one truth” throughout the organization.

The benefits of adopting the beyond budget approach is that it enables more decentralized way of managing a corporation in place of the traditional hierarchy and centralized leadership. This model enables decision making and performance accountability to be devolved to line managers and create a self managed working environment and a culture of personal responsibility which will bring about increased motivation, higher productivity and better customer services that will improve service delivery which has been the greatest challenge of government owned enterprises. Hope and Fraser (2003), further stated that a corporation that adopts the beyond budgeting method stands to get benefit which includes; faster response, innovative strategies, lower costs and more loyal customers.

8. Conclusions and Recommendations

The study, therefore concluded that budget is a significant aspect of business activities and based on this, effort should be made by management of public enterprises to improve on the traditional budgeting process by embracing innovations in order to provide quality services and maintain a sustainable business practice. It is therefore recommended that the beyond budget approach should be adopted by public enterprises because it captures both financial and non financial performances; and the approach will help the enterprises to reduce the weakness of the traditional approach and improve the level of control in the budget process.

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