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Empirical Study on the Impact of Business Strategy on Annual Budget Performance

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Abstract:

This study was aimed at studying the impact of business strategy on annual budget performance among selected private organizations with the objectives of identifying the business strategy modalities used in such an organization and compares budget performance with business growth. Purposive and sampling techniques were used to conveniently select fifteen organizations as the sample size by conducting semi-structured interviews along with the aid of questionnaires to respondents who are top management members of the targeted samples within the studies area. The response from the respondents was statistically analyzed using Origin 6.1, statistical software. The results indicated that majority of the surveyed organizations are passive on using a specific business strategy modality with response values range from 3.27 – 4.13 and Cronbach's Alpha value of 0.81, an indication that different organization pursue different goals and therefore uses different strategies to enhance the organization's budget performance and an indication of a high level of internal consistency in the surveyed organizations' business strategies. It may also be affirmed that business strategies employed helped the organizations' annual budget performance as the reported values indicated a strong agreement by the respondents with average budget performance values of 4.00 – 4.17 and Cronbach's Alpha value of 0.82. It is therefore recommended that budget strategies should be implemented diagnostically and traditionally used to ensure better budget and organization's performances.

Keywords: Annual, budget, business strategy, Cronbach's alpha, diagnostic, performance

1. Introduction

Business strategy is defined as all the decisions and actions performed by a business to accomplish its objectives and goals. It is also the actions taken to secure a competitive position in the market (Agbenyo, Frank & Wang, 2018). Business strategy is seen as the backbone of the business because it's the roadmap that leads to the desired goals. Researches have shown that any fault in this roadmap can result in the business getting lost to competitors (Agbenyo *et al.*, 2018). On the other hand, budgeting is one of the central management accounting control systems (CMACS) used in generating information needed for coordinating, controlling, planning and for performance evaluation (Wael & Jordan –Al-Karak, 2016). Budget strategy and its tools are a major tool for checking business performance to ensure the implementation of managerial policies and decisions (Andrews, 2016). Budgets can be used diagnostically or interactively (Abernethy & Brownell, 1999). There have been several contingency theory perspectives that argued that there is no specific business strategy model that could help enhance the budget performance of an organization. This was emphasized that different organization pursue different goals and therefore uses different strategies to enhance the organization's budget performance (Chenhall & Langfield-Smith, 1998).

Therefore, in order to improve budgetary efficiency, a business must plan and implement its business strategies that are constantly monitored by structured systems to ensure their achievement. (Atkinson *et al.*, 1997; Van der Stede *et al.*, 2006). Performance can be maximized by an organization by striving to be the low-cost producer or by differentiating its line of services from those of other organizations to enhance better performance of its budgetary plans (Hartmann and Moers, 2003). An organization's strategy for maintaining high budget quality includes constant monitoring and awareness of environmental variables and classifying them as opportunities and threats (Walter *et al.*, 2016). These business strategies involve knowing the nature of the threats of other organizations as either serious or casual thereby providing an understanding of the business environments. The impact of business strategy on the annual budget performance has been the subject of some research papers as it's a norm that budget performance can be successfully enhanced if an organization align with its business strategies and ensure appropriate performance measurement (Lee and Yang, 2011). It is proved that business strategy is as urgent as the organization's budget itself and any waste or expenses done without following the budget could lead to the poor performance of the organization.

This paper was therefore aimed at examining the effect of the business strategy on the annual budget performance among selected private organizations in Okitipupa Local Government area, Southern region of Ondo State, Southwestern Nigeria with the objectives of identifying the business strategy method used in such organization and compares budget performance with business growth.

2. Literature Reviews and Development of Hypotheses

2.1. Literature Review

The relationships in business performances are examined considering the significance of four budget strategies implemented with business budgetary evaluations and the strength of the strategies employed in performance evaluation (Jung and Min-Choe, 2010). The study uses data collected from a sample of 331 medium-to-large Australian business units to identify this relationship for both annual budgets and rolling forecasts. The results indicated that for reasons of both strategic planning and quality assessment, more aggressive adopters of differentiator approaches tend to consider annual budgets and rolling forecasts as more relevant. This is an indicator of the importance of adopting a strategy to achieve an annual budget plan maximally (Jung *et al.*, 2010). The impact of business strategy and budgeting was investigated using a sample of 60 companies (Mbugua, 2013). A cross-sectional study model has been used and conclusions have been drawn that aspects of budgeting activities such as budget planning and budgetary participation have a positive effect on budgetary quality (Mbugua, 2013). A study was conducted using a descriptive research design and stratified sampling technique to determine the influence of budgetary strategy on the budget performance of selected manufacturing companies in Kenya (Naser & Mokhtar, 2004). The respondents were the head or equivalent of the finance department, so the sample size was 50 respondents. The results showed that in manufacturing companies and business strategy applied there is an important relationship between financial and budget performance (Naser *et al.*, 2004).

2.2. Hypotheses Development

Before suggesting the hypotheses, it is worth summarizing this present study's theoretical framework. As stated earlier, this paper aims to research the effect of business strategy on annual budget performance among selected private organizations in the local government area of Okitipupa, Ondo State's Southern Region, Nigeria with the objectives of identifying the business strategy method used in such organization and compares their budget performance with business growth.

Business strategy can play a mediating role in optimizing the annual budget performance of an organization. Therefore, a method was formulated for evaluating the responses obtained as shown in Figure 1.

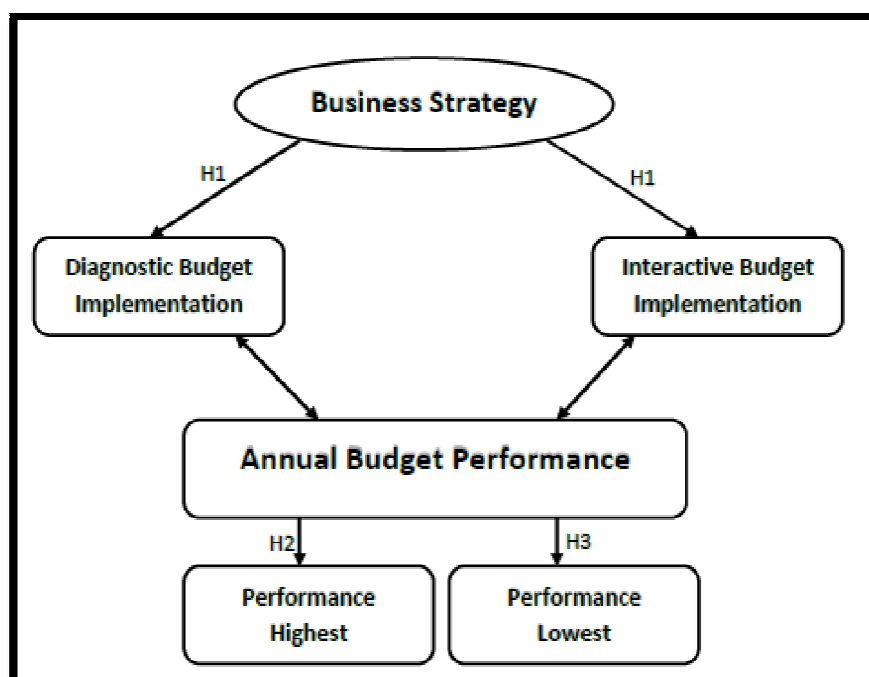


Figure 1: Empirical Study Framework

- H1: Business strategy has a significant impact on the performance of the annual budget.
- H2: Diagnostic method of budget implementation has a significant impact on the performance of the annual budget.
- H3: Interactive method of budget implementation has a significant impact on the performance of the annual budget.

3. Methodology

3.1. Study Design

This study adopts a cross-sectional study design to access the impact of business strategy on annual budget performance among selected private organizations in the local government area of Okitipupa, Ondo State Southern Region, and Southwest Nigeria. A cross-sectional is a research format that is performed at a particular point in time within a short period to test interest characteristics at a particular point in time (Olsen & St. George, 2004)

3.2. Sample Size of the Study

An important feature of any empirical study is the sample size of a survey to draw inferences from a sample about a population (Francis et al., 2010). The sample size used in this analysis was calculated based on the cost, time of data collection, and the need to have enough statistical power within the region being studied. The study population consisted of selected generic private organizations within the study area and, as often impractical and generally accepted, it was not possible to study the entire population of a country. Therefore, both purposeful and easy sampling strategies have been used to select fifteen (15) organizations as the sample size of the analysis, this has been achieved by conducting semi-structured interviews with the aid of questionnaires to respondents who are top management representatives of the targeted groups within the study area. A 13-item question was generated to enable the assessment of the impact of the business strategy used in each organization on their annual budget performance. These items were categorized into three sections. The structured items on the questionnaire are adopted after Hall, 2008; Kaplan & Norton, 2008; Burney *et al.*, 2009. Respondents assessed the influence of business strategy in their respective organizations on each characteristic of the budget performance evaluation process using a five-point scale anchored by 1 (less important) to 5 (very important).

3.3. Data Collection

Primary data was the main source of data collection for the study. Because of previous low survey response levels to survey questionnaires, a system of pre-notification, interview and questionnaire approach which covers the study's objectives were implemented that appears to be the best practice as data was collected instantly. The questionnaire was structured into four sections (A-D). Section A sought to obtain demographic data about the respondents, section B focuses on the roles of budgeting within the frame of the organization, section C examines the business strategy implemented in the organization. The final section was to assess the impact on the annual budget performance due to the business strategy implemented.

3.4. Methods of Data Analysis

The questionnaires which the respondents responded were tabulated and analyzed using descriptive, inferential and qualitative analytical techniques. In the analysis of the responses, statistical tools such as frequency distribution tables were used. Statistical software (Origin 6.1) was used for analyzing the data on the distribution tables. Two variables were analyzed in this study; business strategy and budget performance using Cronbach's Alpha model:

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N-1) \cdot \bar{c}} \quad (1)$$

Where:

N = number of components

\bar{c} = average covariance between the components of the sample of business organizations

\bar{v} = average variance of each component.

A scale with five points to questions on the questionnaire allows respondents to indicate their agreement/disagreement with each of these situations. These values were also statistically analyzed using Origin 6.1.

4. Empirical Result and Discussions

4.1. Respondents Demographic Data

Table 1 summarizes respondent demographic information. Shown figures show that men control senior positions in companies with 60% as compared to 40% of women. Organizations under the study cut across several sectors which include insurance, education, merchandising, production and hospitality. The demographic statistics show that a greater number of respondents are experienced personnel with the organizations been in existence for a good number of year

		No.	Cumulative (N)	%	Cumulative (%)
Gender	Female	6	6	40	40
	Male	9	15	60	100
Age	< 40 years	5	5	33.3	33.3
	40 - 45 years	7	12	46.7	80
	> 46 years	3	15	20	100
Types of Business	Pharmaceutical	1	1	6.67	6.7
	Education	4	5	26.7	33.4
	Merchandising	6	11	40	73.4
	Production	2	13	13.3	86.7
	Hospitality	2	15	13.3	100
Position	Finance Officer	4	4	26.7	26.7
	Bursar	3	7	20	46.7

		No.	Cumulative (N)	%	Cumulative (%)
	Marketing Officer	5	12	33.3	80
	General Admin	2	14	13.3	93.3
	Others	1	15	6.7	100
Work Experience					
	< 1 year	2	2	13.3	13.3
	1-5 years	7	9	46.7	60
	6-10 years	4	13	26.7	86.7
	> 10 years	2	15	13.3	100
No. of Years in Operation					
	1-5 years	2	2	13.3	13.3
	6-10 years	4	6	26.7	40
	> 10 years	9	15	60	100
How often do you review your business strategy?					
	Monthly	4	4	26.7	26.7
	Quarterly	2	6	13.3	40
	Bi-annually	6	12	40	80
	Annually	3	15	20	100
	Never	0	15	0	100

Table 1: Respondents Demographic Information

4.2. Assessment of the Business Strategy Modalities

To operationalize business strategy modality in this study, Table 2 reported the modalities on business strategies employed by the surveyed organizations. For each argument, respondents were asked to score weighting rates that are strongly agreed (5), agree (4), neutral (3), disagree (2) and strongly disagree (1). Itemized interaction questions on the modalities of the business strategy employed by the organizations are described below:

- Q1. The main focus of the organization is to keep current customers
- Q2. The organization as a preference for risk-free investment/products
- Q3. The business strategy used is based on the competitor's actions
- Q4. The company employs strategies to expand by introducing new products/concepts
- Q5. My organization's business strategy modality is very effective
- Q6. My organization uses different strategies to ensures innovations, customer alignment and delivery plans.

Respondents	Q1.	Q2.	Q3.	Q4.	Q5.	Q6.
Av.	3.87	3.33	3.27	3.20	4.00	4.13
Respondents variances	0.65	0.36	0.60	0.96	0.67	0.65
Cronbach's alpha	0.81					

Table 2: Assessment of Business Strategy Modalities

By assessing the response of the individual recipient, the business strategy modality was evaluated, the responses were then tested for accuracy using Cronbach's Alpha model. The values reported shows that majority of the surveyed organizations are passive on using a specific business strategy modality with values to range from 3.27 – 4.13, this conforms with Chenhall and Langfield-Smith, 1998; which emphasized that different organization pursue different goals and therefore uses different strategies to enhance the organization's budget performance. Q5 is a question on the strategy used by each organization, the average value reported indicated that business strategies employed are very effective. While Q6 indicated that different strategies were employed at every point in time to align with the objectives of the organization. The Cronbach's Alpha of 0.81 obtained in the reported values indicated a high level of internal consistency in the surveyed organizations.

4.3. Assessment of the Annual Budget Performance

An analysis of the surveyed organizations' annual budget performance was performed. In this regard, respondents were asked to score for each argument on weighting rates that are strongly agreed (5), agree (4), positive (3), disagree (2) and strongly disagree (1). Conferring to the collected data, count (n) for each attitudinal level, Mean (X) and Cronbach's Alpha were analyzed by using Origin 6.1 software. Itemized questions given to correspondence to evaluate their organization's annual budget performance are listed below:

- Q1: Annual budget has been used annually to help integrate the organization's strategic planning with budgets and cost control processes.
- Q2: Strict budget execution has been a tool used to save management time using the excellent principle.
- Q3: Annual budget performance is used to determine the financial capabilities needed to make better decisions.
- Q4: An annual budget is an essential tool used to turn general goals into specific objectives and priorities.

- Q5: The annual budget of the organization sets the benchmarks against which success or failure is measured.
- Q6 Over the last 3-5 years, the company has always accomplished more than 70% of its annual budget.

The statistical analysis results from the respondents were presented in Table 3.

	Q1	Q2	Q3	Q4	Q5	Q6
Count (n)	15					
Mean (X)	4.00	4.00	4.00	4.07	4.07	4.13
Variance	0.40	0.27	0.13	0.20	0.33	0.38
Cronbach's Alpha	0.82					

Table 3: Assessment of the Respondent's Annual Budget Performance

It has been deduced that business strategies employed help the organization's budget performance as the reported values indicated a strong agreement by the respondents with average values range 4.00 – 4.17. Besides, respondents acknowledged that diagnostic budgets are being introduced, conventional use of a budget to inspire, assess staff, track and control operations, and correct deviations from preset performance measures. The study affirmed that all the responses were found to be significant at 5% significant level with a high internal consistency of 0.82 calculated using Cronbach's Alpha model.

5. Conclusion

The main objective of this study was to study the influence of the business strategy on the annual budgetary performance of selected private organizations in the area of Okitipupa, Southern Ondo State, Southwest Nigeria with the objectives of identifying the business strategy method used in such organization and compares budget performance with business growth. A cross-sectional sample design was adopted for the study, a survey conducted in a short time at a specific point in time to analyze the characteristics of interest at a particular point in time. Both purposeful and convenient sampling strategies have been used to select fifteen (15) organizations as the sample size of the study, by conducting semi-structured interviews with the aid of questionnaires to respondents who are top management representatives of the targeted organizations in the study area. A 13-item question was generated to enable the assessment of the impact of the business strategy used in each organization on their annual budget performance. The response from the respondents was statistically analyzed using Origin 6.1 to evaluate the impact of the business strategy adopted by each organization in their annual business performance.

The values reported for the assessment of business strategy modality implemented by each organization indicated that majority of the surveyed organizations are passive on using a specific business strategy modality with values to range from 3.27 – 4.13, this emphasized that different organization pursue different goals and therefore uses different strategies to enhance the organization's budget performance. A Cronbach's Alpha of 0.81 was obtained which was an indication of a high level of internal consistency in the surveyed organizations' business strategies.

Also, it may be affirmed that business strategies employed help the organizations' annual budget performance as the reported values indicated a strong agreement by the respondents with average values range 4.00 – 4.17 and Cronbach's Alpha value of 0.82, an indication of a reliable internal consistency in the annual budget performance of the organizations. Therefore, budgets should be diagnostically applied and typically used to inspire, assess employees, track, control operations, and correct deviations from predetermined performance measures.

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