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Budgetary Control and Financial Performance of Insurance Companies in Nigeria

Owolabi, Sunday Ajao
Professor, Department of Accounting, Babcock University, Ilishan Remo, Nigeria
Kwarbai, Jerry Danjuma
Lecturer, Department of Accounting, Babcock University, Ilishan Remo, Nigeria
Olasehinde, Olayinka Joel
Student, Department of Finance, Babcock University Ilishan, Ogun State, Nigeria

Abstract:
Huge economic degradation in 2016, drastic fall in oil price made Nigeria's export sector under a thread. The continuous increase in population made both life and non-life insurers a very important product or service in their lifestyle. This creates a golden opportunity for insurance business. To sustain any business, good budgetary controls practices need to ensured. It improves the financial performance. A descriptive study has been used on 230 managerial workers drawn from 15 insurance companies listed by NSE as at 2018. Audited financial statements have been used to collect many important and relevant variables. This study explores the importance of budgetary control. Through data analysis using SPSS version 16.0, Correlation, and multiple regression analysis as well as bar graph were used to obtain the result.
The study recommends that effective budget implementation should be facilitated through capacity building, robust systems and processes prioritization, and close monitoring for evaluation. Stakeholders should get involved in budget execution to enhancing the overall budget implementation. Further, financial management systems should be supported in order to ensure prudent management of funds and adequate sensitization of both the employees and the public on best financial management practices to enhance the oversight role.

Keywords: *Budgetary controls, budget implementation, financial performance*

1. Introduction

The financial performance of a company is a key measure that determines business continuity or closure. The business that operates without profit may be faced with going concern problem. Financial performance rests on the ability of the management to generate revenue from factors of production and properly manage the revenue and expenses (Ugwuoke, 2010). This means that company's management can make profit by engaging all resources available in the business and focuses on analysis of the relationship between the revenue earned and expenses incurred.

Since financial performance has implication on an organizational existence, health and ultimately its survival, this has made it a major concern of business managers, shareholders and other stakeholders to always monitor factors and processes that determine and support the financial performance of organization (Onduso, 2013). It could be argued that management can improve performance of its company by putting adequate processes that support revenue generation and expenses control. This involves proper asset utilization on one hand, and a process by which an organization can establish its spending plan and continuously review the actual expenditure against the planned expenditure to determine if it needs to adjust or stay on track. This is more important as a measure to control spending and meet various financial goals (Ugwuoke, 2010).

Since, financial performance of a company is not only tied to the amount of revenue generated but also the extent of expenses incurred, there is a tendency that a business manager is aggressive about revenue generation and lose focus on the expenses incurred to generate the revenue to remain profitable (Suberu, 2010). There are various research works suggesting that companies tend to focus their attention more on generating high turnover to improve asset turnover of the company while the profit margin is depleting. When high asset turnover is desirable, management judiciously use the asset to generate income for the company. Notwithstanding, management are to ensure continuous financial performance of a company to enhance its growth and continuity. This means management should be desirous of making profit by paying adequate effort to increasing income and reducing management expenses (Churchill, 2010).

Cost control measure can serve as a principle to prevent activities that can turn profitability to loss through fraud, theft and operational malfunction. It focuses the attention of the management on the expenses to remain within budgetary limits (Suberu, 2010). According to Kiringai, (2002), budgetary control will support an organisation in achieving given objectives through budgets. The budgetary control system will assist in fixing the goals for the organisation as a move for its achievements and this will involves management control where actual income of an organisation and expenditure are compared with estimated income and expenditure, so as to determine if plans are being complied with and if those plans need to be reviewed in order to make a profit.

Over the years, a number of factors have troubled insurance industry to meet up with its financial and economic performance. Despite the impressive growth in Nigerian economy, some Nigeria insurance companies have performed poorly and even ended up going under. Cornerstone Insurance, Africa alliance Plc, Alliance and General Insurance Plc, Old Mutual Insurance and Ensure Insurance Plc have been having consistent loss results between 2014 and 2018 while Investment and Allied Insurance Company and Spring life Insurance Company have been under receivership for 9 years without improving positions (National Insurance Commission 2018). The consistent loss making may impair the confidence of shareholders, policyholders and other stakeholders on insurance companies if not checkmated (Kiringai, 2002).

Epstein and McFarlan (2011) argued that poor financial performance of a company can be checkmated by budgetary control. It is a mean to manage the financial aspects (Epstein & McFarlan, 2011).

Budgeting helps to check goals, the reporting of actual performance results and evaluation of performance in terms of the predetermined goals. Budgetary control systems can be considered as essential tool for financial planning. The purpose of budgetary control is to provide a forecast of revenues and expenditures (Churchill, 2010).As per Kiringai (2002), budgetary control, it is a tool to ensure budget of an organization. Not only control, but it also includes implementation, evaluation phases control (Hokal & Shaw, 2010) that is used by both public and private sector (Dunk, 2009).

According to Kiringai (2002), budgetary control refers to the principles of achieving given objectives through budgets. The budgetary control system will assist in fixing the goals for the organisation as a move for its achievements. It involves management control where actual income of an organisation and expenditure and compared with estimated income and expenditure, so as to determine if plans are being complied with and if those plans need to be reviewed in order to make a profit. In view of the above, this study will investigate the effect of budgetary control on financial performance of insurance companies in Nigeria.

2. Literature Review

2.1. Theoretical Review

2.1.1. The Budget Control Theory

Robinson and Last in 2009 proposed this theory. It aims to explore the relationship between budgetary control and financial performance.

Here, budgetary control process has been seen as a technique to check the revenue and expenditure allocation of a company. Efficiency and effectiveness in the area of organization's income and expenditure help to ensure the sustainability and performance (Robinson & Last, 2009). These authors also introduce a Performance-Based Budgeting System (PBBS).

2.1.2. Goal Setting Theory

Locke and Latham proposed this theory in 2008 on the basis of organization psychology for over 25 years'. How high (hard) goals lead to high task performance, has been explored through this. The prime axiom of goals lead to higher performance than when people strive to simply do their best. Through hundreds of laboratory and field studies, these benefits have been established. For more than twenty-five years, financial performance of organization units positively affects goals (Locke & Latham, 2008).

2.1.3. Management Control Theory

Robert Anthony (1965) commonly referred this model as the classical model (Berry, Broadbent &Otley, 2005). As per this theory, management control acts as an intermediate function between process of strategic planning and operational control. All the processes have its own level of operation (Berry, Broadbent &Otley, 2005).The theory maintained the delineation of the domain of management control theory (Chenhall, 2003).

2.2. Empirical Review

2.2.1. Budgetary Control and Financial Performance

The effect of budgetary control practices on micro and small enterprises at Kangemi town in Kenya has been studied by Kerosi (2018). This theoretical framework includes accounting theory and budgetary control. A descriptive survey design has been used to explore categorical description of attitudes. Hundred and sixty respondents from the hundred and sixty registered micro and small enterprises used for this study.

Lajevardi (2017) examined Budgeting, Budgetary Control, and Performance Evaluation system of all terrain Services Group. The sample size 137 workers at various managerial levels were taken out 200 managerial workers. Both qualitative and quantitative methods were used in analysing the data collected, secondary data source was also used. The study established the existence of budgetary controls in automobile industries, their performance and also determine the effects of budgetary controls on their performance management.

Usman, Yusufari, Hamza and Abdullahi (2016) examined the effectiveness of budget and budgetary control in the local government system in Nigeria. This study being a theoretical analysis, secondary data were used. As such, Available literatures on budgeting and budgetary control as they applicable to local governments in Nigeria were exhaustively used, relevant materials sourced from text books, journals, newspapers and other official documents were taken into consideration to discover how local government can make use of a prepared budget to achieve effective and efficient results. It was observed that, local governments in Nigeria were confronting some challenges which includes; corruption and mismanagement, skilled manpower, state government interference and finance.

The impact of participative budgeting on budgetary slack has been studied by Widanaputra and Mimba (2014) in a Bali Province based study. This study has used 'career uncertainty' as a moderating variable. The moderating variable has able to justify the research gap by influencing the degree of relationship between dependent and independent variables. This study uses six hundred eighty-six middle level employees. The more local government employees are there the larger the budgetary slack will be.

Another study on apparel industry in Sri Lanka (BPA) highlighted the importance of preparation, harmonization, organize, communication and assessment (Silva and Jayamaha, 2012). Return on Assets has been as seed here. Budgetary process has been seen to impact the organizational performance. Many contradictory findings have been seen in many studies to check the impact of budgetary process on the organizational performance. Cherrington and Herrington (1973) found that these are negatively associated. Whereas, Merchant (1978) and Brownell (1982) reported a positive relationship. Another study conducted by Cress and Pettijohn (1985), discussed significant role during the budget preparation. This study has been conducted on 219 publicly traded US companies. The style of participative budgeting is most popularly used (Shields and Young, 2013). Association between cost efficiency and profitability has been evaluated by Karim and Jhantasana (2005). Inefficiency and age not found to be significantly associated on the basis of a study done on Thailand's life insurance firms during the period 1997-2002.

3. Methodology

The study adopted a descriptive survey study research design, this is because descriptive survey enables to respond to the 'what' questions which is the case in this study. The aspect of survey was based on the fact that, the study was conducted at a specific point in time, and the respondents cut across different companies. This is also due to the nature of the study which aims at examining the budgetary control and profitability among insurance companies in Nigeria. The population of the study consisted of 600 managerial workers of the entire 33 insurance companies in Nigeria as at December 2018 (National Insurance Commission, 2018).

3.1. Model Specification

This study adopted a multiple regression model to test the relationship between the variables in budgetary control as the independent variables and financial performance as the dependent variable. The empirical model is thus:

$FP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$ ....(i)
Where x_1= Budget planning (BP)
x_2= Budget monitoring (BM)
x_3= Budget Control (BC)
x_4= Budget Evaluation (BEV)
x_5=Budget Performance (BPE)
FP = Financial Performance
β_0 = intercept
$\beta 1, \beta 2, \beta 3, \beta 4, \beta 5$ = coefficients

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	182.02	5	36.404	81984982	.000[b]
	Residual	0	224	0		
	Total	182.02	229			

Table 1: ANOVA Result
a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Performance, Planning, Evaluation, Control, Monitoring

4. Results and Discussions

Considering the p-value (0.000) of the F-statistic (81984982.389), the multiple regressions were found to be significant at 1%. This implies that there is enough evidence to reject the null hypothesis that model is not well fit for the dataset; hence suggesting that the model best fit the dataset used in this study. Therefore, this shows that the budgeting control variables used in this model were significant predictors of financial performance.

		Financial Performance	Planning	Monitoring	Control	Evaluation	Performance
Financial performance	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	230					
Planning	Pearson Correlation	.920**	1				
	Sig. (2-tailed)	.000					
	N	230	230				
Monitoring	Pearson Correlation	.942**	.878**	1			
	Sig. (2-tailed)	.000	.000				
	N	230	230	230			
Control	Pearson Correlation	.915**	.782**	.823**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	230	230	230	230		
Evaluation	Pearson Correlation	.940**	.813**	.856**	.842**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	230	230	230	230	230	
Performance	Pearson Correlation	.894**	.715**	.770**	.851**	.825**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	230	230	230	230	230	230
**. Correlation is significant at the 0.01 level (2-tailed).							

		Financial performance	planning	Monitoring	control	evaluation	performance
Financial performance	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	230					
Planning	Pearson Correlation	.920**	1				
	Sig. (2-tailed)	.000					
	N	230	230				
Monitoring	Pearson Correlation	.942**	.878**	1			
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	N	230	230	230			
Control	Pearson Correlation	.915**	.782**	.823**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	230	230	230	230		
Evaluation	Pearson Correlation	.940**	.813**	.856**	.842**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	230	230	230	230	230	
Performance	Pearson Correlation	.894**	.715**	.770**	.851**	.825**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	230	230	230	230	230	230

Table 2: Relationship between Budgeting Control Variables and Financial Performance
***. Correlation Is Significant at the 0.01 Level (2-Tailed)*
Spss Output 16.0

Table 2 shows the results of the relationship between budgetary control variables and financial performance. The correlation tests showed that there existed a positive and significant relationship between planning and financial performance (r=.920, p=0.000). Monitoring (r=0.942, p=0.000), control (r=0.915, p=0.000), evaluation (r=0.940, p=0.000), and performance (r=0.894, p=0.000) in budget control with financial performance of the insurance firms.

The correlation analysis showed that budgetary controls affected the financial performance of the insurance firms. This finding is again in line with the following scholars; Qi, (2010) who investigated on the impact of budgeting process on performance of small and medium-sized firms in China. What she discovered, from the OLS regression output is that, there is a significant and positive relationship between formal budgeting process and firm performance.

As per Pimpong, and Laryea, (2016) through a Ghana based study highlighted that budgeting also affects the financial performance of non-bank financial institutions. A positive association found between budgeting and firm performance.

5. Findings

The study focuses on preparation of budgets before the budget year along with controlling budget for short as well as the long-term basis. It also highlighted to use budgetary control as mean of forecasting. The result of the findings indicated that the control system of budgeting was effective in that the budget activities were done by head of departments; timely corrective actions were made in the case of when a variance was reported and there was regular follow up on budget plans by departmental heads. On evaluation of budgets, our findings revealed that insurance companies had put in place adequate evaluation measures to ensure an effective budget process, which covered measures such as regularly reviewing budgets, regularly reviewing the process of budget allocation, engaging stakeholders in making key budget decision, conducting regular budget audit and regularly implementing the budget control measures of the organization. Fonjong (2007) show a positive link between budgetary controls and financial performance and have a good motivational impact by involving managers in the budgeting process and by providing incentives to managers to help achieve the business's goals and objectives.

On budget performance, our findings revealed that there existed some performance measurements for the budgets in the insurance companies in that the level of service performance of the organization was high, the organization executed its services within the stipulated deadline, there was recorded estimated percentage of costs reduction by the organization, the level of administrative efficiency as related to administrative expense and total expenses in the past year was economical and there was agreement that program efficiency in relation to program expenses in the past year was effective. It was also found that there was an effective budgetary control which increased net profit, increased returns to investment by shareholders, growth in sales of the company.

A regression analysis has been performed to check the effect of financial performance. Budgetary control also helps to reduce the costs (Mathis, 1989). Findings are in line with the Churchill (2010) where control of budgets helps to ensure the objective of the firm.

6. Conclusion and Recommendation

This study found that companies should properly control budgets on the basis of both short- and long-term basis. Companies also map its goals and missions along with its objectives. This study also focuses to plan the budget as a tool to forecast the future, which is in line with Epstein and McFarlan (2011). In addition to this, company should focus budgetary activities such that it becomes fraud proof. This study in line with the work of Shizhen (2005) where suggestions have been made to include cost allowance, financial reporting, accounting records management with budget controls.

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