The impact of budgeting on the performance: A case study of Maha Cements

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ABSTRACT

This research work was focused on exploration on the use of budgeting in my home industries. A budget is a quantitative expression of a plan for a distinct period. It may include deliberate sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses strategic plans of business units, organizations, activities or events in measurable terms. The objective of the study is to determine whether the budgeting affect the quality of services delivery in production. The research also aims at determining whether the budgeting contributes to the improvement of management efficiency and high productivity.

The present study adopted a descriptive research design with data gathered through questionnaire administered to 128 respondents. Non-parametric tool of chi square was employed to analyze the data. Hypotheses were tested and analyzed on a 5% level of significance and it was revealed that budgeting is a useful tool. It can be concluded that budget, which is a continuous management activity, should adapt to changes in the dynamic business environment.

Keywords: budget, management efficiency, planning

1. Introduction

The efficiency and effectiveness of the operations of a business depends on the control available to management and all these activities are interrelated in such a way that they affect the attainment of the organization goals. The institution of cost and management accountant (ICMA) defined budget as a financial or quantitative statement prepared and approved prior to defined period of time of the policy to be pursued during the period for the purpose of attaining a given objectives. It may include income, expenditure and the employment capital.

Therefore, in order to achieve these objectives or goals, the organization must economize resources and discover the means of achieving these goals. Budget helps to aid the planning of actual operations by forcing managers to consider how the conditions might change and what steps should be taken now and by encouraging managers to consider problems before they arise. It also helps co-ordinate the activities of the organization by compelling managers to examine relationships between their own operation and those of other departments. Other essentials and objectives of budget include:

1. To control resources for providing visibility into the company’s performance
2. To communicate plans to various responsibility centre managers and evaluate their performance
3. To educate managers for their accountability and motivate to strive towards for attainment of budget goals.
My Home Industries Pvt. Ltd, manufacturer of world-class MAHA cements, is a renowned name in the industry. To suit various construction needs of different geographies, MAHA CEMENT has various brands under its name. All the products surpass the standards set by Bureau of Indian Standards (BIS).

At my home industries (MHIPL), every process is closely monitored and controlled, right from the selection of raw materials each process is cautiously carried out through each stage until the finished product is packed and dispatched. The product ensures easier workability, lesser permeability, guards all the structures against nature’s fury, shields against corrosion and promises longer life.

MHIPL has a joint venture with CRH Plc Ireland, the international leader in building materials. The growth and success of CRH is founded on its exceptional commitment and capabilities. Sharing the common vision of excellence, MHIPL and CRH as one entity, is fast emerging as a leading force in the Indian cement industry. MHIPL has grown from an annual capacity of 0.2 million tons to a staggering 8.4 million tones within a short span of 15 years. The company is planning to increase its annual capacity to 10 million tons in the near future.

2. Literature review

Nyageng'o (2014) conceded a study on local authorities in Kenya to identify factors effecting effective budget implementation. The study discovered that effective budgetary system is helpful in controlling and improved performance of local authorities.

Mwaura (2010) investigated the participatory budget setting and budget commitment as a factor that affects performance of the NSE listed companies. The study concluded that budgetary contribution affects return on capital employed and return on assets to a great extent.

Joshi et al. (2003) conducted a quantitative research in Bahrain to examine budget planning, control, and performance evaluation practices. They have taken firm size as an independent variable to test whether this has any effect on budgeting practice. The study concluded that, there is a positive effect on firm’s profitability.

Wijewardena and De Zoysa (2001) argue that based on the extent usage of budget and budgetary control, performance may vary from firm to firm. The greater extent of the formal budgeting process should have a positive impact on the performance of SMEs.

Hirst (1987) explains that an effective budgetary control solves an organization’s need to plan and consider how to deal with future probable risks and opportunities by setting up an efficient system of control. Shields and Young (1993) Budgets are considered to be the core element of an efficient control process and consequently vital part to the umbrella concept of an effective budgetary control.

A budget is considered to be the core element of the control-process and consequently plays a vital part in the performance of management. Research has shown that there is no single approach to budgeting; it is suitable for all businesses. The research recommends that employees need to be aware on budgetary controls and the effect on performance of the organization. From the above literature little has been done in relation to budgetary control.
and effectiveness of organizations, this is however geared to establish whether there is any relationship between budgetary control and effectiveness of organizations.

3. Statement of problem

Organizational financial and non-financial resources are limited and its distribution within in the organization in an effective manner plays an important role. Without prior planning and distribution of resources leads to ruined. Budgeting plays an important role in allocation of resources. The present study outlines the extent which budgeting can use as a good planning tool and how the performance can be improved with the help of budgeting.

3.1 Research questions

The study was guided by the following research questions:

1. Determine whether budgeting serves as effective means of planning
2. To determine is there any association between budgeting and management efficiency
3. To determine relation between the type of budget implemented and its impact in decision making and employee performance in work

3.2 Research hypothesis

For the purpose of analyzing the data, the following hypotheses were tested:

H1: There is no significant relationship between budgetary planning on organization performance;
H2: There is no association between the budget and management efficiency
H3: Effective budgeting does not improve management efficiency in decision making and working performance of employees.

4. Methodology

The methods adopted by this researcher in collecting the data are direct interviews, observations and the use of questionnaire. Inquiries were also made both directly and indirectly through some unusual questions to both the staff and management of the company.

4.1 Instrument

The primary data was employed in gathering information from staff of all cadres i.e. 128 work force. The questionnaire consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research

<table>
<thead>
<tr>
<th>Table 1: There is no significant relationship between budgetary planning on organization performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject</td>
</tr>
<tr>
<td>Agreed</td>
</tr>
<tr>
<td>Disagreed</td>
</tr>
</tbody>
</table>

Level of significance – 0.5 since t-calculated is greater than the table value (i.e. 27.18 > 9.49), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that effective budgetary planning has a positive impact on organizational performance.
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Table 2: There is no association between the budget and management efficiency

<table>
<thead>
<tr>
<th>Subject</th>
<th>No</th>
<th>%</th>
<th>T-calculated</th>
<th>Table value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreed</td>
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<td>76.56</td>
<td>33.62</td>
<td>9.49</td>
<td>Reject</td>
</tr>
<tr>
<td>Disagreed</td>
<td>30</td>
<td>23.43</td>
<td></td>
<td></td>
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</tbody>
</table>

Level of significance – 0.5 since t-calculated is greater than the table value (i.e. 33.62 > 9.49), then the null hypothesis is rejected, while the alternative hypothesis is accepted and we conclude that there is significant relationship between budgetary planning and management efficiency.

Table 3: Effective budgeting does not improve management efficiency in decision making and working performance of employees.

<table>
<thead>
<tr>
<th>Subject</th>
<th>No</th>
<th>%</th>
<th>T-calculated</th>
<th>Table value</th>
<th>Decision</th>
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</thead>
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<tr>
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<td>65.6</td>
<td>22.00</td>
<td>9.49</td>
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</tr>
<tr>
<td>Disagreed</td>
<td>44</td>
<td>34.4</td>
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<td></td>
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</tbody>
</table>

Level of significance – 0.5 since t-calculated is greater than the table value (i.e. 22.00 > 9.49), then the null hypothesis is rejected, while the alternative hypothesis is accepted and we conclude that budgeting technique is of great importance in improving management efficiency in decision making and working performance of employees.

5. Conclusions

The relevant research questions raised above has been examined in the light of mode of operation of My Home Industries Pvt. Ltd, manufacturer (MHIPL), of world-class MAHA cements. It has been discovered that quite a number of the employees know the budgetary system of the company and there exist considerable participation of lower level employees in planning and budgeting. It was also revealed that the work force is well motivated and proficient enough to drive the company to a greater height. Finally, it can be said that fanatical work force, superior technology and effectual policies (budgeting inclusive) has lend a hand to the company to remain efficient in fulfilling its objectives.

6. References


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