

EFFECTS OF BUDGET POLICY ON THE FINANCIAL PERFORMANCE OF A FIRM

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Abstract. *A company's budgeting approach has a big impact on how financially successful it is. Given that the majority of businesses want to increase their profitability, a number of procedures and frameworks are established to guarantee that a business expands successfully. Therefore, budgeting policies give supervisors relevant data to assess business performance and guide cash distribution plans across different divisions within an organization. This review research set out to ascertain how budget policies affect a company's financial performance. To achieve the intended objectives, a total of 19 previous published articles that related to the effects of budget policy on the financial performance were selected by defining the inclusion and exclusion criteria. The articles were selected by searching on different databases. The articles that have full text accessed and are in English were included in the literature review. The study's conclusions showed that a firm's financial performance is significantly improved by budget policy. A comprehensive and documented budgeting policy improve the firm returns in the form of valuable revenue.*

Keywords: *Effects, Financial Performance, Budget Policy*

1. INTRODUCTION

Scholars from several business and strategic management domains have paid special attention to a company's financial success (Pimpong & Laryea, 2016). Financial performance refers to the extent to which financial goals are being met or have been achieved. The goal of the company is extensively discussed in the literature, with a particular focus on maximizing shareholder value. Because shareholder wealth implies future prospects, represents continuous growth, and acts as a risk shield, managers are therefore interested with growing shareholder wealth. Strong performance is a sign of management efficacy and efficiency in allocating the company's resources to achieve this (Kiiru et al., 2018).

To operate, businesses frequently need to use a range of resources, including financial, human, and capital resources. Financial resources are one of the most crucial elements in achieving business goals and objectives. However, a well-prepared and followed budget is necessary to ensure that the company's goals are met. Etoromat (2021) claimed that a budget is a quantitative embodiment of a plan, and budgeting is the process of turning plans into a budget. The budget is a widely used tool for corporate organization and management. A large organization may have a highly structured budgeting procedure, with committees assigned specific responsibilities.

In many company groups, lasting profitability may be fostered through effective budget management. Following a managerial decision, activities often involve a number of corporate areas, including purchasing, marketing, manufacturing, and finance. It is crucial that management coordinate these numerous, connected decision-making processes. Should management neglect this, there's a risk that individual managers may decide what they think is best for the business when, collectively, it's not. The creation of action plans for upcoming times should serve as a means of coordinating the many tasks carried out inside an organization. Typically, these comprehensive strategies are

known as budget policy (Kamau et al., 2017).

The budget is one of the most crucial tools for implementing the objectives and policies of a company. Decisions are made based on the organization's budget. Both people and businesses benefit from budgeting since it enables them to determine how much money to spend in relation to their available resources. Budgets can aid in planning, regulating, communicating, and motivating employees, among other managerial tasks. An effective budgeting system makes it possible for the business to accomplish its objectives more successfully (Olaniyan & Efuntade, 2020).

Objectives of the Study

Finding out how budget policy affects a company's financial performance was the aim of this study.

Research Questions

What impact does a company's budget policy have on its financial performance?

2. LITERATURE REVIEW

2.1 Concept of Budget

A budget is a quantitative statement that may contain projected income, costs, assets, liabilities, and cash flows for a given time period. A budget gives the company direction, helps with activity coordination, and manages facilities. A set master budget is used for planning, while a comparison of actual and flexible budget expenses is typically used for management (Kaharrukmi & Adli, 2022). Ho (2018) defines a budget as a financial or quantitative statement that has been prepared and approved prior to a given date. It might involve earnings, outlays, and the use of capital. According to Rotinsulu and Nurnajamuddin (2021), a budget is a comprehensive plan that combines several firm operations in preparation for subsequent actions. Foster (2017) provided a definition of a budget as a quantitative statement of an action plan and a tool for carrying it out.

2.2 Concept of Budget Policy

A financial plan based on a company's anticipated revenue and spending over time is called a budgeting policy. Businesses can identify capital, forecast income, and anticipate spending with the aid of budgeting policies. Leadership may also gain insight into the company's performance with the use of a budget policy (Lawal et al., 2018).

2.3 Financial Performance

Financial performance is an issue that academics in a number of business and strategic management disciplines have carefully considered. Additionally, business executives in a range of businesses have made financial performance their top priority since it impacts an organization's well-being and eventually its existence (Wen & Lee, 2020). Financial performance is the degree to which financial goals are being or have been attained (Pimpong & Laryea, 2016). Early on in its history, budgeting was primarily focused on planning in order to enable accurate performance evaluation and, subsequently, incentives. Since finance involves venture capital and funding for the here-and-now, it is consistently disregarded while making financial decisions. also function as a control over financial performance because they don't raise return on equity (Junita et al., 2018). Al-Hashimy et al. (2018) asserted that a firm's values and beliefs are formed with confidence via well-executed and composed financial management.

2.4 Previous Research Studies on the Budget Policy and Financial Performance

Foster (2017) studied how a company's budget policy affected its financial success. Their conclusions showed that the firm's financial performance has been greatly impacted by budget policies. A cross-sectional study approach was employed by Kiiru et al. (2018) to ascertain how budget policy affected an organization's financial performance. The study's findings demonstrated that the organization's revenue

collection is significantly impacted favorably by budget policy. Kaharrukmi and Adli (2022) assessed the effect of budgetary control on the Ministry of Public Works' financial performance. Their study's findings demonstrated a strong correlation between budgetary policy and financial performance.

3. RESEARCH METHODS

Article Selection Process

The Prisma diagram was followed for the selection of the articles. Its procedure is discussed in the following lines:

i. Identification

a. Databases and Time Limit for Literature Search

The researchers searched the articles on the budget policy and financial performance from January 2013 to November 2023 from the major electronic databases including ERIC, Web of Science, Google Scholar and Scopus. The key terms used for literature search for articles were: effects, budget policy, financial performance and firm.

b. Inclusion Criteria for Literature

The articles were included based on the following inclusion criteria:

- Only those articles were included that reported the budget policy and financial performance. The studies that have no link between budget policy and financial performance were excluded.
- The studies that were published in a peer reviewed journal, from the year 2015 to 2023 and written in English were included in the study. The studies that did not meet this criterion were excluded. So, initially 71 studies were identified.

ii. Screening

After removing the duplicate records of 15 studies, the remaining studies were 56 based on inclusion and exclusion criteria. Records excluded on the basis of the abstract review were n=13, not relevant n=6, and not in English n=5.

iii. Eligibility

The total full-text articles assessed for eligibility obtained were n=32. The full-text articles that have no link between budget policy and financial performance were also excluded n=13.

iv. Included

So, the final studies included in the review were obtained as n=19. The article selection process followed by the Prisma diagram is shown in figure 1.

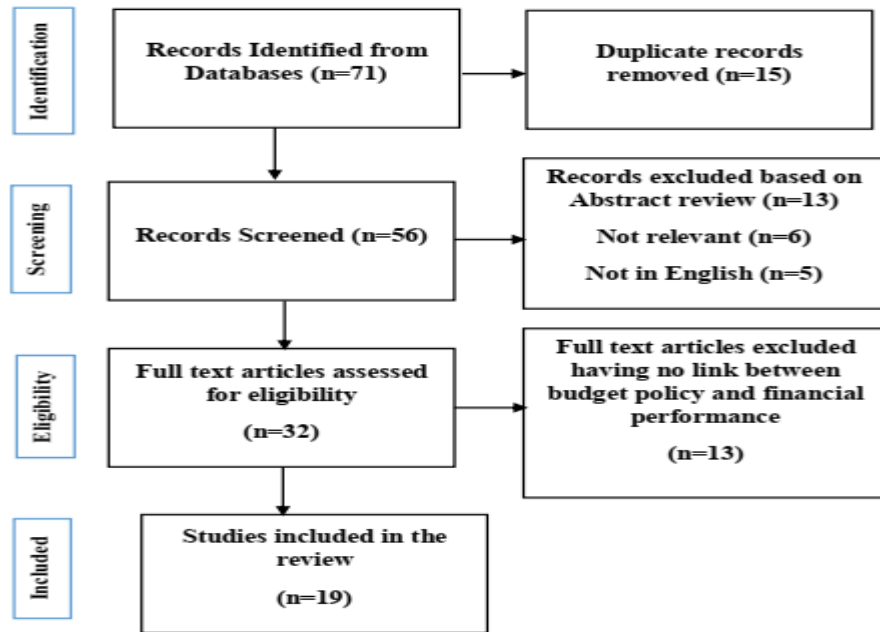


Figure 1: Prisma Diagram for the Article Selection Process

4. RESULTS AND DISCUSSION

Determining the impact of budget policy on a company's financial performance was the aim of this review research. The research question regarding this objective was what is the effect of budget policy on the financial performance of a firm. A review of earlier research studies was conducted in an effort to determine the answer to the research question and to accomplish the stated goal.

Effects of Budget Policy on the Financial Performance of a Firm

Numerous research studies were analyzed to determine the impact of budget rules on a company's financial success. Table 1 presents the findings from the examined research studies.

Table 1: Results of Studied Reviewed

Reference	Country	Firm	Methodology	Results
Onduso (2013)	Kenya	Manufacturing companies	Quantitative Questionnaire	The study's findings showed that the company's financial performance is significantly improved by budget policy.
Mohammed and Ali (2013)	Somalia	Remittance	Quantitative Questionnaire	The study discovered a marginally favorable association between remittance companies' budgeting practices and their financial performance.
Pimpong and Laryea (2016)	Ghana	Non-bank financial institutions	Quantitative Questionnaire	The results of the study demonstrated a statistically substantial, if not entirely positive, correlation between corporate financial success and budget policy.

*The Third International Conference on Government
Education Management and Tourism (ICoGEMT)+HEALTH
Bandung, Indonesia, January 19-20th, 2024*

Sebastian (2018)	Tanzania	Manufacturing	Quantitative Questionnaire	The results of the study demonstrated a statistically substantial, if not entirely positive, correlation between corporate financial success and budget policy.
Ngumi and Njogo (2017)	Kenya	Insurance and reinsurers	Quantitative Questionnaire	The study concluded that budgetary measures have a major influence on financial performance.
Batrancea et al. (2021)	Romania	Energy industry	Panel data techniques	The findings demonstrated that the evolution of a company's financial performance was significantly impacted by budgetary pressure.
Kameda (2014)	Japan	Government firms	Threshold vector auto-regression	The study's conclusions showed that budgetary policy has a favorable effect on financial performance.
Syam and Chandrarin (2019)	Indonesia	Human Development Index	Quantitative explanatory approach	The study showed that budget policy has a favorable effect on financial performance.
Etoromat (2021)	Uganda	SACCOs	Quantitative Questionnaire	There was a significant positive correlation between SACCO financial success and budget literacy.
Budding et al. (2022)	Netherlands	Local government	Dataset	The study showed that budget policy has a favorable effect on financial performance.
Falagiarda and Gregori (2015)	Italy	Government	Econometric comparative analysis	The study concluded that budgetary measures have a major influence on financial performance.
Laisa and Mariana (2023)	Indonesia	Government	Balanced panel data	The results showed that financial performance, as well as budget ratcheting, had an effect on capital expenditure.
Kipkirui (2020)	Kenya	Government	Dataset	The study's findings suggested that a budget policy is a useful tool for enhancing financial performance.
Phuc Canh (2018)	Vietnam	Institutions	Panel data	The findings demonstrated that, during the studied years, budget policy had a favorable economic effect on developing markets.
Michira	Kenya	SACCOs	Descriptive	The findings of the study

(2022)			Research Design with questionnaire	indicated that budget policy increased the revenue by improving the financial performance.
Syamsurijal (2019)	Indonesia	Revenue	Panel data	The study's conclusions demonstrated that better financial performance led to an increase in income through budget strategy.
Karagöz and Keskin (2016)	Turkey	Government	BVAR Model	The results of the study demonstrated the positive impact of budget policy on financial performance.
Osinowo (2015)	Nigeria	Agriculture sector	Distributed Autoregressive Lag and Error Correction Model	The results showed that all of the determinant factors had a positive link with the manufacturing sector.
Chircir and Simiyu (2017)	Kenya	Almasi Beverages Group	Concurrent triangulation research design	The results of the research demonstrated the budgetary control variables' substantial effect.

CONCLUSION

This review research was set out to ascertain how budget policies affected a company's financial performance. The examined research studies demonstrated that a company's financial performance is positively impacted by its budget policy. A comprehensive budgeting policy leads to the high rate of returning in the form of revenue.

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