

VALUE RELEVANCE OF BUDGETING: A STUDY OF PHARMACEUTICAL BUSINESSES IN NIGERIA

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ABSTRACT

The main objective of the paper was to evaluate the relevance of budgeting as management accounting tool for pharmaceutical sales businesses in Nigeria. The scope is limited to budgeting as the management accounting tools considered. It is a quantitative research and the survey design was utilized in conducting the research with the use of questionnaires to obtain primary data from the respondents. The study is premised on the contingency theory of budgeting. Pilot study was conducted with three pharmaceutical firms which were not part of the surveyed population and experts in both accounting and Pharmacy were employed to ascertain the reliability and validity of the research instrument. The data collected was analyzed using descriptive statistics by first presenting a statement of set up budgets, setting up of frequency, and setting up of users' budget and purpose budget. The findings show that the main budget was used by most of the pharmaceutical firms; while purchase budget and sales budget were the most commonly used set ups from the partial budgets. The least commonly used budget set up from the main budget is the cash budget. Whereas, the stock budget is the least common budget set up from the partial budget of these firms. The findings further show that the most important purposes of budget are implementation of strategies, and planning and allocation of resources. The paper recommends that cash budgeting and stock budgeting should be taking serious by these pharmacists to ensure reduction in expired drugs through the adoption of First in First Out stock valuation method; and to enhance maxima utilization of cash. The paper also calls for further studies which would incorporate other aspects of management accounting tools in similar or different industries.

Keywords: Budgeting, Main Budgeting; Partial Budgeting; Management Accounting Tool; Pharmaceutical Businesses

1. INTRODUCTION

Within the past two decades there has been tremendous rise in new management accounting ideas compared to prior times. This was orchestrated by acute international business competitions and rapid developments in technology, leading to hyper demands for a well structured management system. Researcher such as Otley (2015), Aliabadi (2021), Alles, et al. (2021), Srithongrung (2021) and Wagner (2021) have gone ahead to argue that the 21st century businesses now require control instruments which are better coordinated with the behavioural tendencies of business managers in different facets

Management accounting as conceived today has thus become a value creative process aimed at supporting decision makers, motivate action and enable the learning of organizational values (Marthin, 2021). An excellent management accounting system may not unilaterally guarantee success. However, an ineffective or deformed management accounting system may become a clog in the wheel of progress to even the best efforts made to ensure business success; coupled with the fact that the key tool in the management accounting system is budgeting.

Budgeting is a management accounting instrument of control which is of great importance to businesses. These businesses use various methods in setting up their budgets. Budgeting is of great importance to pharmaceutical wholesale and retail businesses. This may be hinged on the explanation that these businesses need higher control and monitoring of financial instruments, and in and out of goods. Hence, to them, budgeting is a very important instrument of control.

Various studies have been done on management accounting tools and their usefulness to businesses and entrepreneurs. Some of these studies focused on all the management tools collectively. But we know that such studies focused collectively on the management tools may not show the impact of a singular tool and the absence of a singular tool in a business may be covered by the presence of other tools and as such not affect the results of such studies. This is coupled with the fact that budgeting is very broad and the fulcrum of management accounting that deserves to be singled out as such collective studies may not bring out the various aspects and importance of budgeting in the management accounting system. Most of the studies conducted in Nigeria in the area of budgeting were done a decade or more ago. Recent studies such as Ermasova, Guzman and Ceka (2021); Ilyas (2021); Lingenfelter (2021); Matejka, et al. (2021); Matsoso (2021); Mollah, et. al. (2021), etc., were conducted in developed economies. More interestingly, there seems to be no study in Nigeria, in the last

decade that has done any work on budgeting amongst pharmaceutical retailers and wholesalers in Nigeria.

Hence, this paper attempted to provide solution to these research problems and fill the identified gaps by studying the value relevance of budgeting as management accounting tool for pharmaceutical businesses in Nigeria.

The broad objective was to evaluate the relevance of budgeting as management accounting tool for pharmaceutical sales businesses in Nigeria. The study however formulated the following sub-objectives.

- I. To determine the dominant budget se-ups in Pharmaceutical businesses in Nigeria
- II. To determine whether budgeting is relevant to Pharmaceutical businesses in Nigeria

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 The Use of Budgeting in Pharmaceutical Business

A budget is defined as “a quantitative statement for a defined time which may include planned revenues, expenses, assets, liabilities and cash flow. A budget provides a focus for the organization, aids the coordination of activities and facilitates control. Planning is achieved by means of a fixed master budget whereas control is generally exercised through the comparison of actual costs with a flexible budget” (Chartered Institute of Management Accountants).

Budgeting is one of the most widely studied areas in management accounting. Researchers have looked at budgeting from both economic and sociological perspectives. This is because almost every other area of management accounting is linked to budgeting. Budgeting is used for planning, allocation of resources, coordination of firm’s activities, motivating of employees, and ensuring conformity with standards (Covaleski, et al. 2003).

The ability to plan, manage, organize and control the operations of pharmaceutical businesses is fundamental to the fulfillment of businesses is fundamental to the fulfillment of their business objectives. Such businesses that cater for the health of the masses are not for every Dick and Harry as specific expertise is needed coupled with good management abilities to effectively optimize available cash to meet up with required stock and avoid keeping of expired products which are dangerous to health

(Aziz and Shar, 2021; Choe and Kun, 2021; Chun and Johnson, 2021; Dabbicco and Mattei, 2021)

Every pharmaceutical business makes regular decisions on the minimum and maximum level of resources that would be spent to meet up with the market requirements to guarantee to ensure high profitability and avoid having bulk of expired products.

In Nigeria, pharmaceutical businesses mostly dispense most prescription medicines in the community and only particular medicines are dispensed to hospitals. Most pharmacies use forecasting database or models to factor in elements such as population growth and disease prevalence at various seasons to determine the medicines and qualities needed to be stocked at each given period.

2.2 Theoretical Framework

This study is hinged on the contingency theory of budgeting. The contingency theory of management accounting and budgeting was developed in the 1970's in an attempt to provide explanation of the varieties of management accounting practice prevalent at that time. It emanated from the contingency theory of organizational structure which were already in existence about a decade prior to the 1970's.

According to Otley (2015), the contingency theory of budgeting specifies that "a contingency theory must identify specific aspects of an accounting system which are associated with certain defined circumstances and demonstrate an appropriate matching". The theory argued that control systems should be designed contingent upon the nature of the host organization.

Hence, in line with the provisions of the contingency theory of budgeting, this study believes that budgeting for pharmaceutical businesses should be designed contingent and suitable for the nature of pharmaceutical businesses in Nigeria.

3. METHODOLOGY

The paper adopted survey research design. Convenience sampling in deciding to conduct the research in Mina metropolis which is convenient for the researchers and also because Mina metropolis has a cluster of about 20 pharmacies stores that make up the study objects of this research.

It is a quantitative research and the survey design was utilized in conducting the research with the use of questionnaires to obtain primary data from the respondents.

Pilot study was conducted with three pharmaceutical firms and experts in both accounting and Pharmacy were employed to ascertain the reliability and validity of the research instrument. The data collected was analyzed using descriptive statistics by first presenting a statement of set up budgets, setting up of frequency, and setting up of users' budget and purpose budget.

4. RESULTS AND DISCUSSION

This section analysis and presents the data collected in various budget set-ups using descriptive statistics.

Table 4.1: The Set-up of Budgets in Nigeria Pharmaceutical Businesses

MAIN BUDGETS	Number(N)	Traditional Budgets	Revised Budgets	Rolling Budgets	Floating Budgets	Flexible Budgets
Cash budget	10	70%	0%	10%	0%	20%
Profit budget	20	80%	0%	0%	20%	0%
Budgeted Statement of financial position	15	100%	0%	0%	0%	0%
PARTIAL BUDGETS						
Purchase budget	10	60%	0%	30%	0%	10%
Stock budget	1	100%	0%	0%	0%	0%
Investment budget	2	100%	0%	0%	0%	0%
Sales budget	8	75%	0%	25%	0%	0%
Administration budget	3	100%	0%	0%	0%	0%
Marketing budget	5	80%	0%	20%	0%	0%
Operating budget	3	100%	0%	0%	0%	0%
Personnel budget	2	100%	0%	0%	0%	0%

Source: Research Survey (2021)

Table 4.1 above shows that the two categories of budgets in pharmaceutical companies in Nigeria are main budgets and partial budgets. The result further shows

that cash budget, profit budget, budgeted statement of financial position are the budget headings under the main budgets; whereas, purchase budget, stock budget, investment budget, sales budget, administration budget, marketing budget, operating budget, and personnel budgets are the various budget headings in the partial budgets. The result also shows that the profit budget and the cash budget are both the most used and the least used budgets, respectively, in the main budget set-ups; while the Sales budget and the stock budget are both the most used and least budget set-ups, respectively, in pharmaceutical businesses in Nigeria.

Table 4.2: Relevance of budgets to the operations of Pharmaceutical Businesses in Nigeria

RELEVANCE OF BUDGETING IN PHARMACY BUSINESS	Low level, N≤5		High level, N>5
	Number(N)	Percentage (%)	Mean
Planning	7	12.50%	8
Implementing of strategies	6	10.70%	9.3
Coordinating of business activities	7	12.50%	8
Creating of awareness within the business	3	5.40%	18.7
Communication within the company	4	7.10%	14
Allocation of resources	8	14.20%	7
Allocation of responsibilities	3	5.40%	18.7
Meeting business goals	6	10.70%	9.3
Creating motivation	3	5.40%	18.7
Basis for reward	4	7.10%	14
Follow-up system of the business	5	8.90%	11.2

Source: Research Survey (2021)

Table 4.2 shows the relevance of budgeting in pharmaceutical businesses in Nigeria. The table shows that budgeting is most relevant to pharmaceutical businesses in the areas of allocation of resources (8 or 14.2%) , planning (7 or 12.5%) , coordinating of business activities (7 or 12.5 %), implementing of strategies (6 or 10.7%) and meeting business goals (6 Or 10.7%). The areas of less relevance are follow-up system of the business, basis for reward (4 or 7.1 %), communication within the company (4 or 7.1 %), creating awareness within the business (3 or 5.4%), allocation of responsibilities (3 or 5.4%) and creating motivation (3 or 5.4%).

4.1 Discussion of Findings

The first finding show that there are dominant budget set-ups in Pharmaceutical businesses in Nigeria. The dominant budgeting set ups are the main budgets and the partial budgets; and the dominant budgeting system is the traditional budgeting system. The findings also indicated that profit budget is the most used budget set-up in the main budget; while purchase budget and sales budget were the most commonly used set ups from the partial budgets.

The second finding shows that the least commonly used budget set up from the main budget is the cash budget; whereas, the stock budget are both the most used and least budget set-ups, respectively, in pharmaceutical businesses in Nigeria.

The third finding shows that budgeting is most relevant to pharmaceutical businesses in the areas of allocation of resources, planning, coordinating of business activities, implementing of strategies, and meeting business goals. The areas of less relevance are follow-up system of the business, basis for reward, communication within the company, creating awareness within the business, allocation of responsibilities, and creating motivation.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

From the findings, we can conclude that

- i. the main budget was used by most of the pharmaceutical firms, implemented mostly in the traditional budgeting system; while purchase budget and sales budget were the most commonly used set ups from the partial budgets.
- ii. The least commonly used budget set up from the main budget is the cash budget. Whereas, the stock budget is the least common budget set up from the partial budget of these firms.
- iii. The study further concludes that the most important relevance of budget in pharmaceutical businesses in Nigeria are allocation of resources, planning, coordinating of business activities, implementing of strategies, and meeting business goals. The paper recommends that cash budgeting and stock budgeting should be taking serious by these pharmacists to ensure reduction in expired drugs through the adoption of First in First Out stock valuation method; and to enhance maxima utilization of cash. The

paper also calls for further studies which would incorporate other aspects of management accounting tools in similar or different industries.

5.2 RECOMMENDATIONS

In line with the findings and conclusions the paper recommends the following:

- i. The pharmaceutical businesses in Nigeria should incorporate sales and purchase budget into the main budget for more efficiency and not the present prevalent treatment of these items as partial budgets.
- ii. that cash budgeting and stock budgeting should be taken serious by these pharmacists to ensure reduction in expired drugs through the adoption of First in First Out stock valuation method;
- iii. pharmaceutical companies should go beyond mere budgets on cash budget, given the all round importance of budgeting to their businesses. The paper also calls for further studies which would incorporate other aspects of management accounting tools in similar or different industries.

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