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Impact of Budgetary Process on Financial Performance of Listed Companies in Sri Lanka

Retnam Uthayakumar[1], Yapa Hamilage Purnima Kalpani Yapa[2]

[1] Senior Lecturer, Department of Commerce, Faculty of Commerce and Management, Eastern University, Sri Lanka

[2] Graduated student, Department of Commerce, Faculty of Commerce and Management, Eastern University, Sri Lanka

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ABSTRACT

This study examined the level and variation of the budgetary processes of the companies listed on the Colombo Stock Exchange in Sri Lanka, investigated the relationship between the budgetary processes variables and the financial performance of those companies, and evaluated the impact of those variables on their financial performance. The study was carried out using data collected from a sample of 100 listed companies randomly selected from nineteen different sectors in Sri Lanka. The degree of budgetary process practiced by the companies over some past periods was measured as a retrospective cross sectional observation with the perceived judgment of a sample of 100 managers, who each represented a company, using a five-point Likert-scaled instrument designed by the researchers. The financial performance of those companies was measured with the indicator of the average ROA as a retrospective cross sectional observation, which was calculated by the researchers referring to the annual reports of each company for the past three-year periods from 2018 to 2020. From the data analysis, it was found that the degree of budgetary process of the companies in the sector is highly perceived, it is weakly and positively correlated with the financial performance indicator, and the budgetary process variables except budgetary control have a significant impact on the financial performance of the companies across the industries. Hence, it is concluded that the budgetary process is being practiced at a high level with insignificant variations among the listed companies and has a significant relationship with and influence on the financial performance of the listed companies in Sri Lanka.

Keywords– Budgetary Process, Budgetary Planning, Budgetary Participation, Budgetary Control, Budgetary Evaluation Financial Performance.

INTRODUCTION

Financial performance and financial planning are linked to each other. Financial performance indicates the extent to which a firm can use its assets from its primary operating activities to generate revenues. This term is also used as a general measure of a firm's overall financial strength over a given period. In many profitable companies, the budgetary process is seen as the key management tool to their success. An effective budgetary process is critical to organizational success. Studies of the differences between unsuccessful and successful new firms consistently find that firms that carefully develop and follow budgets increase their chances of survival and success. An effective budgetary process exists on a formal and sound organizational structure where the authority and responsibility for all levels of operations are clearly defined. The budgetary process would set realistic goals and contribute to the growth and profitability of a company.

A budget generally refers to a plan of financial estimates for a specified time period. It is used to predict the financial results for a forthcoming period. It plays a vital role in achieving firm's best performance. Most firms desire to improve their performance, so multiple systems and structures are placed to ensure that firms grow in profitability. The usefulness of a budget program is unswervingly connected to its recognition by entire management team. The budgetary process is most useful when it is incorporated with a company's strategy. Companies usually draft budgets after organizational goals, strategies, and long-term plans are formulated. When a budget is being prepared, each level of management of the firm should be invited to participate on it. Budgets might also be used as control devices in most firms.

The advantage of the budgetary process can be realized in profit maximization for the firm through appropriate planning and coordination of diverse functions, proper control over various capital and revenue expenditures, and driving wealth to the best use. The decision as to how to distribute restricted financial and non-financial treasure in an effective and efficient manner is a great challenge for all institutions. In most large and complex organizations, this assignment would be nearly unmanageable without a budgetary process [12].

As a financial device, budgeting is beneficial for the control and evaluation of organizations and the planning of prospect activities. These gears can have a great impact on the performance of an enterprise [6]. The budgeting process includes five main functions: planning, coordinating, directing, analyzing, and controlling. Budgetary planning and control are typically more multifaceted in a business firm. There should also be five main elements for the budget: system of authorization, means of forecasting and planning, channel of communication and coordination, motivational device, and means of performance evaluation and control, as well as providing a basis for decision making [15].

In Sri Lanka, there are 288 companies listed on the Colombo Stock Exchange (CSE) representing 19 GICS industry groups as of October 31, 2021. The annual reports of these companies indicate that budgetary activities are undertaken before they commence their business operations. However, the level of the budgetary process and its effectiveness are not described in detail.

Observing the financial performance as indicated by the return of assets of some sample companies for the past periods, a significant variation was noted by the researchers. For example, one of the leading listed companies on the Colombo Stock Exchange (CSE) in Sri Lanka reported a loss in its business operations in 2019 even though its management has established robust governance systems and internal control processes to ensure compliance and best practices. The board of the company formulates the overall business strategy in association with corporate management and determines corporate goals, which are communicated down the management hierarchy through a systematic budgetary control procedure approved by the Board of Directors.

Continuous oversight of operations is maintained by the board of directors through monthly budgeted reports and reviews of corporate and operational performances to enhance their year-end financial performance. However, the company has reported a high profit in 2020. This kind of occurrence of variations in performance draws the attention of the researchers to investigate the relationship between the quality of the budgetary process and its outcome in financial performance.

Some researchers in the past have studied the phenomenon and concluded with various results. Reference [79] explored budgeting and its effect on the financial performance of listed manufacturing firms on the Ghana Stock Exchange. They concluded that planning, monitoring and control, coordination, and evaluation play vital roles and have a positive effect on the financial performance of manufacturing firms. This study again finds that there is a strong positive correlation between budgeting and financial performance.

In the Sri Lankan context, Reference [77] conducted a study of Budgetary Process and Organizational Performance of Apparel Industry in Sri Lanka. This study suggested that companies which plan to improve their financial performance should give more priority to develop the budgetary planning, budgetary coordination, budgetary control, budgetary communication and budgetary evaluation.

In Sri Lanka, a lack of empirical studies has been conducted to evaluate the impact of the budgetary process on financial performance among the listed companies across all the sectors. Some studies have been conducted only about the impact of budgetary planning, budgetary control, budgetary evaluation, and communication on the financial performance of small and medium-scale enterprises and other specific industries [19]–[77].

The major limitation of these studies was the validity of the measurement of financial performance in small and medium-scale enterprises whose financial statements were not published or accessible to the researchers. It is therefore important to investigate the impact of budgetary planning, budgetary participation, budgetary control, and budgetary evaluation on financial performance among the listed companies that publish financial statements. In order to fill the empirical and validity gaps in previous research, this study attempted to study, with improved research designs, the impact of the budgetary process on the financial performance of selected listed companies in Sri Lanka.

Problem Statement

From the background described above, the problem of the study was identified as “what is the extent of the impact of the budgetary process of selected listed companies in Sri Lanka on their financial performance?

Research Questions

Based on the research problem identified above, the following research questions were raised for the study:

1. What is the extent of Budgetary Process variables of selected listed companies in Sri Lanka?
2. What is the relationship between the Budgetary Process variables and the financial performance of the selected companies in Sri Lanka?
3. What is the impact of Budgetary Planning in the Budgetary Process on the Financial Performance of selected listed companies in Sri Lanka?
4. To what extent does the Budgetary Participation in the Budgetary Process influence the Financial Performance of selected listed companies in Sri Lanka?
5. What is the impact of Budgetary Controlling element of Budgetary Process on the Financial Performance of selected listed companies in Sri Lanka?
6. To what extent does the Budgetary Evaluation influence the Financial Performance of selected listed companies in Sri Lanka?

Objectives of the Study

Based on the research questions raised above, the following objectives for the study were set for the study:

1. To examine the extent of Budgetary Process variables of selected listed companies in Sri Lanka.
2. To investigate into the relationship between the Budgetary Process variables and the financial performance of the selected listed companies in Sri Lanka.
3. To find out the impact of Budgetary Planning in the Budgetary Process on the Financial Performance of selected listed companies in Sri Lanka.
4. To evaluate extent to which the Budgetary Participation in the Budgetary Process influences the Financial Performance of selected listed companies in Sri Lanka.
5. To ascertain the impact of Budgetary Controlling element of Budgetary Process on the Financial Performance of selected listed companies in Sri Lanka.
6. To find out that to what extent the Budgetary Evaluation influences the Financial Performance of

selected listed companies in Sri Lanka.

LITERATURE REVIEW

The budgetary process is part of the management control system of an organization. It can be defined as the process of communicating organizational goals, allocating resources, providing feedback, and motivating employees. In other words, the budgetary process is the proper allocation of capital resources to achieve the set or designated goals of a firm. A sound budgetary process involves planning, participation, control, and evaluation [77].

Budgetary Planning

It indicates developing quantitative targets and goals for the organization and preparing various budgets for the organization. It is the process of forecasting future events and how business activities should be operated based on predetermined goals set by an organization [2]. The allowance of various parameters in the budget, the collaboration of line managers in developing individual segment budgets, and the specification of every manager's activity during the budgeting process are important tasks that help in realizing the organization's objectives [16]. Budgetary planning practices by firms result in favorable performance [51].

Budgetary Participation

Budgetary participation refers to the involvement or collaboration of managers in the budgetary process and their influence in setting budgetary targets and goals in the organization, where a manager is fully involved in controlling his or her budget. Budgetary participation improves a sense of control, subordinates' trust, and ego involvement with the organization. Then, it leads to more acceptance and commitment to the budget decisions, which in turn leads to improved performance. Through budgetary participation (the downward information sharing), subordinates obtain information from superiors' management that helps clarify their roles in the organization, including their responsibilities [74].

Budgetary participation is the most important part of the budgetary process and affects the performance of the organization. When all levels of employees are involved in the budgetary process, the organization is able to achieve its targets and goals [16]. When setting a budget, all level members of the organization decide to be involved in defining explicit budgetary goals and to participate in subsequent revisions to these organizational goals with the management [67]. Budgetary participation leads to higher performance [32]. Moreover, the budgetary participation could help employees enhance their performance and satisfaction in the work and may also assist the firm in attaining a more realistic budget [78].

Budgetary Control

Budgetary control is referred to as the process of developing an expenditure plan and periodically linking actual expenses against that budget to ascertain whether expenditure behavioral patterns need to be adjusted or not [81]. Budgetary control is an important tool for controlling costs and achieving the objectives of the entity for the time period. It is a system of controlling costs by coordinating and establishing responsibilities and comparing actual results with budgetary results to achieve the maximum profit for the firm. Budgetary control integrates the strategic planning of the business with budgets and cost control processes.

Further, budgetary control determines budgetary and financial skills to make better decisions in the organization. A budgetary control system in any business is inevitable and highly affects decision-making and performance at all levels of the organization. It is an important tool used in monitoring the performance of the firm, which is done through variance analysis. Assessing and devising possible reasons that have caused actual results to be different from budgeted results. Then, organizations can take the necessary corrective actions to prevent or minimize future recurrence [76]. The success of an organization's budgetary control is dependent on top management's appreciation of the importance of sound interpersonal relationships between different employee job cadres. Senior management can motivate lower-level employees through budgetary control.

Budgetary Evaluation

Budgetary evaluation refers to the final stage of the budgetary process in the organization. It is an assessment of whether scarce resources have been appropriately and effectively used in the organization. Budgetary evaluation is defined as the extent to which budget differences are tracked by the heads of individual departments in assessing their performance. The study of the impact of budgeting upon the financial performance of the non-financial institutions in Ghana indicated that budget evaluation is considered to be the most important aspect of the budget process [66]. When analyzing the budget evaluation properly, it was found that variances would go a long way in improving the financial performance of the firms [66].

Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its principal operations to generate revenues. The company's financial performance can be viewed from the financial statements reported by the company [20]. The company's success is basically explained by its performance over a certain period of time. The financial performance of a firm indicates the extent to which its financial goals have been achieved [66].

Financial performance principally reflects business sector outcomes and results that show the overall financial strength of the sector over a definite period of time [76]. It indicates how well an entity is utilizing its resources to maximize the owner's wealth and profitability. Financial performance also shows the strength of the financial position of an organization.

Most organizations use the rate of return on firm assets (ROA) and the rate of return on equity (ROE) to measure their financial performance. The return on total assets shows the performance of management in utilizing company assets to generate profits in the specified year. A higher ROA indicates the better productivity of assets in obtaining net profits. The higher ratio may also increase the attractiveness of the company to investors, shareholders, and other related stakeholders. The company's stock price also increases due to the increase in ROA [68].

The Relationship between Budgetary Process and Financial Performance

The budgeting process of a firm forms an integral part of its management process and affects its level of performance. It is therefore important for an organization to adopt efficient budgetary processes that may provide more true results of the firm's financial performance as well as firm performance in the targeted period [16]. The budgeting process is one of the most important activities, including budgetary planning, budgetary participation, budgetary control, and budgetary evaluation, that have great importance in managing all administrative and financial functions for achieving better financial performance in the organization [47]. A budgetary process as a management tool concerns the planning and management of the company's financial needs, concerning the alternative sources of and costs of finance to achieve the highest financial performance in the embattled period of the company [70]. Reference [21] established that most people will perform better and make greater attempts to achieve a goal if they have been consulted in setting the goal.

The idea of participative budgeting is to involve employees throughout an organization in the budgetary process for managing and controlling resources to achieve good financial performance in the period [36].

Theories relevant to Budgetary Process and Financial Performance

Stakeholders Theory

The stakeholder approach explains the firm and its environment and has been a powerful heuristic device intended to broaden management's vision of its roles and responsibilities beyond the profit maximization function to include the interests and claims of non-stockholding groups [52]. Stakeholder theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities, and others who have a stake in the organization. The theory argues that a firm should create value for all stakeholders, not just shareholders. This theory supports the idea that the budgetary process, consisting of stakeholders' participation, is essential to creating an effective budgetary system for organizational success.

Goal Setting Theory

Goal-setting theory postulates that when an organization has set goals, it will be motivated to work and remain focused on those goals, leading to an improvement in financial performance. Goals challenge the firms, thus making them remain focused on the accomplishment of the set goals [44]. A budget is a way of setting organizational goals for a specific time period. This theory supports the idea that the budgetary process, consisting of budgetary planning that starts with goal setting, is essential to creating an effective budgetary system for organizational success.

Cognitive Evaluation Theory

This theory specifies that when looking at a task, employees evaluate it in terms of how well it meets their needs to feel competent and in control. If employees think they would be able to complete the task, they would be intrinsically motivated to complete the task requirement without having further external motivation. The budgetary process creates a sense of responsibility for the manager in charge of a department or section. The pleasantness of the outcomes of the accomplishments of budget targets for a specific department can be a source of motivation and thus a factor in improving organization performance. Hence, this theory also supports the idea that the budgetary process, consisting of budgetary evaluation, is essential to creating an effective budgetary system for organizational success.

Relevance of Theories

With the review of theoretical framework in the literature, it is concluded that the Goal Setting theory greatly become relevant to this research of studying the effect of budgeting process on the financial performance. Further, the Stakeholder theory and Cognitive Evaluation theory also relate to the elements in the budgeting process. These theories support for the inclusion of the budgetary participation and budgetary evaluation in the budgetary process respectively.

Review on Previous Empirical Studies

A study was conducted by Reference [56] in Yemen focusing on examining the effects of the budgetary process, including budgetary planning, participation, control, and evaluation, upon the financial performance of SME's in Yemen. The results of this study revealed that both budgetary planning and budgetary control have significant positive relationships with the financial performance of SMEs in Yemen. They found that budgetary participation and evaluation are not significant to the financial performance of Yemeni SMEs. They suggest that business owners should be providing training on the importance of budgetary participation and budgetary evaluation with the help of the Yemeni government, financial institutions, and accounting bodies. Furthermore, they indicated that adoption of the budgetary process would allow SMEs to enhance their financial performance while improving their contributions to the economy and employment in Yemen.

Reference [36] conducted a study about the effect of budgetary process on the financial performance of NGOs in the health sector in Kenya, applying priority-based budgeting theory. Their results revealed that budgetary processes had a significant influence on the financial performance of NGOs in the health sector in Kenya. Good budgetary management processes through budget planning, training, and budget information systems improve the financial performance of NGOs in the health sector in Kenya. The NGOs Co-ordination Board should develop budgetary management policies that embrace budget planning initiatives, budgetary information systems, and budgetary skills competency to improve the effectiveness of NGOs.

Both developed and developing countries organizations face high competition in the business sector. It is essential that businesses that want to remain competitive develop the desire to identify the role of budgeting and its effect on their financial performance. Reference [2] explored in this regard the role of budgeting and its effect on the financial performance of listed manufacturing firms on the Ghana Stock Exchange as a case study. Specifically, this study sought to examine the role of budgeting and analyze the impact of budgeting on the financial performance of these firms. They discovered that budgeting plays an imperative role in the financial performance of listed manufacturing firms. This study again revealed that there is a strong positive correlation between budgeting and financial performance. Their study also concludes that planning, monitoring and control, coordination, and evaluation play a vital role and have a positive effect on the financial performance of manufacturing firms. They recommend that managers produce comprehensive budgetary plans to enable the implementation of long-term plans.

Reference [27] examined the effect of the budgetary process on the financial performance of selected Savings and Credit Cooperative Societies (SACCOs) in Hoima District, Uganda. It considered two major variables, which included budgetary processes and financial performance in SACCOs. The budgetary process considered three variables: budgetary planning, budgetary participation, and budgetary control. This study revealed that financial performance is affected by budgetary processes of budgetary planning, budgetary participation, and budgetary control in the selected SACCOs in Hoima district. Their results confirmed a significant relationship between the budgetary process and financial performance. On the basis of their findings, this study recommends that SACCOs carry out performance evaluations on every planned activity.

Reference [63] investigated the effect of budgets on the financial performance of manufacturing companies in Nairobi. The study used both primary and secondary data. This study’s findings revealed that financial performance as measured by ROA is influenced by the use of budgets by company management. The research also revealed that the qualifications of those employed to oversee the activities of the firm were not good, and hence firms had to employ people from outside to help in the preparation of budgets.

A study conducted by Reference [7] in Nigeria examined the effect of budgetary control on the financial performance of selected quoted manufacturing companies in Lagos State, Nigeria. Their findings revealed that budgetary processes have a positive and significant relationship with the financial performance of quoted manufacturing companies in Nigeria. This study concluded that budgetary control enhances the financial performance of manufacturing companies in Nigeria. It is, however, recommended that the process of budgetary control not only consider sector needs in the planning stage but also parameters within implementing organizations in order to facilitate sound financial standing.

A study conducted by Reference [77] attempted to evaluate the budgetary process of the apparel industry in Sri Lanka and understand whether the budgetary process has a significant impact on the performance of such an industry. The budgetary process of the apparel industry was assessed using variables such as

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planning, coordination, control, communication, and evaluation. The performance of the apparel industry in Sri Lanka was examined using Return on Assets. They found a positive relationship between budgetary processes and organizational performance in the apparel industry in Sri Lanka. The findings of this study suggested that companies in the apparel industry that plan to improve their financial performance should give more priority to developing the formalities of budgetary planning, budgetary coordination, budgetary control, budgetary communication, and budgetary evaluation.

Reference [33] assessed a study about the effect of budgetary processes and the performance of an organization in relation to non-commercial marine agencies in Kenya. From the analyzed results, it was revealed that there was a significant relationship between budgetary processes for intense budgetary planning, budgetary control, budgetary participation, and evaluation of organization performance. This study recommended that organizations embrace budgetary processes in order to realize superior performance.

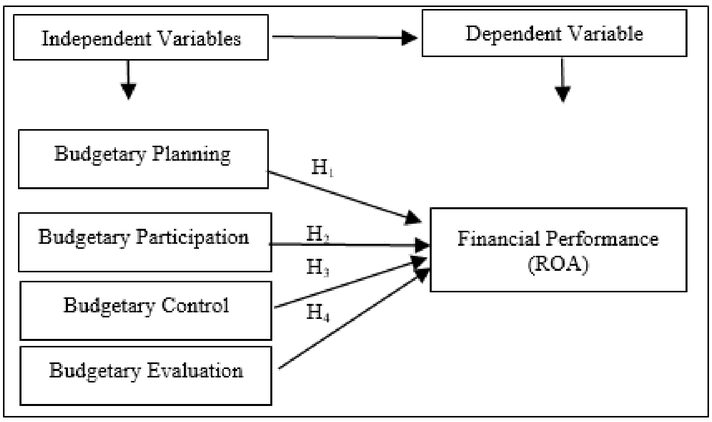
Reference [66] assessed the impact of budgeting on firms' performance at non-bank financial institutions in Ghana. The findings of this study revealed that budget coordination has a statistically significant and moderately positive relationship with firm performance. And also, this study indicated that all the respondents from the firms indicated that there is an established budget process. Hence, it is concluded that most of the previous studies conducted to find out the impact of the budgetary process on financial performance have concluded a positive and significant impact.

CONCEPTUALIZATION OF VARIABLES

This study was a cross-sectional explanatory study. The main concepts of the study are the Budgetary Process and the Financial Performance. The first concept is indicated with budgetary planning, budgetary participation, budgetary control, and budgetary evaluation. The latter is indicated by Return on Asset. These Budgetary Process variables were measured by the perceived responses of various personnel involved in the budgetary processing of listed companies in Sri Lanka, and the Return on Assets was measured by the calculation of the ratio using annual reports of companies.

The Conceptual Framework is shown in the fig.1.The Budgetary Process is assumed to the independent concept, and the Financial Performance is the dependent concept. The concept of the budgetary process is operationalized into independent variables or constructs such as budgetary planning, budgetary participation, budgetary control, and budgetary evaluation. Financial Performance is operationalized into a single dependent variable or construct, such as the Return on Assets (ROA).

Fig. 1: Conceptual Framework



(Source: Developed by the researchers for the study purpose)

Budgetary Process

The budgetary process is part of the management control system of the organization. This process encourages managers to plan, consider the stakeholders involved, provide information for improved decision-making, increase and enhance communication and coordination among departments, and conduct evaluation [77]. Furthermore, the budgetary process involves planning for future profitability because earning a reasonable return on resources used is a primary company objective. The budgetary process is a multidimensional concept with dimensions of budgetary planning, budgetary participation, budgetary control, and budgetary evaluation [77].

Budgetary Planning

Budgetary planning is defined as the process of forecasting future events and how activities should be handled based on predetermined goals set by an organization [2]. Budgetary planning is the process of establishing a budget and then utilizing it to control the operations of a business. The purpose of budgetary planning is to reduce the risk that an organization's financial performance will be worse than expected. To measure budgetary planning, the indicators used are: Vision, mission, goals, and strategies: Organizations have to consider their goals, strategies, vision, and mission in budgetary planning; Sources: It is very important to use past data when doing budgetary planning; Preparation: Preparation before the budget year starts is very important; Policies, procedures, and methods: Company create suitable policies and procedures regarding the budget plan; Allocation of financial resources: The company budget plan specifies the basis for allocating financial resources to departments; and Time Framework: The company establishes a budget planning calendar to ensure they have enough capital to meet their business needs.

Budgetary Participation

Budgetary participation refers to the involvement of all levels of employees in the budgetary process [16]. Budgetary participation is expected to be a crucial channel to improve information exchange and sharing among all levels of management, and when this process is pursued by a firm, it is expected that the realization of the set target is improved [31]. Budgetary participation is measured by the indicators: Involvement of all level employees: Company each levels of employees are involved in the preparation of the budget; Training and experience: It is important to know that company employees are well trained and experienced in budget preparation; Contribution: To identify how the employees' participation in the budget contributes to successful budget preparation; Values and appreciations- Employees' ideas are valued in the budgeting process; Flow of information: Company budget participation improving flow of information between superiors and subordinates; Discussions and reviewing : Company all level employees are participated in budget related discussions.

Budgetary Control

Budgetary control indicates how well managers utilize budgets to monitor and control operations and costs in a specific accounting period. It is a process for managers to align financial performance targets with budgets and compare actual results with adjusted performance. In order to achieve the objectives of the organization, every operation within it must meet its stated budget. At the end of the financial period, the organization will be able to achieve its objectives. Therefore, budgetary control is most important to make this possible through the coordination and monitoring of the various functions in the organization [1]. To measure budgetary control, the indicators used are: Achievements: Budgetary controls enable the organization to achieve its targets; Resource Control: Resources should be controlled correctly; Budget Variances: It is very important to find out variances with respect to operation activities, revenues, and cost; Corrective Actions: It is very important to take corrective action when adverse variances are reported;

Strategic Planning: Budgetary control help link the company strategic planning; Review of budget variances: Company budgetary control impacts the review of budget variances; Budgetary skills and financial skills: Company budgetary control decides budgetary skills and financial skills to make better decisions.

Budgetary Evaluation

Budgetary evaluation is the final stage of budgetary process. Budgetary evaluation is defined as the extent to which budget differences are tracked by the heads of individual departments in assessing their performance. Budgetary evaluation is measured by following indicators: Company performance and competitiveness: Company budget committee would focus on improving the company performance and competitiveness; Performance Evaluation: Company management holds budget meetings to review performance of the budget; Evaluation Reports: Preparation of budget performance evaluation reports is very important; Auditing: Company conducts audits for the estimated and actual budget; Upgrade Areas: It is very important to find some areas in every year to correct and upgrade; Monitoring: Company managers are actively involved in the evaluation and monitoring of the budgetary process.

Financial Performance

Financial performance is a general measure of a firm's overall financial performance over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregate. Financial performance is a subjective measure of how well a firm can use assets from its principal business activities to generate revenues. Financial performance is the degree to which financial goals are being or have been achieved [66].

Financial performance is measured by Return on assets (ROA), which is a profitability ratio that helps determine how efficiently a company utilizes its assets. ROA is a comprehensive efficiency metric that explains how efficiently and effectively a company is using its assets to generate profits. The higher ratio will be better for the company itself. If a particular company has a higher ROA, it can generate higher profits, which tends to attract more investors to buy its shares. ROA is the ratio between net profit after interest and taxes and total assets.

HYPOTHESES

To answer the research questions of this study, the following hypotheses were formulated based on the literature review:

Impact of Budgetary Planning on Financial Performance.

A significant positive impact of Budgetary Planning on Financial Performance is hypothesized for this study based upon the previous empirical studies [77] – [2] as:

H_0: There is no significant impact of budgetary planning on the financial performance of selected listed companies in Sri Lanka.

H_1: There is a significant impact of budgetary planning on the financial performance of selected listed companies in Sri Lanka.

Impact of Budgetary Participation on Financial Performance.

A significant positive impact of Budgetary Participation on Financial Performance is hypothesized for this

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study based upon the previous empirical studies [78] – [32] as:

H_0: There is no significant impact of budgetary participation on the financial performance of selected listed companies in Sri Lanka.

H_2: There is a significant impact of budgetary participation on the financial performance of selected listed companies in Sri Lanka.

Impact of Budgetary Control on Financial Performance.

A significant positive impact of Budgetary Control on Financial Performance is hypothesized for this study based upon the previous empirical studies [77] – [81] as:

H_0: There is no significant impact of budgetary control on the financial performance of selected listed companies in Sri Lanka.

H_3: There is a significant impact of budgetary control on the financial performance of selected listed companies in Sri Lanka.

Impact of Budgetary Evaluation on Financial Performance.

A significant positive impact of Budgetary Evaluation on Financial Performance is hypothesized for this study based upon the previous empirical studies [77] – [66] as:

H_0: There is no significant impact of budgetary evaluation on the financial performance of selected listed companies in Sri Lanka.

H_4: There is a significant impact of budgetary evaluation on the financial performance of selected listed companies in Sri Lanka.

OPERATIONALIZATION OF VARIABLES

The Budgetary Planning was operationalized by identifying indicators which were measured using the five-point rating scale questionnaire. The indicators for the variable of Budgetary Planning were: Vision, mission, goals, and strategies; Pre-preparation; Policies, procedures and methods; allocation of financial resources; and Time framework.

The Budgetary Participation was operationalized by identifying indicators which were measured using the five-point rating scale questionnaire. The indicators for the variable of Budgetary Participation were: Involvement of all level employees; Training and experience; Contribution; Values and appreciations; Flow of information; and Discussions and reviewing.

The Budgetary Control was operationalized by identifying indicators which were measured using the five-point rating scale questionnaire. The indicators for the variable of Budgetary Control were: Resource Control; Budget Variances; Corrective Actions; Strategic planning; Review of budget variances; and Budgetary skills and financial skills.

The Budgetary Evaluation was operationalized by identifying indicators which were measured using the five-point rating scale questionnaire. The indicators for the variable of Budgetary Evaluation were: Company performance and competitiveness; Performance Evaluation; Evaluation Reports; Auditing; Upgrade Areas.

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The financial performance was operationalized with a single indicator, Return on Assets, which was measured by the calculation of ratio, net income being the numerator and total assets being the denominator.

METHODOLOGY

The study was carried out using data obtained from the sample of 100 out of 288 listed companies operating in 19 GICS sectors representing the Energy (1), Materials (8), Capital Goods (9) Commercial & Professional Services (1), Transportation (1), Automobiles & Components (1), Consumer Durables & Apparel (4), Consumer Services (12), Retailing (5), Food & Staples Retailing (2), Food, Beverage & Tobacco (17), Household & Personal Products (1), Health Care Equipment & Services (3), Banks (4), Diversified Financials (18), Insurance (3), Telecommunication Services (1), Utilities (2), and Real Estate (7) industries in Sri Lanka. The sample of companies was selected on a stratified random sampling method, being the strata as the type of industry.

The data on net profit after tax and total assets were extracted from the annual reports of 100 companies for the past years 2018, 2019, and 2020 to be used in calculating the average rate of Return on Assets in order to measure the financial performance of the companies as for the cross section of a reference period. A self-administrated questionnaire referring to past budgetary processes of the companies covering the same reference period was designed in Google Forms and distributed by email among each of the 100 top-level executives of the sample companies. The self-administrated questionnaire was designed with interactive statements to which five-point Likert-scaled responses ranging from strongly disagree to strongly agree were given. It consisted of 25 statements related to four research variables: the first six for budgetary planning, the next six for budgetary participation, seven for budgetary control, and the last six for measuring budgetary evaluation.

Method of Data Analysis and Hypothesis Testing

The descriptive, correlation, and regression analyses were applied as techniques to analyze and evaluate the data collected using the software SPSS version 22.0. The descriptive analysis was made to find out the frequency distribution, skewness, mean, and standard deviation for every variable. Correlation and regression analyses were done between the average level of budgetary process variables and average the return on assets in the reference year of study conducted as a cross section in time.

The fitted multiple regression model was: $Y = \beta0 + \beta1 (BP) it + \beta2 (BPA) it + \beta3 (BC) it +\beta4 (BE) it + \varepsilon$, where, Y = Financial Performance (ROA); $\beta0$ = Intercept of formula; $\beta1$, $\beta2$, $\beta3$, $\beta4$, $\beta5$, $\beta6$ = Slope coefficient; BP = Budgetary Planning; BPA= Budgetary Participation; BC =Budgetary Control; BE =Budgetary Evaluation; ε = Random Error Term; i = Firm; t = Time period.

A hypothesis testing was done by forming the Null Hypothesis (H0) and Alternate Hypothesis (HA). Hypotheses were tested using the results of regression (linear) analyses choosing a probability level of significance (p value) at 5% for measuring the error judgment. Decision Criteria for the Results of Regression were: If $P \geq 0.05$, then there is no significant impact of independent variable on dependent variable. If $P \leq 0.05$, then there is a significant impact of independent variable on dependent variable.

RESULTS AND DISCUSSION

The Cronbach's Alpha test was conducted to test the internal reliability of each research instrument. According to the results of this test, the instrument used for measuring the budgetary process variables was found to be more reliable as the value was above 0.7. A descriptive analysis was done on the data collected on the level of budgetary process variables and return on assets. The results of the analysis, as presented in

Table 1, indicated that the data recorded on all the variables are approximately normally distributed. The mean values of 4.14, 4.26, 4.03, 4.09, and 2.95% were found for the levels of Budgetary Planning, Budgetary Participation, Budgetary Control, Budgetary Evaluation and the Return on Assets respectively. The level of the budgetary process and its variables were found to be high among the companies in the 19 industries, and the variations in the budgetary process variables and indicators are insignificant, as indicated by the standard deviations and other statistics.

Table 1. Descriptive Statistics

Variables	N	Mean	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis
Budgetary Planning	100	4.143	0.436	3.00	5.00	-0.255	- 0.740
Budgetary Participation	100	4.265	0.432	3.00	5.00	-0.349	- 0.092
Budgetary Control	100	4.035	0.601	1.43	5.00	-1.032	- 0.191
Budgetary Evaluation	100	4.095	0.444	3.00	5.00	-0.326	2.284
Financial Performance (ROA)	100	2.948	1.552	-0.90	5.79	-0.291	- 0.490

Source: Output of SPSS Analysis

Pearson's Correlation analysis as extracted in Table 2 indicated that the budgetary process variables – Budgetary Planning (BPL), Budgetary Participation (BPA), Budgetary Control (BCO), and Budgetary Evaluation (BEV) are positively and significantly correlated with the Returns on Assets (ROA) of the companies, with coefficients of 0.240, 0.159, 0.108, and 0.281, respectively. However, all the assumed independent variables are weakly positively correlated with the dependent variable.

Table 2. Pearson Correlation between the Budgetary Process Variables and Financial Performance

Variables	ROA	BPL	BPA	BCO	BEV
ROA	1.000	–	–	–	–
BPL	0.240*	1.000	–	–	–
BPA	0.159*	-0.158	1.000	–	–
BCO	0.108*	0.336	0.092	1.000	–
BEV	0.281*	0.228	-0.031	0.006	1.000

* Correlation is significant at the 0.05 level (2-tailed).

Source: Output of SPSS Analysis

The simple regression analysis was made to determine the functional relationship between the following set

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of an Independent variable (IV) and the Dependent variable (DV) in order to find out the answers to the research questions 3,4,5 and 6:

1. Budgetary Planning (BPL), and Financial Performance (ROA)
2. Budgetary Participation (BPA) and Financial Performance (ROA)
3. Budgetary Control (BCO) and Financial Performance (ROA)
4. Budgetary Evaluation (BEV) and Financial Performance (ROA)

Linear regression analysis, as summarized in Table 3, revealed that the b value of the Budgetary Planning (BPL), the gradient of the regression, is 0.856, which is significant at 95% (Sig.t = 0.016). As indicated by R Square, 5.8% of the variance of ROA is explained by BPL with a standardized beta of 0.240. The F value is 6.010, which is significant at 95% (Sig.F = 0.016), which suggests that Budgetary Planning has significantly explained 5.8% of the variance of the Financial Performance of the companies.

The b value of the Budgetary Participation (BPA), the gradient of the regression, is 0.570, which is insignificant at 95% (Sig.t = 0.115). As indicated by R Square, only 2.5% of the variance of ROA is explained by BPA with a standardized beta of 0.159. The F value is 2.533, which is insignificant at 95% (Sig.F = 0.115), which suggests that Budgetary Participation has insignificantly explained 2.5% of the variance of Financial Performance of the companies.

The b value of the Budgetary Control (BCO), the gradient of the regression, is 0.279, which is insignificant at 95% (Sig.t = 0.284). As indicated by R Square, only 1.2% of the variance of ROA is explained by BCO with the standardized beta of 0.108. The F value is 1.161, that is insignificant at 95% (Sig.F = 0.284), which suggests that Budgetary Control has insignificantly explained 1.2% of the variance of Financial Performance of the companies.

The b value of the Budgetary Evaluation (BEV) is 0.982, which is significant at 95% (Sig.t = 0.005). As indicated by R Square, 7.9% of the variance of ROA is explained by BEV with the standardized beta of 0.281. The F value is 8.392, that is significant at 95% (Sig.F = 0.005), which suggests that Budgetary Evaluation has significantly explained 7.9% of the variance of Financial Performance of the companies.

Table 3. Statistics of Simple Regression between each of the Budgetary Process Variables- Budgetary Planning (BPL), Budgetary Participation (BPA), Budgetary Control (BCO), Budgetary Evaluation (BEV)- with the Financial Performance (ROA)

Regressing	BPL with ROA	BPA with ROA	BCO with ROA	BEV with ROA
Method	Linear	Linear	Linear	Linear
R	0.240	0.159	0.108	0.281
R Square	0.058	0.025	0.012	0.079
Adjusted R Square	0.048	0.015	0.002	0.069
Standard Error	1.514	1.540	1.551	1.497
Sum of Square	13.78	6.011	2.793	18.82
F	6.010	2.533	1.161	8.392
Sig. F	0.016	0.115	0.284	0.005
T	2.452	1.592	1.078	2.897
Sig. T	0.016	0.115	0.284	0.005
b – Constant	-0.846	0.270	1.574	-1.321
b	0.856	0.570	0.279	0.982
Beta	0.240	0.159	0.108	0.281

Source: Output of SPSS Analysis

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As a multivariate analysis, the Multiple Regression analysis was done in order to investigate the simultaneous impacts of all the independent variables on the dependent variable. The results of regressing the four independent variables (BPL, BPA, BCO, and BEV) against the dependent variable (ROA) are shown in Table 4.

The statistics of Linear multiple regression analysis as summarized in Table 4 revealed that the four budgetary process variables- Budgetary Planning (BPL), Budgetary Participation (BPA), Budgetary Control (BCO), and Budgetary Evaluation (BEV)-have conjointly significantly explained the variations in Return on Assets, the indicator of financial performance, with the R^2 value of 0.151.

The square of the multiple R is 0.151, which indicates that 15.1% of the variation in Financial Performance (ROA) of the companies is explained by the four independent variables jointly. The F value is 6.23, which is significant at 95% (Sig.F=0.003), which suggests that the four independent variables of Budgetary Process have significantly explained 15.1% of the variation in the Financial Performance (ROA) of the companies.

Table 4. Regression between the Budgetary Process Variables- Budgetary Planning (BPL), Budgetary Participation (BPA), Budgetary Control (BCO), and Budgetary Evaluation (BEV) and Financial Performance

Method	R	R^2	Adjusted R^2	Standard Error of the Estimate	F	Sig. F
Linear	0.389	0.151	0.115	1.459	6.23	0.003

Source: Output of SPSS Analysis

The strengths of the influence that each of the independent variable had on the dependent variable (ROA) were determined by the use of multi regression coefficients of the independent variables. The influence of each independent variable is shown in the Table 5.

Table 5. Influence of the Independent variables on Dependent Variable

Independent Variables	Unstandardized b coefficients	Standard Beta	Standard Error of Beta	t	Sig.t
Constant	-7.053	–	–	-2.861	0.005
Budgetary Planning	0.753	0.211	0.376	2.003	0.048
Budgetary Participation	0.711	0.198	0.348	2.043	0.044
Budgetary Control	0.045	0.017	0.263	0.171	0.864
Budgetary Evaluation	0.835	0.239	0.341	2.451	0.016

As shown in the Table 5, Budgetary Evaluation had the strongest significant effect on the Financial Performance with a standardized beta of 0.239. Budgetary Planning also had a significant effect on the Financial Performance with the standardized beta of 0.211. Budgetary Participation too had a significant effect on the Financial Performance with the standardized beta of 0.198. However, Budgetary Control had no significant effect on the Financial Performance with the standardized beta of 0.017 at 95% (Sig.T=0.864).

According to results of regression analysis, the Regression Equation for the financial performance is finalized as: FP(ROA)= -7.053+0.753(BPL)+0.711(BPA)+0.045(BCO)+0.835(BEV).

Hypothesis Testing

Hypothesis 1

The hypothesis H_1 was: The budgetary planning has a significant positive impact on the financial performance (b>0). The null hypothesis was formulated as H_0: The budgetary planning has no significant positive impact on the financial performance (b<0). According to the results of linear multiple regression analysis, the coefficient of regression (b) for this variable is found at 0.753 which was significant at 95% confidence level (P>0.05). Therefore, according to the regression coefficient the null hypothesis is rejected and the alternative hypothesis is accepted since the b value is found significant. Hence, the data supported the hypothesis that the budgetary planning has a significant positive impact on the financial performance of the listed companies under the study.

Hypothesis 2

The hypothesis H_2 was: The budgetary participation has a significant positive impact on the financial performance (b>0). The null hypothesis was formulated as H_0: The budgetary participation has no significant positive impact on the financial performance (b<0). According to the results of linear multiple regression analysis, the coefficient of regression (b) is found at 0.711 which was significant at 95% confidence level (P>0.05). Therefore, according to the regression coefficient the null hypothesis is rejected and the alternative hypothesis is accepted since the b value is found significant. Hence, the data supported the hypothesis that the budgetary participation has a significant positive impact on the financial performance of the listed companies under the study.

Hypothesis 3

The hypothesis H_3 was: The budgetary control has a significant positive impact on the financial performance (b>0). The null hypothesis was formulated as H_0: The budgetary control has no significant positive impact on the financial performance (b<0). According to the results of linear multiple regression analysis, the coefficient of regression (b) is found at 0.045 which was insignificant at 95% confidence level (P>0.05). Therefore, according to the regression coefficient the null hypothesis is accepted and the alternative hypothesis is rejected since the b value is found insignificant. Hence, the data supported the hypothesis that the budgetary control has no significant positive impact on the financial performance of the listed companies under the study.

Hypothesis 4

The hypothesis H_4 was: The budgetary evaluation has a significant positive impact on the financial performance (b>0). The null hypothesis was formulated as H_0: The budgetary evaluation has no significant positive impact on the financial performance (b<0). According to the results of linear multiple regression analysis, the coefficient of regression (b) is found at 0.835 which was significant at 95% confidence level (P>0.05). Therefore, according to the regression coefficient the null hypothesis is rejected and the alternative hypothesis is accepted since the b value is found significant. Hence, the data supported the hypothesis that the budgetary evaluation has a significant positive impact on the financial performance of the listed companies under the study.

CONCLUSIONS AND RECOMMENDATIONS

This study found that the average level of budgetary planning being practiced has been perceived by the respondents representing the companies at a higher level (mean = 4.143). Further, it was found that there is a significant positive relationship between budgetary planning and the financial performance of the listed companies under the study. However, this correlation was found to be weak (0.240), as it is less than the lower bound of a strong correlation (0.5). The multiple regression analysis revealed that budgetary planning had a significant effect on financial performance (the Beta value of 0.211 at Sig.t = 0.048) and was found to be a significant predictor of financial performance. These findings empirically confirm the arguments given by [70], [77], [2], [56] – [33] that the ability of using budgetary planning to predict financial performance is significant.

This study found that the average level of budgetary participation in the budgetary process has been perceived by the respondents representing the companies at a higher level (mean = 4.265). Further, it was found that there is a significant positive relationship between budgetary participation and the financial performance of the listed companies under the study. However, this correlation was found to be weak (0.159), as it is less than the lower bound of a strong correlation (0.5). The multiple regression analysis revealed that budgetary participation had a significant effect on financial performance (the Beta value of 0.198 at Sig.t = 0.044) and was found to be a significant predictor of financial performance. These findings empirically confirm the arguments given by [16], [37] – [27] that greater budgetary participation leads to better managerial performance towards financial performance and also reveal that there is a significant positive impact on financial performance.

This study also found that a higher average level of budgetary control (mean = 4.035) is being practiced in the budgetary process, as expressed by the respondents representing the companies. Further, it was found that there is a significant positive relationship between budgetary control and the financial performance of the listed companies under the study. However, this correlation was also found to be very weak (0.108), as it is less than the lower bound of a strong correlation (0.5). Nevertheless, the multiple regression analysis revealed that the budgetary control had an insignificant positive effect on the financial performance (the Beta value of 0.017 at Sig.t = 0.864) and was found to be an insignificant predictor of financial performance. These empirical findings are consistent with the findings of the studies done by Reference [51] – [46] that budgetary control has an insignificant impact on financial performance.

This study revealed that the average level of budgetary evaluation being practiced has been perceived by the respondents representing the companies at a higher level (mean = 4.095). Further, it was found that there is a significant positive relationship between budgetary evaluation and the financial performance of the listed companies under the study. However, this correlation was found to be weak (0.281), as it is less than the lower bound of a strong correlation (0.5). The multiple regression analysis revealed that the budgetary evaluation had a significant effect on the financial performance (the Beta value of 0.239 at Sig.t = 0.016) and was found to be a significant predictor of financial performance. These findings empirically confirm the arguments given by [77], [66] – [33] that the budgetary evaluation has a significant impact on financial performance.

It is concluded that three independent variables of the budgetary process have been weakly, positively, and significantly correlated with the financial performance of the companies operating in the 19 industries in Sri Lanka. Further, the budgetary process variables, except the budgetary control, have a significant impact on the financial performance of the companies in the industries. Hence, the budgetary process has a significant influence on determining the financial performance of companies in the various industries in Sri Lanka. It is therefore recommended that companies improve their financial performance if they enhance the quality of the budgetary process. The findings of this study suggest that companies that plan to improve their financial performance should give more priority to developing the formality of their budgetary planning. As the environment is dynamic, the budget should be reviewed and adjustments made from time to time, where necessary, adopting a budgetary system of adequate budgetary policies, procedures, and methods.

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