The Nigerian Budgeting Process
A Framework for Increasing Employment Performance

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Abstract

There have been several systematic inquiries into the functioning of Nigeria's budget implementation process, and employment performance, particularly over the past few decades in order to diagnose the country's budget implementation problems. This article reports on an investigation into the effects of the formal budgeting process, budgetary participation, sector size, and ownership on the employment performance of Nigerian ministries, departments, agencies and parastatals. The study drew on observations from the area of financial planning and control and its influence on employment performance, and was conducted to fill the gap in previous literature about how budgeting practice affects employment performance. Hopefully, this theoretical exploration will provide fresh insight into the possible correlation between budgeting practice and employment performance. A combination of financial and non-financial measurements is suggested to reflect the effectiveness of budgeting practice on employment performance. The findings provide more evidence regarding the impact of the budgeting process on employment performance, and suggestions for increasing employment performance level in Nigeria are provided, thus providing possible solutions to similar challenges faced by other developing countries.

Keywords: *MDAs (ministries, departments, agencies and parastatals), ownership, federal government, sector size, FCSC (Federal Civil Service Commission), employment, Nigeria*

1. Introduction

The role of the budget in an economy cannot be overemphasized. A budget is an important instrument of national resource mobilization and allocation, and fiscal and economic management. It is an economic instrument for facilitating and realizing the vision of the government in a given fiscal year. If a national budget is to serve as an effective instrument for promoting the growth and development of a country, proper linkage and management of all the stages of budgeting are necessary. A budget has to be well designed, effectively and efficiently implemented, and adequately monitored; moreover, its performance must be effectively evaluated. If administered wisely, budgeting drives management planning, provides the best framework for judging subsequent performance, and promotes effective communication and

coordination among various segments of the organization (Horngren, 1977:125). The above view also reflects the process character of budgeting in private and public business organizations (Covaleski, Dirsmith & Jablonsky, 1985; Ahrens & Chapman, 2006). With regard to Nigeria's budgets over the years, as expected, there is a sharp contrast between budgeting under a military regime and budgeting under civilian administration. Whereas the former took place on an arbitrary basis, the latter is subjected to scrutiny at various stages by the executive and legislative arms of government before the budget is finally approved. However, irrespective of whether the government is military or civilian, the budget process has always been abused. The most visible bottlenecks are associated with budget implementation. Complaints frequently relate to the non-release, partial release or delay in the release of approved funds for budgeted expenditure. It has been observed that on occasion, funds allocated for a particular quarter are made available only at the end of that quarter (Patterson, Okafor & Williams, 2006; Douglason & Gbosi, 2006). This naturally has negative implications for institutional planning and management as well as the overall impact of the budget on the development and welfare of the people. As civilian administration was ushered in, people had very high expectations that the budget would support laudable programs that would lead to poverty reduction in particular and promote their welfare in general. The stage was therefore set for the administration to strengthen budgetary practices in order to fulfill the policy objectives of the government and, by implication, satisfy the aspirations of the people. Faleti (2010) states that the reform of the budget process was a significant aspect of the public service reform (PSR) embarked upon following the introduction of civilian administration in 1999. Prior to this the country was under military rule, during which the budget process was thrown into total disarray. However, the manner in which budgeting is conducted does not appear to be conducive to fully achieving the employment performance objective in ministries, departments, agencies and parastatals (MDAs).

2. Budget Control

Flamholtz (1983) and Otley and Pollanen (2000) view budgeting as a critical element of management control. It is an economic instrument for facilitating and realizing the vision of the government in a given fiscal year, the latter being divided into quarters, or sometimes months, as the primary building blocks of the control system. Budgets provide a basis for directing and evaluating the performance of individuals and private and public segments of organizations, and also function as the decision-making environment (Bruns & Waterhouse, 1975). They function as control devices governing the performance of public organizations. This has been the subject of previous research, for instance by Brownell (1985), Merchant and Manzoni (1989), and Kren (1992), emphasized the function of budgeting in management control processes and sought to explore the influence of budgetary controls on organizational behavior.

Budgetary participation is one of the budgetary control factors. As Schiff and Lewin (1970) report with regard to the role of financial budgets in the corporate planning and control process, since financial budgets are planning documents, they become extremely important in measuring the performance of the control system. These authors define budgetary participation as the process of involving managers in the budgetary process and their influence over the setting of budgetary targets. They further describe participative budgetary control as a response to the need by public organizations to gain an understanding of their environment. Participative budgetary control assists in problem-solving, and, more important, promotes information sharing among administrative levels and enhances performance in public sector organizations. Brownell (1990) and Kren (2003) considered budgetary practice to be a controversial research topic because its results are difficult to integrate, and sometimes even conflicting. Brownell (1990) reported that good budgetary practice is associated with improved managerial performance in difficult situations. With regard to performance, there is an important relationship between budgetary practice and task difficulty. Budgeting may be used as a coercive instrument by top management to "impose" its objectives on subordinates in the organization. However, a participative environment is important for maximizing organization objectives and individual satisfaction. Reports from in-depth interviews show that the budget process influences decisions and budgetary outcomes. Participative decision-making results in slack, which managers can incorporate into their budgets. As Milani (1975) reports, the link between budgetary practice and performance is, "at best, weakly" supported. He emphasizes that participation has a significant effect on performance only during the months of January and February. Harrison *et al.,* (1994), Awasthi, Chow and Wu (1998) and Chow, Shields and Wu (1999) examine management accounting techniques such as budgeting and standard costing from *a cultural point of view*, and report that management control tools and management practices found to be effective in one environment could be ineffective or even dysfunctional in another. They highlight the importance of the sector, which includes the size, age, and degree of decentralization of the organization, and conclude that budget-related behavior is contingent on various aspects of the organizational structure such as centralization, autonomy, and the degree to which activities are structured. They therefore define budget-related behavior as the activities and actions of and interactions between managers that relate, either directly or indirectly, to budgeting.

The study reported on in this article was designed to focus specifically on two aspects of the employment performance growth context, namely the formal budgeting process and the performance of MDAs. These two factors for testing efficacy were selected for two reasons. First, the formal budgeting process is one of the most popular independent variables, and has been widely used as a control variable in previous research, quantitative research in particular. Second, when research is related to effectiveness, MDAs are usually considered an important factor affecting effectiveness. In Nigeria, most budget practice undergoes certain processes

before becoming both a law and an economic tool. Budgetary process involves all centers, programmers and administrative units involved in the development of periodic budgets. It refers to the totality of the processes a budget undergoes before it finally becomes a document. It involves all the executive and legislative processes, collection of estimates from the various government departments, defense before the various committees of the legislature and debates in the floor of the Houses, passage into law, and final implementation and monitoring. Budget preparation primarily involves identifying and setting developmental goals. This involves setting budgetary thrusts and policies based on the development plan. In the federal government, the responsibility of the president for the preparation and submission of the budget is well established. At state level, it is the statutory responsibility of the governor to prepare and submit the budget. At local government level, the chairperson invariably has complete control over budget preparation, but is assisted by the finance committee and other department heads. As part of the budgetary reform measures, steps were taken in 2005 to develop a medium-term expenditure framework (MTEF) which places emphasis on three-year multi-year budgeting. In Nigeria, the MTEF seeks to improve macro-economic balance through the development of a consistent and realistic resource framework, employment creation, and improving the allocation of resources to strategic priorities, among other things. Based on previous research, the study reported on here was an attempt to analyze the process character of budgeting in the context of increasing employment, and to investigate the effectiveness of and the difficulties relating to the budget process and implementation in the context of employment in the Nigerian civil service. The budgetary reforms embarked upon between 2000 and 2007 introduced a number of innovations into the budgetary process. For the first time in the history of public sector budgeting, the nation witnessed the articulation of a medium-term revenue framework, a medium-term expenditure framework and medium-term sector strategies in the preparation of a federal budget. The country is still largely dependent on oil revenue and the budget therefore continues to be exposed to the volatility in the international oil market. The issue of diversification of the economy looms large in ensuring that the budget works effectively as an instrument of macroeconomic management. Despite the advantages of the MTEF, however, its adoption should not be regarded as the panacea for fiscal weaknesses and mismanagement in an economy. For the MTEF to succeed, sustained political commitment is required; this, in turn, requires purposeful leadership.

3. Research Methodology

As Saunders, Lewis and Thornhill (2003) have reported, the validity and reliability of the information a researcher collects, as well as the response rate achieved, depend to a large extent on the design and structure of the researcher's information. A theoretical framework showing all assumed relationships between the formal budgeting process and performance was developed for the study described in this

article. A quantitative method was identified as the main study paradigm. Data was collected by means of a questionnaire. A modest survey involving 75 MDAs from small and medium-sized sectors was used as input for the quantitative analysis of the study. Of the 75 respondents, 36 were from medium-sized sectors and 39 from small sectors. The two dominant business types were government-owned sectors and government-owned corporations, accounting for 39 and 21 of the total number respectively. The majority of the respondents (31, or 41%) were senior managers, followed by departmental heads/managers of organizations (26, or 35%). The larger the sector size, the more financial managers responded. 11 financial managers (31%) from medium-sized sectors and 7 financial managers (18%) from small sectors returned questionnaires. Four types of businesses were represented, namely ministries, departments, agencies, and parastatals. Most of the parastatals and some of the agencies had government-owned corporation ownership rights. Differing from ordinary government-owned sectors, these sectors represent the most profitable government-owned corporations in Nigeria. The structure of parastatals is based on clear ownership rights that legally separate this sector from government administration and encourage investors to buy government stocks. In this sense, the structure of agencies and parastatals mobilizes capital in a way that best suits the needs of the market and improves the competitive capability of sectors themselves. While parastatals diversify their equity structures, agencies include two different kind of capital: some are mainly public but with foreign capital, while others retain government-owned corporation ownership. To distinguish the parastatals and agencies from the ordinary government-owned sectors, the descriptive statistics in this study reflect the majority of government-owned ministries (6 out of 8), agencies (6 out of 7) and parastatals (12 out of 21) as being medium-sized sectors. However, most departments (27 out of 39) are small. All variables involved in the study were operationalized. Factor analysis and Cronbach's alpha tests were conducted to check the correlations and reliability of all the instruments. The statistical techniques and calculations were carried out using SPSS, Version 14. The formulas provide a foundation for understanding and organizing the data output and subsequent analysis. The study was an empirical analysis of data pertaining to the budgeting process. A simple bivariate model determined the relationship where the beta slope (β) revealed either a linear or non-linear relationship between the independent variable and the dependent variable. Through multivariate analysis, the influence of other variables was taken into consideration. It is acknowledged that the sample size was small and that the statistical approach applied was non-probabilistic.

4. A Theoretical Framework for Budgeting

In terms of the model devised by Wijewardena and De Zoysa (2001), the formal budgeting process is defined as the formal financial planning and the formal financial control process. These aspects of the formal budgeting process are important

contributors to employment performance, especially with regard to increasing the level of employment growth in public sector organizations. These authors emphasize that the sectors using detailed budgets (or "comprehensive budgets") for planning recorded significantly higher performance than those having "no written budgets". Sectors using more comprehensive budget variances also achieved better performance compared with sectors using less comprehensive budget variances.

The central question of our study, which was empirical and quantitative in nature, was: How does the budgeting process impact the employment performance of MDAs? The model applied comprised three aspects.

The first related to redefining the concept of the formal budgeting process by adding more dimensions. Budget goal characteristics, including goal clarity and goal difficulty, are stressed in the work of Yuen (2004). A "tight but attainable" budget goal is shown as being the most effective means to encourage employee performance. Clear goals reduce budgeting process uncertainty and improve employment performance. Studies such as those conducted by Steers (1976), Imoisili (1989), Mia (1989), Ezzamel (1990), Hirst and Lowy (1990) are relevant in this regard. In addition, studies on the formal budgeting process and performance relationship have dealt with budgetary sophistication, which is defined by scholars such as Merchant (1980) and Peel and Bridge (1988) as greater use of computers, technical staff, and advanced financial modeling. As reported by Merchant (1980), empirical results show that budgetary sophistication enhances the accuracy of the budget plan and the degree of information accuracy, and results in higher performance. Combining the models devised by Yuen (2004) and Merchant (1980) with that of Wijewardena and De Zoysa allows us to redefine the formal budgeting process as the entire formal budgeting planning process, budget-goal clarity and difficulty, budgeting sophistication, and the formal process of budgetary control.

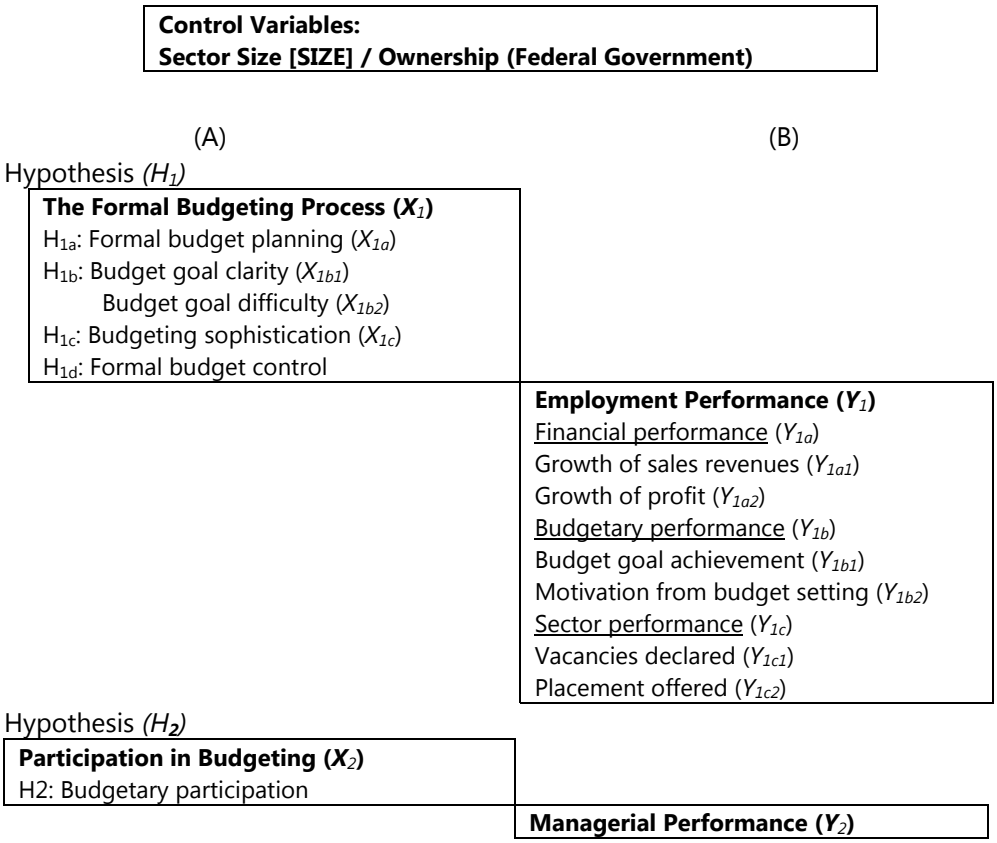
The second aspect of the model concerned the introduction of budgetary participation into the budgeting practice of Nigerian MDAs. The study was prompted by the paucity of empirical data from national sources and, more important, the fact that almost all studies on the budgetary participation and performance relationship (BPP) are based on large sectors. The characteristics of budgetary participation in MDAs and its effects on employment performance growth are unclear. To explore the relationship between budgetary participation and employment performance, the model developed by Parker and Kyj (2006) was adopted.

The third aspect of the model related to performance measurement. In this context, most of the existing literature on budgetary participation uses managerial performance as a dependent variable. Some studies use non-financial performance, which includes budgetary performance and sector performance. However, measurement in the study included not only financial performance, but also non-financial performance, sector performance and managerial performance.

The theoretical framework adopted in the study was derived from the combined models emanating from several studies, covering the formal budgeting process,

budgetary participation, and the measurement of performance (Wijewardena & De Zoysa, 2001; Yuen, 2004; Merchant, 1980; Parker & Kyj, 2006). The conceptual model consisted of boxes representing variables and links connecting them to denote relationships. Hypotheses were also included in the model.

Table 1: The Basic Conceptual Model



5. Hypotheses

According to the conceptual model, the hypotheses explain the relationships between variables.

(1) The Formal Budgeting Process and Employment Performance

Hypothesis 1: *The more formalized the budgeting process, the better the employment performance*

In terms of this hypothesis, the formal budgeting process functions as the independent variable and employment performance as the dependent variable. Employment performance includes financial performance, budgetary performance, and sector performance. A positive effect of the formal budgeting process on employment performance in MDAs is expected. *To test hypothesis 1*, the following regression model (Model 1a) was used:

(Eq. (1a)): $Y_1 = a_1 + b_1X_1$

(2) Budgetary Participation and Managerial Performance

Hypothesis 2: *The higher the budgetary participation, the better the managerial performance*

This hypothesis highlights the relationship between budgetary participation and managerial performance. It is assumed that budgetary participation (the independent variable) will have a positive impact on managerial performance. *To test hypothesis 2*, the following regression model (Model 1b) was used:

(Eq. (1b): $Y_2 = a_2 + b_2X_2$

The concept of the formal budgeting process was re-defined accordingly. *Hypothesis 1* was divided into the following sub-hypotheses:

Hypothesis 1_a: *The more formalized the budgeting planning, the better the employment performance*

Hypothesis 1_{a1}: *The more formalized the budgeting planning, the higher the growth of sales revenues*

Hypothesis 1_{a2}: *The more formalized the budgeting planning, the higher the growth of profits*

Hypothesis 1_{b1}: *The clearer the budget goals, the better the budgetary performance*

Hypothesis 1_{b11}: *The clearer the budget goals, the better the budget goals achievement*

Hypothesis 1_{b12}: *The clearer the budget goals, the better the motivation from budget setting*

Hypothesis 1_{b2}: *The more difficult but attainable the budget goals, the better the employment performance*

***Hypothesis 1$_{b21}$**: The more difficult but attainable the budget goals, the higher the number of vacancies declared*

***Hypothesis 1$_{b22}$**: The more difficult but attainable the budget goals, the higher the number of placements offered*

***Hypothesis 1$_{c}$**: The more sophisticated the budgeting, the better the employment performance*

***Hypothesis 1$_{c1}$**: The more sophisticated the budgeting, the better the financial performance*

***Hypothesis 1$_{c11}$**: The more sophisticated the budgeting, the higher the growth of sales revenues*

***Hypothesis 1$_{c2}$**: The more sophisticated the budgeting, the higher the growth of profit*

***Hypothesis 1$_{d}$**: The more formalized the budgetary control, the better the employment performance*

***Hypothesis 1$_{d1}$**: The more formalized the budgetary control, the better the financial performance*

***Hypothesis 1$_{d11}$**: The more formalized the budgetary control, the higher the growth of sales revenues*

***Hypothesis 1$_{d12}$**: The more formalized the budgetary control, the higher the growth of profit*

An equation (Eq. 1a) is shown below to reflect the statistical relationship between all variables under the general variable of the formal budgeting process and employment performance.

$$Y1 = a_1\text{-}a + b_1\text{-}a_1 X_{1a} + b_1\text{-}a_2 X_{1b1} + b1\text{-}a_3 X_{1b2} + b_1\text{-}a_4 X_{1c} + b_1\text{-}a_5 X_{1d} (1\text{-}a)$$

Where:

Y_1 = employment performance; X_{1a} = formal budgeting planning; X_{1b1} = budget goal clarity; X_{1b2} = budget goal difficulty; X_{1c} = budgetary sophistication; X_{1d} = formal budgeting control.

6. The Measurement of Variables and Data Set

The formal budgeting process, budgetary participation, sector size, ownership, employment performance, managerial performance and sector performance were measured accordingly, as shown in Table 2 below. First, it was important to determine the instrument or indicators used for measuring each variable. The reasons have already been explained, and some instruments were adopted directly from previous studies, while others were self-developed. Second, it was necessary to check the invariance and interrelation among the indicators. Cronbach's alpha (Cronbach, 1951) was also applied to test the consistency among the indicators.

Table 2: Measurements of the Variables in the Research

Variables	**Measurement**
Independent variables (*X*):	
Formal budgeting planning (X_{1a})	Frequency and extension
Goal clarity (X_{1b1})	Kenis (1979)
Goal difficulty (X_{1b2})	
Budgetary sophistication (X_{1c})	Gorden, Larcker & Tuggle (1978)
Formal budgeting control (X_{1d})	Frequency and extension
Budgetary participation (X_2)	Milani (1975)
Control variables:	
Sector size (*SIZE*)	Employment growth
Ownership (*OWNE*)	State-owned sector [federal government]
Dependent variables (*Y*):	
Employment performance (*Y1*):	
Financial performance (Y_{1a})	Growth of sales revenues and profit
Budgetary performance (Y_{1b})	Budget achievement and motivation
Sector performance (Y_{1c})	Vacancies and placement growth
Managerial performance Y_2	Mahoney, Jerdee & Carrol (1963)

7. The Formal Budgeting Process

The formal budgeting process as an independent variable was measured by four sub-variables as indicated in Table 2, namely formal budget planning ($X1a_{)}$, budget-goal clarity and difficulty (X_{1b}), budgetary sophistication (X_{1c}), and formal budgeting control (X_{1d}). For each sub-variable, the method of measurement is explained below.

(1) The Formal Process of Budget Planning

The questionnaire designed for this study contained three items to assess the formal budget planning in a sector, namely:

1. How often are budgets prepared to qualify a sector's plan for the future period?

2. To what extent do you think budgets are prepared to qualify different areas of operation in your sector?

3. Please report what are those operation areas that budgets cover in your sector?

The first two questions were used to rate and grade the respondents, using a 7-point Likert-type scale from 1 (never/not at all) to 7 (quite often/to a great extent). The last question was accompanied by a list of operational areas such as sales, production and employment growth, which respondents were required to mark. Respondents who indicated "no budget use" in their sectors in response to the first question were not required to answer the second and third questions, whereas those who responded that budget planning was adopted in their sectors were asked to continue to questions two and three. Thus, the result of factor analysis revealed a high degree of correlation among the three indicators of formal budgeting planning. The variance was 82.09%; the Eigen value was 2.46; and the internal reliability assessed by means of Cronbach's alpha for the three items was 0.89.

(2) Budget Goal Characteristics

The budget goal characteristics were tested in terms of two dimensions: budget goal clarity and budget goal difficulty.

- **Budget goal clarity**

Budget goal clarity was described using a three-item instrument devised by Kenis (1979). The three items are:

1. My budget goals are very clear and specific. I know exactly what my budget goals are.

2. I think my budget goals are ambiguous and unclear.

3. I understand fully which of my budget goals are more important than others. I have a clear sense of priorities on these goals.

Respondents were asked to provide ratings on a 7-point Likert-type scale ranging from "extremely disagree" (1) to "extremely agree" (7). Factor analysis indicated that these three items were loaded adequately into one factor. The Eigen value was 2.09

and the variance 69.76%. These values can be considered good. The Cronbach's alpha coefficient yielded for budget goal clarity was 0.77, indicative of a high internal reliability.

- **Budget goal difficulty**

To measure budget goal difficulty, a five-item instrument developed by Kenis (1979) was used. The five items are:

1. I should not have too much difficulty in reaching my budget goals. They appear to be fairly easy.

2. My budget goals are quite difficult to attain.

3. My budget goals require a great deal of effort from me to achieve them.

4. It takes a high degree of skill and know-how on my part to fully attain my budget goals.

5. In general, how would you characterize the budgetary goals of your unit?

A 7-point Likert-type scale instrument ranging from 1 (extremely disagree) to 7 (extremely agree) was used for the first four items. For the fifth item, the response format was a list of five points of view about budget goal (too loose; fairly loose; just right; tight but attainable; too tight). Participants were required to tick a budget goal. The 5-item questionnaire for budget goal difficulty showed a low internal reliability (Cronbach's alpha 0.50). Therefore, we also used factor analysis as an additional method. Two factors were extracted, representing 59.45% of the total variance of all indicators. The Eigen value was 1.16. The results from the factor analysis indicated that the last three items of the five-item instrument for budget goal difficulty could be grouped into one factor. These results also indicated that the first two items for budget goal difficulty could be classified into another factor. When the last three items were placed together to be checked, a reliability test revealed that its Cronbach's alpha increased to 0.63.

(3) Budgeting Sophistication

The instrument devised by Gordon et al. (1978) was further developed to measure budgeting sophistication. The original instrument included only one item rated on a five-point scale relating to the sophistication of computer support; this was modified into a three-item instrument. As mentioned before, greater budgeting sophistication includes three dimensions, namely greater use of computers, technical staff, and

financial modeling. It was necessary to measure each dimension. Therefore, all respondents were asked:

1. To what extent does software support the budget setting in your sector?

2. How many technical staff members are involved in the budget setting in your sector?

3. In your sector, to what extent is financial modeling used in the process of budget setting?

The response format was a 7-point Likert-type scale ranging from 1 (representing very low budgeting sophistication) to 7 (very high budgeting sophistication). Again, factor analysis was undertaken to ascertain the uni-dimensional nature of the three items of budgetary sophistication. The Eigen value was 2.19; it was sufficient to use a single indicator to reflect the overall level of budgetary sophistication. The internal reliability of the three-item measure assessed by means of Cronbach's alpha was 0.81.

(4) The Formal Process of Budgetary Control

The formal process of budgetary control was captured using a five-item instrument. The five items appear below.

1. How often do you think your organization calculates the difference between actual performance and budgeted performance?

2. To what extent do budget variances (calculating difference between actual performance and budgeted performance) cover, with respect to different items of operation activities, revenues, and cost for taking appropriate corrective action?

3. Please report which operation areas are covered by budget variance in your sector.

4. In your sector, will any corrective actions be undertaken if negative budget variances occur?

5. Are rewards given in the case that positive budgetary variances occur?

A 7-point Likert-type scale ranging from 1 (representing low budgeting control) to 7 (representing high budgeting control) was used for the first two items. For the third item, the response format was a list of operating areas covered by budgeting control,

and participants were required to tick relevant answers. "Yes" and "No" answers were required in response to the last two items. Factor analysis was used to analyze correlation among the indicators of formal budgeting control. This revealed that only one factor was derived, which explained 81.49% of the total variance, with an Eigen value of 2.45 (over 1.000). The Cronbach's alpha of 0.87 for the five items measured indicated an acceptable level of internal reliability.

8. Budgetary Participation

Budgetary participation was a further independent variable measured. Based on Milani's (1975) six-item questionnaire, a nine-item participation continuum scale to assess owners' and employees' perceived degree of participation was developed. These items measured the subjects' perceptions of the extent to which an owner or lower-level manager influenced or was involved in a jointly set budget. A three-item instrument was designed for senior managers and a six-item instrument for financial managers or heads of department/front-line managers. The level of perceived participation was rated on a seven-point Likert type scale. The six-item instrument has been extensively used in earlier studies and has provided high internal reliability (Mia, 1989; Harrison, 1992; Subramaniam & Ashkanasy, 2001). The three-item instrument for senior managers comprised the following questions:

1. Which category below best describes your activity when the budget is being set?

2. How much influence do you feel you have on the final budget?

3. How do you view your contribution to the budget?

The six items for lower level managers were:

1. Which category below best describes your activity when the budget is being set?

2. Which category below best describes the reasoning provided by your superior when budget revisions are made?

3. How often do you state your request, opinions, and/or suggestions about the budget to your superior without being asked?

4. How much influence do you feel you have on the final budget?

5. How do you view your contribution to the budget?

6. How often does your superior seek your requests, opinions, and/or suggestions when the budget is being set?

The managers rated their level of perceived participation in budgeting for each of the six items on a seven-point Likert-type scale. Factor analysis was repeated to check the correlation between the three and six items. In the case of the three-item instrument for senior managers, one component was extracted, and in the case of the six-item instrument for lower level managers, although two components were extracted, the first component contributed 58.20% of the total correlation and its Eigen value was 3.35. The reliability test showed that the Cronbach's alpha was 0.75 and 0.83 for the three-item and six-item measures respectively.

9. Overall Employment Performance

(1) Financial Performance

Sales revenues and profit (before tax) were selected to measure the financial performance of MDAs. In light of the inherent reluctance of small business managers to disclose exact financial data, as revealed in previous studies, the respondents were asked to indicate the percentage of growth in sales revenues and profit over the previous three financial years.

(2) Budgetary Performance and Budget-Related Attitude

Self-rated budgetary performance was measured by asking the respondents to indicate on a five-point scale how often they met their budget goals (or had favorable variances). This provided a reflection of goal achievement. The possible answers ranged from "never" to "always". Respondents were asked to indicate their level of budget motivation during budget setting, budgetary motivation being taken as a measure of budgetary performance. Budgetary performance measures were partly based on the model devised by Kenis (1979).

(3) Sector Performance

In our study, sector performance referred specifically to vacancies declared by sectors and placements offered. Likert-type questionnaire items, scored from one to five, were used to measure vacancies and placement growth. For vacancies growth, the scale was intended to measure the increase in the number of employees in the sector. For placement growth, the scale was intended to measure the extent to which employees identified physically and psychologically with the sectors.

(4) Managerial Performance

A subjective measure of managerial performance was adopted. Managerial performance was assessed by means of the following eight-item self-rating performance measure (Mahoney *et al.,* 1963; Heneman, 1974):

1. Planning: Determining goals, policies and courses of action; work scheduling; budgeting; setting up procedures; programming.
2. Investigating: Collecting and preparing information for records, reports and accounts; measuring output; inventorying; job analysis.
3. Coordinating: Exchanging information with people in your organization in order to relate and adjust programs; advising and liaison with other personnel.
4. Evaluating: Assessment and appraisal of proposals for reported or observed performance; employee appraisals; judging output records; judging financial reports; product inspection.
5. Supervising: Directing, leading and developing your personnel; counseling, training and explaining work rules to subordinates; assigning work and handling complaints.
6. Staffing: Maintaining the work force of your organization; recruiting, interviewing and selecting new employees; placing, promoting and transferring employees.
7. Negotiating: Purchasing, selling or contracting for goods or services; contacting suppliers; dealing with sales representatives.
8. Representing: Attending conventions; consultation with other sectors; business club meetings, public speeches, community drives; advancing the general interests of your sector.

Respondents made use of a seven-point Likert-type scale ranging from "well below average performance" to "well above average performance" to reflect their own perceived performance in terms of these eight sub-dimensions of managerial performance **(**Brownell & Hirst, 1986; Gul, 1991; Tsui, 2001). Factor analysis was conducted to check the correlation among the eight indicators of managerial performance. Two components were extracted, representing 55.95% of the total correlation. The Eigen value was 1.16, and the Cronbach's alpha 0.79.

10. Conclusion

The central question of this empirical study was whether the budgeting process significantly and positively impacted on the employment performance of Nigerian MDAs. The empirical results summarized above provide some evidence of the positive effect of the formal budgeting process on employment performance. First, it was

found that more formalized budgeting planning led to higher employment performance and sales revenues growth. This finding confirms the results of an earlier study conducted by Wijewardena and De Zoysa in 2001. Second, budget goal characteristics were shown to strongly affect the budgetary performance of Nigerian MDAs. More important, this reveals that clear budget goals led to higher goal achievement. Difficult (but attainable) budget goals increased the motivation of employees to achieve budget standards; thus, budget goal difficulty was found to lead to improved employment performance of Nigerian MDAs. Third, the results revealed that more formalized budgetary control tended to lead to higher employment performance and greater profit of a sector. This could be explained by the fact that owing to management control, the total expense of a sector would be minimized, resulting in employment performance growth and profit. It is interesting to note that formal budgeting planning and formal budgetary control differed in terms of their effect on financial performance. Formal budgeting planning had a greater impact on the employment performance growth and sales growth of MDAs than formal budgetary control. However, its impact on employment performance and profit growth was very weak, and formal budgetary control, in contrast, exerted a strong influence on the growth in employment performance and profit in MDAs.

A number of the findings from the study were not in accordance with the expectations, since the results were either insignificant or negative. Budgetary sophistication had an insignificant impact on employment performance growth and sales. Its impact on employment performance growth and profit in MDAs in fact turned out to be negative. A possible reason is that, for most Nigerian MDAs, improvement of their level of budgetary sophistication entails a costly investment involving the installation and implementation of advanced financial modeling software, and training and education of technical staff, among other things; all these expenses would bring about a decrease in net profit. The relationships between budget goal clarity and job satisfaction and between budget goal difficulty and job involvement were also insignificant. It is therefore reasonable to conclude that there could be more important factors influencing job satisfaction and job involvement in Nigerian MDAs. Alternatively, budget goal clarity and budget goal difficulty might, together with other factors, affect job satisfaction and job involvement.

The study produced further interesting and unexpected results. First, better budgetary performance was shown to lead to higher employment performance growth such as job satisfaction and job involvement. This conclusion is drawn based on the two findings from the Lisrel estimation, that is, goal achievement is shown to have a very strong and positive effect on job satisfaction, and budgetary motivation has a significant and positive effect on job involvement. Second, although sector size had an insignificant impact on employment performance growth and sales revenues, it did have an impact on employment performance growth and profit. Small sectors were found to have a lower employment performance growth and lower profit growth than medium-sized sectors. The reason for this may be cost-control inefficiency in

small sectors. This would lead to greater increases in operating expenses in small sectors than in medium-sized sectors. However, identifying the exact cause of this situation would require future detailed case studies. Another interesting finding is that government-owned sectors such as ministries and departments in Nigeria were shown to offer better job satisfaction and higher job involvement than government-owned corporations such as agencies and parastatals. It is reasonable to assume that employees, in general, may feel more secure and stable working in government-owned sectors than in government-owned corporations. This psychological factor would promote higher job security and stability within government-owned sectors, in turn resulting in a higher level of employment performance growth such as job satisfaction and job involvement.

Table 3: Results Summary as Indicated in Statistical Analysis

Hypothesis	**Independent Variables**	**Dependent Variables**	**Results**	
H_{1a1}	Formal budgeting planning	Growth of sales revenues	**P**	+
			E	+
H_{1a2}		Growth of profit	**P**	+
			E	/
H_{1b11}	Budget goal clarity	Goal achievement	**P**	+
			E	+
H_{1b12}		Job satisfaction	**P**	+
			E	/
H_{1b21}	Budget goal difficulty	Goal motivation	**P**	+
			E	+
H_{1b22}		Job involvement	**P**	+
			E	/
H_{1c1}	Budgetary sophistication	Growth of sales revenues	**P**	+
			E	/
H_{1c2}		Growth of profit	**P**	+
			E	**-**
H_{1d1}	Formal budgetary control	Growth of sales revenues	**P**	+
			E	/
H_{1ds}		Growth of profit	**P**	+
			E	+
H_2	Budgetary participation	Managerial performance	**P**	+
			E	+
	Control Variables:			
	Sector size	Vacancies growth	+	+
		Placement offered	+	+
	Ownership	Budgetary motivation	–	–

		Job satisfaction	–	–
		Job involvement	–	–

Notes: "P" stands for "predicted result"; "E" stands for "empirical result"; "+" represents a significant and positive impact; "/" represents an insignificant impact; "–" represents a significant but negative impact.

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