IMPACT OF BUDGET VARIANCE, EVALUATION AND REWARDS ON MANAGERIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN LAGOS STATE

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Abstract

The major crisis in the Nigerian banking sector during the past regime can be traced to wrong applications of budgeting by the management of the affected banks. Notwithstanding, budgeting has contributed in diverse ways to the success of many organisations. This study investigated the effect of budget variance, evaluation and reward on managerial performance of commercial banks (now referred to as deposit money banks-DMBs) in Lagos State. The population of the study consisted of all deposit money banks in Lagos State. The sample size was determined using purposive sampling technique. The study used primary data and the data was collected through questionnaires. The data was analysed using descriptive statistics and regression analysis. Findings indicated that only reward has significant positive effect on managerial performance ($\beta=0.810$, $p<0.05$), while the effect of evaluation and budget variance on managerial performance is not significant ($\beta=0.245$, $p>0.05$) and ($\beta=0.069$, $p>0.05$) respectively. It is thereby, recommended that budget variance should not be used by organisations as a basis to pass blame on managers for any adverse variance, as this could discourage managers and negatively affect their productivity. It is also recommended that more emphases should be placed on budget reward for good performance.

Keywords: Budget Variance, Evaluation, Reward, Managerial Performance

Introduction

There is a need in every organisation to evaluate employees' and managerial performance periodically because the success and prospect of the firm depend largely on their performance. The two major parameters that can be used to measure employees' and managerial performance directly in an organisation are efficiency and effectiveness respectively (Stoner, 1995). Efficiency has to do with the abilities of employees to combine organisational limited resources in the best way that will maximize profit for the firm while effectiveness is ability of management decisions, policies and procedures to achieve the goals set for the organisation (Otley, 1978). Budget is a mechanism which management employ in an organization to reflect the organizational goals and strategies developed to achieve

the goals, to coordinate activities, to allocate resources, to control activities, for performance evaluation and communication purpose (Hansen & Van der Stede, 2004). It shows the monetary implications of organizational plans for a defined time period. It shows money intended to be generated and expended on its activities over a particular time horizon (Lambe, 2014).

The merger and acquisition that took place in the banking industry during the last regime in Nigeria under the former CBN governor, Sanusi Lamido, was traceable to some shady transactions that were rampant in the industry at that time. Before the merger and the acquisition, some banks such as Oceanic Bank Plc in 2011 were granting credit facilities/loans to many customers based on personal recognition without following due process (Garuba, 2011). This practice resulted in high level of non-performing loans in the banks and consequently, their financial statuses started staggering that it became so difficult for some of the banks to meet their daily cash demands (Garuba, 2011). For them to remain and continue in the business, they placed some of their permanent staff on contract and emphasis was placed on budget evaluation, variance analysis and reward for meeting budget target. Despite all these, situations were still getting worse for some of the banks including Intercontinental Bank Plc, Bank PHB, Oceanic Bank Plc among others. None of the previous researchers who have worked on budgeting and performance in the banking sector within Lagos State as study location considered the joint effects of budget evaluation, variance and reward on managerial performance. based on this background, it is against the gap in the knowledge that prompted this study to investigate the impact of budget variance, evaluation and rewards on managerial performance in Lagos State.

Research Hypotheses

The following research hypotheses are formulated for the purpose of the study:

H01: Budget variance has no significant positive impact on managerial performance of Deposit Money banks in Lagos State.
H02: Budget evaluation has no significant positive impact on managerial performance of Deposit Money banks in Lagos State.
H03: Budget rewards has no significant positive impact on managerial performance of Deposit Money banks in Lagos State.

Literature Review

Budget Variance

Jude and Sunny (2013) posited that variance analysis is "the comparison of predetermined cost data and the historic cost data to ascertain the adherence to plans". Brown (2012) argued that the process of analyzing the total difference between standard and actual results is called variance analysis. Aniefor and oboro (2015) submitted that the purpose of variance analysis is to give directions to the possible causes of inefficient performance as against standard performance to help management improve operations, enhance efficiency, control resources more effectively and minimise costs. Horngren et al (2007) argued that managers use comparisons between actual results, master budgets and flexible budget for performance evaluation. In evaluating performance, they try to distinguish between the degree to which a goal, objective or target is met and the degree to which an organisation uses appropriate amounts of inputs to achieve a given level of outputs.

Budget Evaluation

This is the level of importance that the senior management puts on the use of budget to evaluate performance in the organisation. Budget variances must be determined and related to the heads of individual departments and used to evaluate performance (Kenis, 1979).The use of budget to evaluate performance tends to influence behaviours, attitudes and the performance of employees (Kenis, 1979). Employees and managers should not be accused for poor budget performance because it can lead to discouragement, instead helpful methods can ginger morale and improve productivity consequently. Lucey (2003) opined that organisations stand to benefit from performance evaluation. He identified the followings as some of the benefits: It facilitates goal congruence; It provides relevant and regular feedback to central management. It promotes initiative and instils motivation and it promotes long run view instead of short term expedients.

Budget Reward

This level of emphasis is placed on the budget as a determining factor in compensation. There are two consequences of using a budget to punish executives and other employees for their poor work (Michael, 2003). First, managers are trying to set goals that can be easily achieved. Once a goal is set, they will do everything

possible to achieve it, even if it is detrimental to the company (Michael, 2003). According to Michael (2003), virtually individual business organisation around the globe uses a budgeting that rewards people for not using important information and acting in the company's best interest. These budget systems reward liars and punish them for telling the truth. These systems reward the game by hiding the facts they are called upon to evoke, that is, the fact that managers must make the necessary decisions when allocating resources to projects, departments, and initiatives. Sajuyigbe, Olaoye, and Adeyemi (2013) suggested that compensation is considered a more important factor in employee productivity. The authors state that great employees feel that their employers know them. They recognise that employers take their happiness, career, and self-development seriously, and if they have a sense of ownership, they are more willing to pursue the organisation's goals. According to Sajuyigbe et al. (2013), employees are the engine of the organisation and the rewards are the fuel that powers the engine to be functional.

Managerial Performance

According to Otley (1978), the performance of management in an organisation is mostly determined through managerial efficiency and managerial effectiveness. Evaluation of managerial efficiency is a determination of whether organisational outcomes are being optimised at a given level of resources or whether a given level of organizational outcome is being realized at the least possible costs. Meanwhile, assessment of managerial effectiveness involves determining whether management is making viable decisions and taking correct actions (Otley, 1978). Managerial performance is the extent to which mangers achieve the organisational goals through their traditional functions which include planning, coordinating, controlling, organising, etc. Managerial performance can as well be conceived as organizational performance whereby the financial and non financial performance indicators will be used to measure managers' performance.

Theoretical Framework

The theory adopted for this study is agency theory. Kamau, Rotich, and Anyango (2017) posited that agency theory supports budget development. According to Kamau et al. (2017), the concept of agency was developed by Berle and Means in 1932. The theory describes how disagreement arises between owners referred to as principals and managers referred to as agents which results in agency costs (Kamau et al., 2017). The objective is to reduce information asymmetry so that both the principal and agent read from the same script through the threat of punishment

and the possibility of rewards (Kamau et al., 2017). Agency theory depicts how budget could resolve the conflicts between owner and employee, emanating from disagreement in choices and information (Covaleski, Evans, Luft, & Shields, 2003). Agency theory did so by incorporating elements of budgeting into the compensation system that simultaneously determined the welfare of the owner and employee (Covaleski et al., 2003). For organizations to survive, grow and develop in the competitive business environment, they must use performance measurement system derived from their strategies and capabilities (Bouckova, 2015).

Empirical Review

Olagunju, Imeokparia, and Afolabi (2014) determined how budgeting can be used in manufacturing business enterprises to control and reduce operating costs in Nigeria. The survey covered three firms including Nestle Nigeria Plc, Cadbury Nigeria Plc, and Friesland Foods Nigeria Plc. Data for the survey was obtained through questionnaires, while non parametric statistics of chi-square was applied to establish the relationship specified in the study. Then, results reflected that budgeting as a control mechanism, helped businesses to reduce their costs of operations and thereby maximising profitability for the firm. Findings also indicated that budgeting helps firms to sustain sound product qualities.

However, Olaoye and Ogunmakin (2014) investigated budgetary control and performance in government parastatals in Osun state, Nigeria. Findings revealed that there existed strong negative relationship in the revenues and expenditures of Property Development Corporation and Broadcasting while weak negative relationship was exhibited in respect of Agricultural Corporation, College of Education and Water Corporation for the period selected.

In addition, Abdullahi, Kuwata, Abubakar, and Muhammad (2015) investigated the role of budget and budgetary control on organisational performance: a case study of Tahir Guest Palace, Kano, Nigeria.. Regression analysis was used to analyze the data. The results of the study revealed that budget administration, budget target setting and budget process all have significant impact on organisational performance.

Besides, Salman (2008) investigated variance analysis as a tool for management control. The study examined variance and showed how it is accounting information as well as a tool for management control system based on output using five brands

of 7 feet mattresses for the years (2001-2005). Based on the findings, the researcher concluded that variance analysis is a useful tool for management control system, with the use of F-distribution and T-test. The F-distribution showed that there was no significant difference between the variances of all the brands of mattresses studied.

Meanwhile, Aruomoaghe and Agbo (2013) carried out a study on the application of a variance analysis as a tool for performance evaluation with a particular focus on the cost and benefit associated with its utilisation as a performance evaluation tool. They established that in order for managers to make correct decisions, it was reasonable for managers to be cautious in the use of variance analysis.

Whereas, Aniefo and Oboro (2015) carried out a study to investigate the imperatives of variance analysis for cost control in business organisations: An empirical study of selected firms in Delta State, Nigeria. Findings revealed that variance analysis significantly helped in providing directions to the causes of non-performance as against standard performance. It was also discovered that variance analysis enhanced management improvement in operations. It was concluded that variance analysis is necessary for organisational performance and growth.

Moreover, Ngumi and Njogo (2012) investigated the impact of budgeting practices on financial performance of insurance companies in Kenya. They found that CAPEX variance has a negative and significant effect on performance (ROI). It was also discovered that OPEX variance has a negative and significant effect on performance (ROI). Sunday and Adedayo (2015) examined reward system as a strategy for increasing employees productivity. Findings revealed that reward has positive relationship with employees productivity.

Besides, Mzwenhlanhla (2017) examined the influence of rewards on job satisfaction and organisational commitment among academic staff at selected Universities of Technology in South Africa. Descriptive statistics, confirmatory factor analysis and structural equation modeling were used to analyse the data. Work-life balance and fringe benefits provided a negative correlation to job satisfaction. However, employees' rewards have a significant effect on job satisfaction and organisational commitment.

Also, Hellen (2016) conducted study on the effects of rewards on employees' performance. This study adopted a descriptive survey design in Kenya. The results revealed that there existed a significant relationship between intrinsic rewards and

employee performance. The study also revealed that there is a significant relationship between extrinsic rewards and employee performance.

Methodology

Research Design, Population and Sample of the Study

The study adopted survey research design because it gives opportunity to the respondents to respond to the questions given to them based on their perceptions of the items in the questionnaire. The population of the study consisted of all commercial banks in Lagos State. According to the list extracted from Central Bank of Nigeria (CBN) Fact book as at 2018, they are twenty two (22) commercial banks in all. Lagos was chosen as the unit of analysis because, as a commercial nerve of the country, all commercial banks' branches are situated in Lagos State. Convenience sampling technique was employed to select a sample size of 15 banks from the population. The respondents were 45 staff of the sampled banks who were mainly managers, auditors and accountants. Judgmental sampling technique was used to selected the 45 respondents. Out of the 45 questionnaires distributed, only 40 were fully completed and returned by the respondents, while the remaining 5 questionnaires were not returned.

Source of Data

The study used primary data and the data were obtained with the use of 5 point Likert scale questionnaire with options ranging from strongly agree to strongly disagree. The questionnaires were administered to the respondents to gather the required data for the study.

Model Specification

The researcher used a multiple regression model to establish the relationship between independent variables and dependent variable. The model is as specified below.

$$MP = \alpha + \beta_1 VAR + \beta_2 EVA + \beta_3 REW + \mu$$

Where:MP= managerial performance; VAR= budget variance; EVA= budget evaluation
REW= budget reward; α = constant; β = coefficient of independent variable; μ= error term

Instrument Validity and Reliability

For the purpose of validating the instrument used for the study, two experts in the fields of accounting were sent with the questionnaire for consideration to ensure that it adequately covers the scope of the study and measures what it is purported to measure. The recommendations suggested by them were used to adjust the questionnaire before being eventually distributed to the respondents for completion. Cronbach alpha was used to establish the reliability of the instrument. The results of the Cronbach alpha are as shown in Table 1. below;

Table 1. Instrument Reliability Test

Variables	N of Items	Cronbach's Alpha Coefficient
Budget variance	3	.708
Evaluation	3	.727
Reward	3	.891
Managerial Performance	3	.770

Source: Authors' Computation, (2018).

A reliability test was conducted on all the variables of the study, using Cronbach's alpha statistics and the results are as shown above. A scale with Cronbach's alpha coefficient value of more than 0.600 is reliable (Cheok et al., 1989). Therefore, budget variance, evaluation, reward and managerial performance are all reliable because they all have coefficient alpha value of more than 60%.

Multi-collinearity Test

In order to determine whether multicollinearity exists or not, the researchers used Variance Inflation Factor (VIF) and Tolerance to test for collinearity. When the Tolerance value is near one, it indicates that there is little multicollinearity, meanwhile a value near zero shows that there can be a threat of multicollinearity(Samuel & Caroline, 2016). The opposite of the Tolerance is known as the Variance Inflation Factor . The VIF indicates how much the variance of the coefficient is inflated by multicollinearity (Samuel & Caroline, 2016). Theoretically, it is good if VIF is below 5 (Samuel & Caroline, 2016). As it is shown in Table 2, the VIF for all independent variables are smaller than 5, therefore the possibility of multicollinearity is small.

Table 2. Multi-collinearity Test Results

Independent Variables	Collinearity Statistics	
	Tolerance	VIF
Budget variance	.629	2.039
Evaluation	.532	2.009
Reward	.874	1.145

Source: Authors' Computations, (2018).

Data Analysis and Discussion of Findings

The study employed descriptive statistics and inferential statistics involving regression analysis and correlation coefficient for data analysis.

Descriptive Statistics of Indicators Variables

The results of descriptive statistics revealed in the Table 3 indicate that respondents strongly agreed that high importance is attached to budget variance in their organisations with a mean score of 3.83 and standard deviation of 1.22, approximately. Findings also indicate that respondents agreed that budget was used as a tool to evaluate managers' performance in their firms with mean score of 3.53 and standard deviation of 1.11, approximately. On average, respondents agreed that budget was used as a basis to determine managers' rewards in their firms with mean score of 3.00 and standard deviation of 1.24, approximately. While respondents fairly agreed that managers are actively involved in planning, control and coordination of activities in their firms with mean score of 3.20 and standard deviation of 1.32, approximately.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Budget variance	40	1.00	5.00	3.8250	1.21713
Evaluation	40	2.00	5.00	3.5250	1.10911
Reward	40	1.00	5.00	3.0000	1.24035
Managerial performance	40	1.00	5.00	3.2000	1.32433
Valid N (listwise)	40				

Source: Authors' Computations, (2018).

Results of Regression Analysis

Table 4. reveals the findings of regression model. The R^2 of the model is 0.725 which indicates that 72.5%, approximately, of variance in the managerial performance (dependent variable) is explained by budget variance, evaluation and reward (independent variables) while the remaining 27.5% is explained by factors outside the model.

Table 4. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.851[a]	.725	.702	.72325

Source: Authors' Computations, (2018)

a. Predictors: (Constant), Reward, evaluation and budget variance

Table 5. presents the results of Analysis of Variance (ANOVA) which reveals that the significance of F is 0.00 which is less than 0.05 (5%). This means that there is a linear relationship between at least one of the independent variables and the dependent variable and that the model was a good fit for the data.

Table 5. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.569	3	16.523	31.587	.000[b]
	Residual	18.831	36	.523		
	Total	68.400	39			

Source: Authors' Computations, (2018)

a. Dependent Variable: Managerial performance
b. Predictors: (Constant), Reward, evaluation and budget variance

The results in Table 6 shows that an increase in budget variance will bring about to 6.9% increase in managerial performance. The standardised beta of budget variance is 0.069 with 0. 655 level of significance, which is insignificant at 5% level of significance. In addition, increase in evaluation leads to 24.5% increase in

managerial performance with a standardized beta of 0.245 and 0.116 level of significance, which is not significant at 5% significance level. While increase in reward results in 81% increase in managerial performance with a level of significance of 0.00 which is significant at 5% significance level, as p= 0.00 < 0.05. The T value shows the relative importance of each of the independent variables and as it can be read from Table 2, reward contributed mostly to the model followed by evaluation while the contribution of budget variance is not clear.

Table 6. Coefficient of Independent Variables

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.708	.498		-1.421	.164
	Budget variance	.075	.166	.069	.450	.655
	Evaluation	.292	.181	.245	1.612	.116
	Reward	.864	.100	.810	8.653	.000

Source: Authors' Comupations, (2018)
a. Dependent Variable: Managerial Performance

Conclusion and Recommendations

The study examined the effect of budget variance, evaluation and reward on the managerial performance of commercial banks in Lagos State. The hypotheses formulated were tested through regression analysis and findings revealed that reward has a significant positive effect on managerial performance. This implied that the importance of effective reward system in an organisation could not be ruled out to make managers and other employees more committed and productive. However, management must exercise a lot of care when using budget as basis for reward determination to avoid game practice among the operational managers. Findings also indicated that evaluation has positive effect on managerial performance but, it was not significant at 5% significant level. This result meant that when operational managers are evaluated on regular basis for their performance, they would be more conscious of their behaviour, attitudes and actions in the course of performing their official duties. This is likely to happen because budget reward system usually creates an understanding for managers and other employees that they would be compensated for good performance and punished or sanctioned for poor performance. While the results about the effect of budget

variance on managerial performance was not clear. It is thereby, recommended that budget variance should not be used by organisations as a basis to pass blame on managers for any adverse variance, this could discourages managers to give their best to their organisations. Also, evaluation of managers performance through budget should be done in a way that would improve their performance.

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