

RELATIONSHIP BETWEEN BUDGETING AND PERFORMANCE OF REMITTANCE COMPANIES IN SOMALIA

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ABSTRACT

The purpose of this study was to investigate the relationship between budgeting and performance in remittance companies in Mogadishu, Somalia. The study collected data from seven remittance companies using questionnaires. The researchers used judgmental sampling technique of non-probability sampling to select 103 respondents from those companies. Data were analyzed using descriptive statistics of frequency, mean and standard deviation and correlation analysis methods. The study revealed a moderate positive relationship between budgeting and remittance companies' performance ($r = .514$, $p < .01$). The study suggests that remittance companies should adopt participative budgeting and give rewards to talented employees if they meet budget goals.

Keywords: Budgeting, company performance, remittance strategic budgeting, budget participation, budget control

INTRODUCTION

The use of budgets as financial planning and control tools for business enterprises is historically a rather young phenomenon. In the United States of America, early budgetary principles in companies were mostly derived from the budget techniques in government. In the depression years, budgets with their focus on cost control became a perfect management tool in US companies (Banovic, 2005).

Budgeting is most useful when it is integrated with a company's strategy (Horngren, Datar & Rajan, 2012). After organizational goals, strategies and long-range plans have been developed, companies prepare budgets. In developing the budget, each level of management should be invited to participate. Budgets are probably the most widely used control devices (Ghillyer, 2009). In many profitable companies, budget is actually a key to their success (Horngren, Datar & Rajan, 2012).

Budgeting was defined by many authors in different perspectives; Schiesl, (1977) cited by (Tyler & Jennifer, 1997) defined budgeting as a valuation of receipts and expenditures or a public balance sheet, and as a legislative act establishing and authorizing certain kinds and amounts of expenditures and taxation. Wild and Shaw, (2010) defined budgeting as the process of planning future business actions and expressing them as formal plans in monetary terms. The Tennessee board of Regents (2006) defines budgeting as the process whereby the plans of an institutions are translated into an itemized, authorized and systematic plan of operation, expressed in dollars for a given period. However, in this study the researchers will use the definition made by Wild and Shaw, (2010) because this definition is in line with the objectives of this study.

In this research, financial performance is used to measure remittance companies' performance. Financial performance is generally defined as the use of outcome-based financial indicators that are assumed to reflect the fulfillment of the economic goals of the

firm (Qi, 2010). To measure remittance companies' performance, this research uses, budget goal achievement, profitability, liquidity and solvency as performance indicators. In Somalia, budgets and financial statements are highly inaccessible dealt as secret, so the researchers identified the satisfactions of remittance companies about their financial performance by utilizing financial performance measurements above and used them as performance indicators, The paper has the following objectives:

1. To identify the relationship between strategic budgeting and performance in some selected remittance companies in Mogadishu, Somalia.
2. To know the effect of budget participation on performance in some selected remittance companies in Mogadishu, Somalia.
3. To assess the impact of using budgets for control on performance in some selected remittance companies in Mogadishu, Somalia.
4. To investigate the relationship between budgeting and performance in some selected remittance companies in Mogadishu, Somalia.

BUDGETING AND FIRM PERFORMANCE

A budget is a formal written statement of management's plans for a specified future period, expressed in financial terms. For something to be characterized a budget it must comprise the quantities of economic resources to be allocated and used, it has to be expressed in monetary terms, it has to be a plan and it must be made within a certain period of time (Harper, 1995 cited by Banovic, 2005). In a wider context budget can be defined as a management tool that puts executives in control of the financial health of their company (Banovic, 2005). Budgeting is the process of compiling budgets and subsequently adhering to them as closely as possible (Maitland, 2000 cited by Banovic, 2005). The terminology used to describe budgets varies among companies. Some companies refer to budgeting as targeting and many companies refer to the budget as a profit plan (Horngren, Datar & Rajan, 2012).

Effective budgeting depends on a sound organizational structure. In such a structure, authority and responsibility for all phases of operations are clearly defined. Budgets based on research and analysis should result in realistic goals that will contribute to the growth and profitability of a company. In addition, the effectiveness of a budget program is directly related to its acceptance by all levels of management (Weygandt, Kimmel & Kieso, 2012).

In many profitable companies, budget is actually a key to their success (Horngren, Datar & Rajan, 2012). Budgeting is critical to financial success. Studies of differences between successful and unsuccessful new businesses consistently find that businesses that carefully develop and follow budgets increase their chances of survival and success (Burrow, klendl & Everard, 2008).

Few things are more important to the success of a company than the effective management of cash. If excess cash is permitted to accumulate, the business will lose the opportunity to earn investment income. On the other hand, if cash shortages occur, the business will be unable to pay its debts and may be forced into bankruptcy. A cash budget is prepared to advice management of anticipated cash shortages or excessive cash balances. Management uses this information to plan its financing activities. It arranges with creditors to ensure that anticipated shortages can be covered by borrowing. It also plans to repay past borrowings and to make appropriate investments in the periods in which excess amount of cash are expected. Cash budgeting is important to ensure company solvency and determine whether the company is generating enough cash for present and future operations. Preparing a cash budget requires that all revenues, costs and other transactions be examine in terms of their effects on cash.

Operating budget indicates the expected profitability of operations for the budget period. Expenses budget are used to reduce operating costs. It provides the basis for evaluating company performance.

Generally, there are two major conceptual models linking budgetary participation with performance. Firstly, Psychological theories state that the opportunity given to subordinates through participation in budgeting process can stimulate their motivation and commitment with budget setting, which in turn improves the subordinates' job satisfaction and performance (Kren, 1992 cited by Qi, 2010). Secondly, through budget participation, subordinates gain information from superiors that helps clarify their organizational roles, including their duties, responsibilities, and expected performance, which in turn enhances their performance (Chong, 2002 cited by Qi, 2010).

METHODOLOGY

Research Design and Target Population

The survey strategy is employed to conduct for this study because it is a popular and common strategy in business and management researches; the study employed correlation design because it was considered the most appropriate design for this study. Quantitative research allows the researchers to familiarize them with the problem or concept to be studied, and perhaps generate hypotheses to be tested (Golafshani, 2003).

The target population of this study was finance employees of remittance companies in Mogadishu because we are more dependent on remittances and they are a good source of information to analyze the topic. There are at 23 remittance companies operating inside Mogadishu, we selected seven of them, which represents 30% of the population. The sample size of the study consists of 103 respondents.

Sampling Procedure

Sampling techniques provide a range of methods that enable the researchers to reduce the amount of data they need to collect by considering only data from a sub-group rather than all possible cases or elements. Collecting data from a sample, which represents the entire population, would provide results that are more useful (Saunders, Lewis & Thomhill, 2009).

Non-probability sampling (or non-random sampling) provides a range of alternative techniques to select samples based on your subjective judgment (Saunders, Lewis & Thomhill, 2009). The researchers used judgmental sampling techniques of non-probability sampling because the researchers cannot obtain the list of remittance companies' employees. Therefore, data is collected from those people who are conveniently available and willing to co-operate. Purposive sampling was also convenient because the sample selected was small and the ideas of the population were needed in a shorter period.

Reliability Test

To measure reliability the researchers used Cronbach's alpha. It is most commonly used when there are multiple Likert questions in a survey questionnaire that form a scale, and you wish to determine if the scale is reliable. Table 1 shows the Cronbach's alpha for the variables. The reliability for this study ranged from .755 to .841. The first dimension (strategic budgeting) has obtained the highest alpha (.841). The dimensions participatory budgeting and firm performance has obtained the second highest alpha (.799). Budgetary control obtained .755 alphas.

Table 1. Reliability Test

<i>No</i>	<i>Variables</i>	<i>N</i>	<i>Items</i>	<i>Cronbach's Alpha</i>
1	Strategic budgeting	60	3	.841
2	Participatory budgeting	60	3	.799
3	Budgetary control	60	5	.755
4	Firm performance	60	6	.799
	<i>Overall Alpha</i>	240	17	.798

FINDINGS

Profile of Respondents

As shown in table 2, the majority of the respondents (90%) were male compared with 10% of female. Hence, male have significantly dominated in the remittance companies. In terms of age, 36.7% of the respondents were between 26-35 years old. In terms of educational background, half of the respondents (50%) had bachelor degree. In terms of experience, 50% of the respondents had less than 3 years experience with in the company. Exactly 45% of the respondents were held finance related responsibilities; 26.7% of the respondents were cashiers, accountants were 11.7% and chief financial officers were 6.7%.

Table 2. Demographic characteristics of the respondents

<i>Demographic Profile</i>	<i>Frequency</i>	<i>Percent</i>	<i>Cumulative Percent</i>
<i>Gender</i>			
Male	54	90.0	90.0
Female	6	10.0	100.0
Total	60	100.0	
<i>Age</i>			
16-25	18	30.0	30.0
26-35	22	36.7	66.7
36-45	16	26.7	93.3
45+	4	6.7	100.0
Total	60	100.0	
<i>Educational Background</i>			
Post Secondary Diploma	21	35.0	35.0
Bachelor	30	50.0	85.0
Master	5	8.3	93.3
Other	4	6.7	100.0
Total	60	100.0	
<i>Experience</i>			
0-3 years	30	50.0	50.0
3-6 years	11	18.3	68.3

<i>Demographic Profile</i>	<i>Frequency</i>	<i>Percent</i>	<i>Cumulative Percent</i>
<i>Gender</i>			
Male	54	90.0	90.0
Female	6	10.0	100.0
<i>6-10 years</i>			
6-10 years	10	16.7	85.0
10+ years	9	15.0	100.0
Total	60	100.0	
<i>Position Held</i>			
Manager	9	15.0	15.0
Cheif Financial Officer	4	6.7	21.7
Accountant	7	11.7	33.3
Cashier	16	26.7	60.0
Other	24	40.0	100.0
Total	60	100.0	

Company Profile

As shown in a table 3, approximately, five out of the seven selected remittance companies have more than 18 divisions in Mogadishu, Somalia. Four out of them were not headquartered in Mogadishu, the capital city of Somalia for security purposes. Five of them were partnership. Four of them were large companies with more than 250 employees. Three of them were mature institutions serving more than 15 years.

Table 3. Profiles of Remittance Companies

<i>Company Profile</i>	<i>Frequency</i>	<i>Percent</i>	<i>Cumulative Percent</i>
<i>Number of Divisions in Mogadishu</i>			
Small (1-8)	4	6.7	6.7
Medium (9-17)	15	25.0	31.7
Large (18+)	41	68.3	100.0
Total	60	100.0	
<i>Headquarter in Mogadishu</i>			
Yes	27	45.0	45.0
No	33	55.0	100.0
Total	60	100.0	
<i>Form of Business Ownership</i>			
Sole Proprietorship	8	13.3	13.3
Partnership	45	75.0	88.3
Informal Corporation	7	11.7	100.0
Total	60	100.0	
<i>Company Size</i>			
Small (10-49 employees)	5	8.3	8.3
Medium (50-249 employees)	21	35.0	43.3

<i>Company Profile</i>	<i>Frequency</i>	<i>Percent</i>	<i>Cumulative Percent</i>
<i>Number of Divisions in Mogadishu</i>			
Small (1-8)	4	6.7	6.7
Medium (9-17)	15	25.0	31.7
Large (18+)	41	68.3	100.0
Large (250+ employees)	34	56.7	100.0
Total	60	100.0	
<i>Company Age</i>			
Beginner (1-5 years)	19	31.7	31.7
Medium Size (6-14 years)	14	23.3	55.0
Mature Institution (15+ years)	27	45.0	100.0
Total	60	100.0	

Correlation between Strategic Budgeting and Firm Performance

The first objective of this study was to identify the relationship between strategic budgeting and performance in remittance companies in Mogadishu, Somalia.

The correlation between strategic budgeting and firm performance as table 4- shows is 0.635. It tells us that a one level increase of strategic budgeting leads to 0.635 higher firm performance. The probability of this correlation coefficient occurring by chance is .000. This coefficient shows that there is a statistically significant moderate positive relationship between strategic budgeting and firm performance ($r = .635, p < .01$).

Table 4. Correlation between strategic budgeting and firm performance

<i>Variables</i>		<i>Strategic Budgeting</i>	<i>Firm Performance</i>
	Pearson Correlation	1	.635**
Strategic Budgeting	Sig. (2-tailed)		.000
	N	60	60
	Pearson Correlation	.635**	1
Firm Performance	Sig. (2-tailed)	.000	
	N	60	60

** . Correlation is significant at the 0.01 level (2-tailed).

Correlation between Participatory Budgeting and Firm Performance

The second objective of this study was to know the effect of budget participation on performance in remittance companies in Mogadishu, Somalia.

The correlation between participatory budgeting and firm performance in remittance companies as table 5- shows is 0.048 with probability of 0.718. This coefficient shows that there is a perfect independency between participatory budgeting and firm performance ($r = .048, p > .05$).

Table 5. Correlation between participatory budgeting and firm performance

<i>Variables</i>		<i>Participatory Budgeting</i>	<i>Firm Performance</i>
Participatory Budgeting	Pearson Correlation	1	.048
	Sig. (2-tailed)		.718
	N	60	60
Firm Performance	Pearson Correlation	.048	1
	Sig. (2-tailed)	.718	
	N	60	60

Correlation between Budgetary Control and Firm Performance

The third objective was to assess the impact of using budget for control on performance in remittance companies in Mogadishu, Somalia.

The correlation between budgetary control and firm performance as table 6- shows is 0.557. It states that a one level increase of budgetary control leads to 0.557 higher firm performance. The probability of this correlation coefficient occurring by chance is .000. This coefficient shows that there is a statistically significant moderate positive relationship between budgetary control and firm performance ($r = .557, p < .01$).

Table 6. Correlation between budgetary control and firm performance

<i>Variables</i>		<i>Budgetary control</i>	<i>Firm Performance</i>
Budgetary control	Pearson Correlation	1	.557**
	Sig. (2-tailed)		.000
	N	60	60
Firm Performance	Pearson Correlation	.557**	1
	Sig. (2-tailed)	.000	
	N	60	60

** . Correlation is significant at the 0.01 level (2-tailed).

Budgeting and Firm Performance

The last objective of this study was to investigate the relationship between budgeting and performance in remittance companies in Mogadishu, Somalia.

The correlation between budgeting and firm performance as table 7- shows is 0.514, which means that one level increase of budgeting effectiveness will lead to 0.514 higher firm performances. The probability of this correlation coefficient occurring by chance is .000. This coefficient shows that there is a statistically significant moderate positive relationship between budgeting and firm performance ($r = .514, p < .01$).

Table 7. Correlation between budgeting and firm performance

<i>Variables</i>		<i>Budgetig</i>	<i>Firm Performance</i>
Budgeting	Pearson Correlation	1	.514**
	Sig. (2-tailed)		.000
	N	60	60
Firm Performance	Pearson Correlation	.514**	1
	Sig. (2-tailed)	.000	
	N	60	60

** . Correlation is significant at the 0.01 level (2-tailed).

DISCUSSION

First, the researchers found out a moderate positive relationship between strategic budgeting and remittance companies' performance. Remittance companies set clear, realistic and attainable financial strategic objectives as part of their strategic planning process. Remittance companies' budgets are based on achieving those strategic financial objectives. This finding confirms prior research conducted by Qi, (2010). He found that budget goal clarity strongly impact on performance of small and medium sized enterprises.

Second, this study revealed that budget participation does not affect remittance companies' performance because the employees of remittance companies are not consulted when the budget is prepared; instead, the top management imposes budget figures. Remittance companies do not assign budget committee to manage stages of the budgetary process and the budgeting process does not coordinate the activities of the various departments and divisions of remittance companies. This result differs from what the Qi (2010) found. He revealed a positive effect of budgetary participation on performance. Chong, (2002) point out through budget participation, subordinates gain information from superiors that helps clarify their organizational roles (including their duties, responsibilities, and expected performance), which in turn enhances their performance.

Third, this study found a moderate positive relationship between budgetary control and remittance companies' performance. The underlying reason is that remittance companies use budgets as control device. Their management evaluates business operations against the budget. They evaluate performance by preparing reports that compare actual results to budgeted plans and analyze negative variance if any to determine its causes and takes corrective action to remedy the problem. Qi (2010) also found that budgetary control has a significant and positive effect on the growth of profit and the underlying reason can be that due to management control the total expense of a firm will be at most minimized, which thus results into the growth of profit of the firm.

Finally, the study revealed a moderate positive relationship between budgeting and remittance companies' performance. Remittance companies achieve budget goals. They are satisfied their service revenue and profit growth comparing each company to its competitors within the industry. Their return on investment is good. In addition, they are able to pay short-term debts and survive over long time.

CONCLUSION

The purpose of this study was to investigate the relationship between budgeting and performance in remittance companies in Mogadishu, Somalia. An empirical investigation was undertaken, using the simple correlation analytical technique, specifically the Pearson product moment correlation coefficient (PPMC).

The first objective of this study was to identify the relationship between strategic budgeting and remittance companies' performance, the study found a moderate positive relationship between strategic budgeting and remittance companies' performance.

The second objective was to know the effect of budget participation on remittance companies' performance, the study resulted that budget participation does not affect remittance companies' performance.

The third objective was to assess the impact of using budgets for control on remittance companies' performance, the study found a moderate positive relationship between budgetary control and remittance companies' performance.

Finally, the study revealed a moderate positive relationship between budgeting and remittance companies' performance.

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