Chapter 1 Introduction

1.1 Introduction

Business budgeting is important for the financial management of companies. Business budgeting is “the process of creating a plan to spend an organization's financial resources over a specific period. This process involves forecasting revenue, estimating expenses, and allocating resources to different departments or projects to ensure efficient use of funds and alignment with the organization’s strategic goals” (Shim & Siegel, 2008).

Business budgeting is important for the financial health and overall soundness of organizations.

Organizational performance refers to an organization’s ability to meet its objectives and goals and compares intended results with actual results. Organizational performance is necessary for the efficient performance of organizations.

The effect of business budgeting on organizational performance is thus an area of interest for exploration as it should be determined the type of effect budgeting has on organizational performance and how and whether it should be employed by organizations as a result.

1.2 Background

Business budgeting is a fundamental aspect of organizational management. It plays a critical role in financial planning, control, and performance evaluation. The relationship between business budgeting and organizational performance has been a significant area of interest for both researchers and practitioners, evolving through various phases of theoretical and practical development.

Budgeting was initially seen as a control mechanism. It was used by organizations to ensure financial discipline and accountability. It was essential for reducing waste and ensuring profitability.

Due to the emergence of management accounting, however, “the focus has shifted in business budgeting to organizational performance metrics” (Covaleski, Evans, Luft et al, 2003). The development of “variance analysis and standard costing” (Covaleski, Evans, Luft et al, 2003) allowed organizations to compare budgeted performance with actual outcomes, providing insights into operational efficiency and areas for improvement.

"Budgeting is seen not just as a financial control tool but as a vital component of strategic management" (Covaleski, Evans, Luft et al, 2003). This was due to the 1960s and 1970s which marked a shift towards strategic planning. Budgeting started to integrate with long-term organizational goals, aligning financial resources with strategic objectives. This period saw the emergence of more "dynamic budgeting methods, such as Zero-Based Budgeting (ZBB), which requires all expenses to be justified from scratch, and Activity-Based Budgeting (ABB), which focuses on the costs associated with specific activities necessary for producing goods or services" (Covaleski, Evans, Luft et al, 2003).

In recent decades, the focus on the effect of business budgeting on organizational performance has intensified. Researchers and practitioners have explored how different budgeting methodologies influence various aspects of performance, including financial outcomes, operational efficiency, strategic goal attainment, and organizational adaptability.

As a result, the wider effects of budgeting on organizational performance, including its role in "goal setting, resource allocation, and strategic alignment" (Hansen, Otley & Van der Stede, 2003) have been explored. Studies suggested that effective budgeting practices could lead to improved decision-making, better resource utilization, and enhanced overall performance.

The beginning of advanced technologies has significantly transformed budgeting practices. Modern budgeting software and data analytics tools enable more "accurate forecasting, real-time performance tracking, and dynamic adjustments" (Hansen, Otley & Van der Stede, 2003). These technological advancements enhance the precision, efficiency, and strategic value of budgeting, making it a crucial tool for modern organizational management.

1.3 Statement of the problem

Business budgeting is important for the financial health and strategic management of all organizations. Business budgeting still, however, remains a complex arena especially in its effect on organizational performance. Business budgeting and its effect on organizational performance is debated academically and professionally.

Different literature argue in favor of business budgeting on organizational performance whilst others argue against. Some literature states that business budgeting is favorable towards organizational performance as it results in improved financial control, enhanced accountability and improves performance monitoring and evaluations. Others argue against as they state it causes inflexibility, short-term focus and creates resistance to change. As a result, the inconsistency in academic and professional literature shows a need for us to examine the topic of its effect on organizational performance even further.

An examination of how different budgeting practices and methodologies influence various aspects of organizational performance need be considered. Furthermore, other factors such as industry type, organizational size and market conditions on this relationship between business budgeting and organizational performance should be examined.

Some challenges with budgets include inflexibility, budgetary slack and lack of alignment. These stop budgets from being effective on having a positive effect on organizational performance. Inflexibility includes that some budgets may be static and not accommodate changes in business conditions. Budgetary slack involves managers intentionally overestimating costs or underestimating revenues to create budgetary slack which distorts performance evaluations. Lack of alignment includes budgets may not always align with organizational goals and strategic priorities, leading to misallocation of resources.

This study focuses on NICO Life as the case organization due to its strategic position within Malawi's financial and insurance sector and its relevance to the research problem under investigation. As a leading life insurance company, NICO Life operates in a highly regulated, competitive, and risk-sensitive environment where effective budgeting is critical for financial stability, operational efficiency, and long-term sustainability. These characteristics make the organization an appropriate context for examining the effect of business budgeting on organizational performance.

NICO Life's operations require careful allocation of financial resources to balance underwriting risk, claims management, investment activities, and administrative costs. Such complexity increases the likelihood of budgeting challenges, including inflexibility, budgetary slack, and misalignment between budgets and strategic objectives, as identified in the problem statement. Studying NICO Life therefore provides an opportunity to assess whether budgeting practices within a financial services organization effectively support performance or contribute to the limitations highlighted in existing literature.

Furthermore, as part of the broader NICO Group, NICO Life employs formal budgeting systems and performance monitoring mechanisms, making it suitable for analyzing how different budgeting methodologies influence organizational performance, employee motivation, and strategic decision-making. The organization's structured environment allows for meaningful examination of budgeting processes, accountability, and adaptability to market and economic changes, which are central concerns of this study.

In addition, focusing on NICO Life contributes context-specific empirical evidence from a developing economy, where research on budgeting and organizational performance remains limited. Insights derived from this case study are therefore valuable not only to NICO Life but also to similar financial institutions operating under comparable economic conditions in Malawi and other developing countries.

1.4 Research Objectives

1.4.1 Main Objective

To determine how different budgeting methodologies (such as incremental budgeting and zero-based budgeting) effect organizational performance

1.4.2 Specific Objectives

1. To compare the effects of different budgeting methodologies (such as incremental budgeting and zero-based budgeting) on the achievement of strategic goals and long-term organizational objectives.
2. To analyze how different budgeting methodologies affect employee performance and motivation through resource availability and departmental funding.
3. To investigate the relationship between budgeting methodologies and organizational adaptability to market changes and economic fluctuations.
4. To evaluate the challenges organizations face in implementing different budgeting methodologies.

1.5 Research Questions

1. How do different budgeting methodologies (such as incremental budgeting and zero-based budgeting) effect organizational performance?
2. How do the different budget methodologies (incremental budgeting and zero-based budgeting) affect the achievement of strategic goals and long-term organizational objectives compare?

3. How do different budgeting methodologies affect employee performance and motivation through resource availability and departmental funding?

4. What is the relationship between budgeting methodologies and organizational adaptability to market changes and economic fluctuations?

5. What are the challenges organizations face in implementing different budgeting methodologies?

1.6 Justification/Significance of the study

The study demonstrates how business budgeting improves organizational performance. It also contributes to existing literature on the effects of budgeting on organizational performance and practices in developing countries. This study assists in policy formulation for companies such as Nico Life, as organizations use the findings to improve their operations and processes. In addition, the study benefits other stakeholders, including investors, creditors, regulators, and policymakers, who are interested in the sustainability of Nico Life and the financial sector in Malawi.

1.7 Structure of the Report

In Chapter One, an introduction has been provided which presents background of the study, problem statement, research objectives, main objectives, specific objectives and significance of the study and chapter summary. Chapter Two is the Literature Review wherein related literature pertaining to analyzing business budgeting and its effect on organizational performance. This includes introduction, definition of terms, conceptual and theoretical framework, empirical evidence and summary of the chapter. Chapter Three addresses Research Methodology which relates to research design and methodology which includes introduction, research design and methods, location of the study, target population, sampling methods, data presentation and analysis, limitation of the study, ethical consideration and summary of the chapter. Chapter Four is for data analysis, results and discussion. This part includes the response rate and the presentation of the findings as well as the interpretation of the findings. Chapter Five is the last chapter and consists of summary of the findings, conclusion and recommendations of the study as well as suggestions for further study. In the Report Summary, this chapter has delivered the background of the study and problem statement. It has presented the purpose of the study and specific research question and objective of the study.

1.8 Limitations

The limitations to this research include:

- Limited to researching one organization due to time constraints, data overload and cost constraints
- Costs – these include transport costs, printing costs, telephone costs to deliver surveys to research participants

Chapter 2 Literature Review

2.1 Definition of Terms

"Business budgeting is a comprehensive financial planning tool that outlines an organization's expected revenues, expenditures, and resources over a specified period. It is used to forecast financial outcomes, guide managerial actions, and align financial resources with strategic goals." (Horngren, Sundem & Stratton, 2005)

For the purpose of this research, the first definition according to Horngren, Sundem and Stratton (2005) will be used to define business budgeting that is "Business budgeting is a comprehensive financial planning tool that outlines an organization's expected revenues, expenditures, and resources over a specified period. It is used to forecast financial outcomes, guide managerial actions, and align financial resources with strategic goals."

Organizational performance is defined as "the accumulated end results or outcomes achieved by an organization over time. It is the extent to which the organization achieves its goals, objectives, and mission, and fulfills the expectations of its stakeholders" (Hodgetts & Luthans, 2003). Their definition emphasizes several key points about organizational performance: it emphasizes accumulated end results. Organizational performance encompasses the collective outcomes and results achieved by an organization. These outcomes are not limited to short-term achievements but are accumulated over time. It further deals with the achievement of goals, objectives, and mission. It refers to the extent to which the organization successfully attains its predetermined goals, objectives, and overall mission. This includes both financial and non-financial objectives such as market share, profitability, innovation, customer satisfaction, etc.

For the purpose of this research, we will use the definition as used by Hodgetts and Luthans, that organizational performance is "the accumulated end results or outcomes achieved by an organization over time. It is the extent to which the organization achieves its goals, objectives, and mission, and fulfills the expectations of its stakeholders."

2.2 Empirical Evidence

2.2.1 Main Theories Regarding Budgeting

2.2.1.1 *Budgetary Control Theory*

Budgetary Control Theory emphasizes the role of budgets as formal mechanisms for planning, coordinating, and controlling organizational activities. According to this theory, budgets translate strategic objectives into measurable financial and operational targets, which serve as benchmarks for evaluating performance (Anthony & Govindarajan, 2007).

The theory argues that organizational performance improves when actual results are regularly compared with budgeted figures, allowing management to identify variances and take corrective actions. Budgetary control therefore enhances efficiency, cost management, and goal alignment across departments. However, critics argue that excessive reliance on budgetary controls may lead to rigid decision-making, short-term focus, and dysfunctional behavior, such as budget padding and manipulation.

2.2.1.2 *Agency Theory*

Agency Theory explains budgeting from the perspective of the relationship between principals (owners or shareholders) and agents (managers). The theory assumes that managers may pursue personal interests that conflict with organizational objectives unless appropriate control mechanisms are in place (Jensen & Meckling, 1976).

From an agency perspective, budgets serve as monitoring and accountability tools that reduce information asymmetry between management and owners. Nevertheless, agency theory also acknowledges that excessive budgetary pressure may result in dysfunctional behaviors, such as manipulation of budget figures or reduced employee morale.

2.2.1.3 *Contingency Theory*

Contingency Theory argues that there is no universally optimal budgeting system applicable to all organizations. Instead, the effectiveness of budgeting depends on contextual factors such as organizational size, industry type, environmental uncertainty, management style, and technological complexity (Otley, 1980).

According to this theory, budgeting methods such as incremental budgeting may be effective in stable environments, while zero-based budgeting or flexible budgeting may be more suitable in dynamic and competitive contexts. Contingency theory helps explain why empirical studies report mixed results regarding the effect of budgeting on performance.

2.2.1.4 *Behavioral Theory of Budgeting*

The Behavioral Theory of Budgeting focuses on the human and psychological aspects of budgeting. It emphasizes how employee participation, motivation, and perception of fairness influence the effectiveness of budgeting systems (Argyris, 1952).

This theory suggests that participative budgeting enhances employee commitment, morale, and performance by involving employees in goal setting. Conversely, imposed or rigid budgets may lead to resistance, reduced motivation, and poor performance outcomes.

2.2.2 Empirical Review

2.2.3 Effect of Budgeting Methodologies on Organizational Performance

Several empirical studies have investigated how different budgeting methodologies affect organizational performance. Hansen, Otley, and Van der Stede (2003) examined budgeting practices in European organizations and found that incremental budgeting improves short-term cost control and financial discipline, particularly in stable environments. In contrast, zero-based budgeting (ZBB) has been shown to enhance cost efficiency and resource optimization. Despite these advantages, empirical evidence also highlights challenges associated with ZBB, including high implementation costs and time consumption, which may negatively affect performance if not properly managed (Horngren et al., 2015).

2.2.4 Effects of Budgeting Methodologies on Strategic Goals and Long-Term Objectives

Neely, Bourne, and Adams (2003) found that incremental budgeting often emphasizes historical performance rather than future strategic priorities, reducing its effectiveness in supporting long-term objectives. Conversely, studies indicate that zero-based budgeting and flexible budgeting approaches enhance strategic alignment. Libby and Lindsay (2010), in a survey of North American firms, found that organizations using advanced budgeting approaches were better able to align resource allocation with strategic goals. ZBB, in particular, was found to support long-term planning by ensuring that expenditures are directly linked to organizational priorities.

2.2.5 Effect of Budgeting Methodologies on Employee Performance and Motivation

Budgeting affects employee performance and motivation through resource availability, participation, and perceived fairness in departmental funding. Argyris (1952) found that imposed and rigid budgets negatively affected employee morale and performance, leading to resistance and reduced productivity. Participative and transparent budgeting approaches have been shown to improve employee motivation and performance. Shields and Shields (1998) found that employee involvement in budgeting enhances commitment, accountability, and job satisfaction, which in turn positively influence performance outcomes. Empirical evidence also suggests that zero-based budgeting may initially reduce morale due to increased workload and pressure but ultimately improves performance when employees understand the rationale behind resource allocation (Libby & Lindsay, 2010).

Chapter 3 Research Methodology

3.1 Research design and method

Research design refers to a framework of research methods and techniques chosen by a researcher. It details the procedures necessary for obtaining the required information.

The following research has used the Exploratory Research Design. Exploratory research design is an approach used to investigate an issue or phenomenon that is not well understood or clearly defined. Its primary goal is to gain insights, uncover ideas, and understand the underlying factors and variables that contribute to the topic under study. It has verified and quantified the findings of this exploratory study. Through data collection and analysis, the study has tested the hypothesis.

The research method was quantitative. It has relied on primary data gathered from the current study. The sample was representative and data analysis was quantitative, making use of surveys. The research process was structured.

The research method was further supplemented by qualitative research method. This has included interviews to cover the areas of organizational performance of the particular organization.

3.2 Research Setting

The research setting was NICO LIFE, an organization based in Malawi.

3.3 Study population

Population refers to "a group of individuals who have the same characteristic(s)." Creswell (2014). The study population was 37 employees in the organization, Nico Life, in the city of Lilongwe, Malawi. Sample size refers to “the number of observations included in a sample. It determines the precision of the estimates and the power of the study to detect differences or effects” Cochran (1977). The sample size consisted of 36 employees within this organization, Nico Life. The researcher uses the Slovin formula below to find the accurate sample size in line with the population size.

3.4 Sampling Method

Simple Random Sampling was the sampling method used. This method was reliable since every single member of the population is chosen randomly, merely by chance. Simple random sampling is a fundamental sampling technique where each member of a population has an equal chance of being selected.

3.5 Sample Size

The sample size consisted of 36 employees in Nico Life. The researcher uses the Slovin formula below to find the accurate sample size in line with the population size.

n = N/(1+N)e*e

Where n = ideal/optimal/desired sample size

N = Population

E = marginal error

n= 37/(1+(37*(0.02)^2)

n= 37/(1+0.0148)

n = 37/1.0148

n = 36

3.6 Research Instrument

A Research Instrument is a tool used to collect, measure, and analyze data related to your research interests. The research instrument was a questionnaire. This questionnaire had both open-ended and closed-ended questions to maximize data insight received for analysis.

3.7 Pilot Study

“A pilot study can be defined as a 'small study to test research protocols, data collection instruments, sample recruitment strategies, and other research techniques in preparation for a larger study. A pilot study is one of the important stages in a research project and is conducted to identify potential problem areas and deficiencies in the research instruments and protocol prior to implementation during the full study" (Abu Hassan, Schattner and Mazza, 2006). The pilot study was conducted on a small organization named Helpstars Malawi, before being conducted on the main subject.

3.8 Data Analysis

Descriptive analysis was the method used to extract meaningful insights from the data. Descriptive analysis summarized and describes the main features of a dataset, providing an overview of the data. Common techniques include mean, median, mode, standard deviation and data visualization.

3.9 Ethical Considerations

All confidential information of the Nico Life was not be made public. Matters of confidentiality were not be disclosed within the research. This includes any information requested by the research and survey participants to not be disclosed, distributed or shared. Any information pertaining to trade secrets, customer lists as well as process specialties of the research participants were not shared within the research.

Chapter 4 Results and Discussions

4.1 Introduction

This chapter depicts the analysis of data, presentation and interpretation. The data from 36 participants was analyzed using Microsoft Excel, presented into graphs and then interpreted to explain further reasons to that. The purpose of this study was to examine the effect of budgeting on organizational performance.

4.2 Response Rate

The study was to examine the effect of budgeting on organizational performance. A sample was drawn from respondents. A total of 36 questionnaires were distributed whereby all of them were answered which represents a 100% response rate.

4.3 Demographics

4.3.1 Gender

The figure below represents the gender of the respondents. After analysis, it was found that out of the 36 respondents, 25 (70%) were male and 11 (30%) were female.

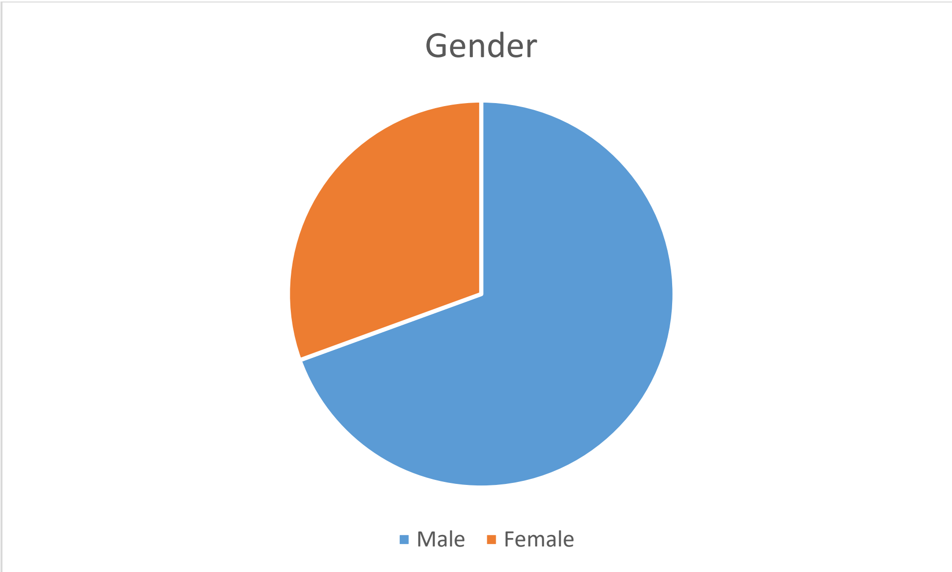

Figure 4.1. Gender

4.3.2 Education background

Out of the 36 respondents, 72.2% were advanced tertiary educated. This means they possessed either a master's degree or doctorate degree. 25% were tertiary school degree holders. This meant they possessed an undergraduate degree. 2.8% were tertiary certificate/diploma holders. They acted as supporting staff when it came to any work related to budgeting. This means that a majority of the respondents where further educated.

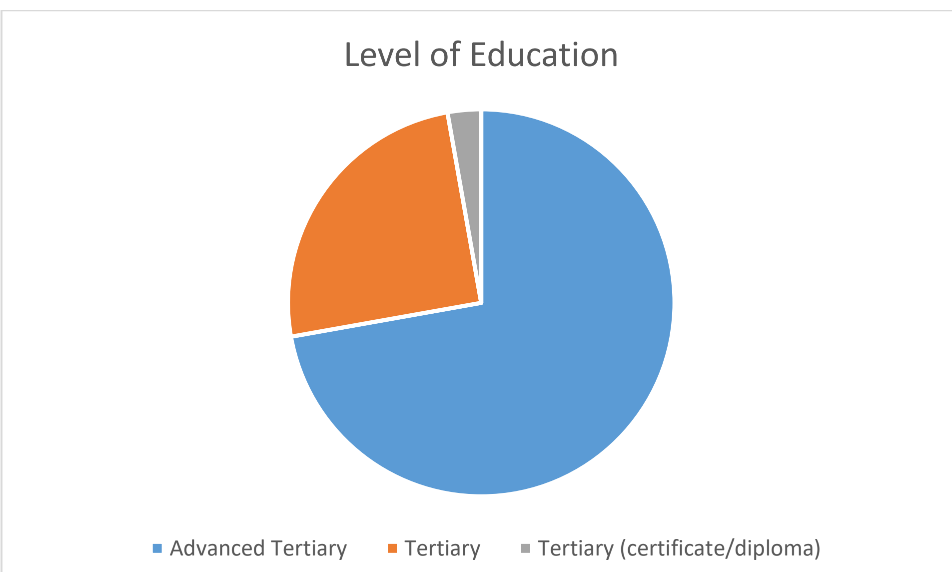

Figure 4.2. Level of Education

4.3.3 Level of experience

The figure below shows the level of experience of data collected from the different respondents. It denotes that 15 respondents representing 41.7% were five years and above, 12 respondents representing 33.3% were three years and above and 9 respondents representing 25% were less than one year of experience. This means the majority of respondents were well experienced in the workforce.

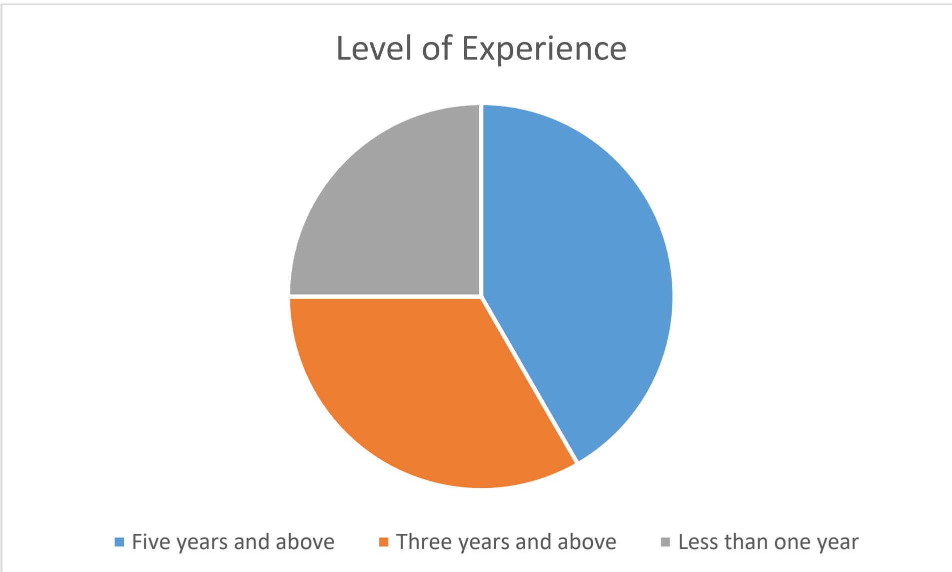

Figure 4.3. Level of Experience

4.4 Presentation of Research Findings

4.4.1 To compare the effects of budgeting methodologies on achievement of strategic goals and long-term objectives.

4.4.1.1 *Zero-based budgeting aligns with strategic goals.*

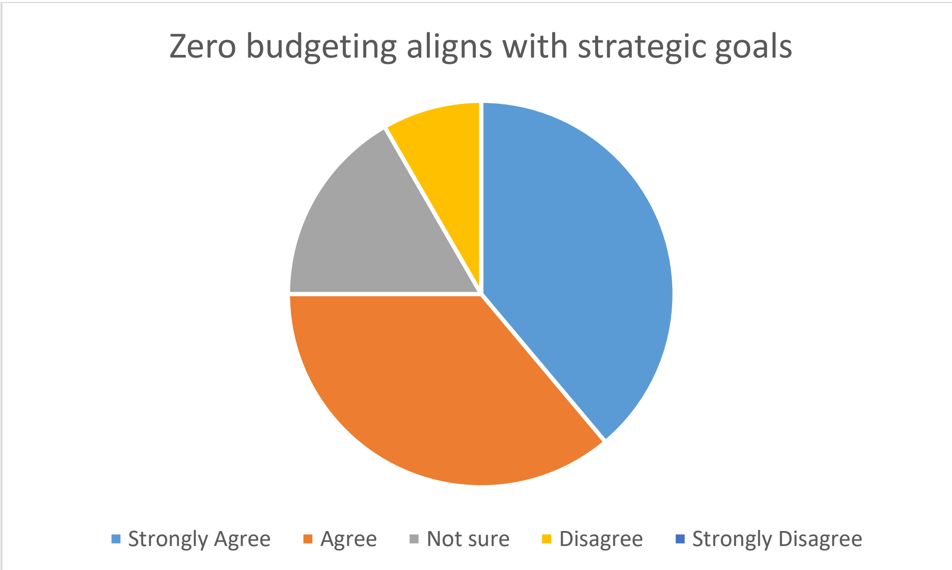

Figure 4.4. Zero budgeting aligns with strategic goals

The figure represents the opinions of 36 respondents representing 100% response rate about comparing the effects of budgeting methodologies on achievement of strategic goals and long-term objectives. From Figure 4.4 above, 39% of the respondents strongly agreed that zero-based budgeting aligns with strategic goals while 36% agreed. 17% were not sure whilst 8% disagreed. This shows that Zero-Based Budgeting (ZBB) enhances strategic focus by requiring a thorough review and justification of all expenditures, ensuring that resources are allocated in alignment with strategic priorities (Phyrr, 1970). This supports the budgetary control theory which states that budgets are used for planning and the achievement of objectives, through evaluation of performance.

4.4.1.2 ***Incremental budgeting supports long-term stability.***

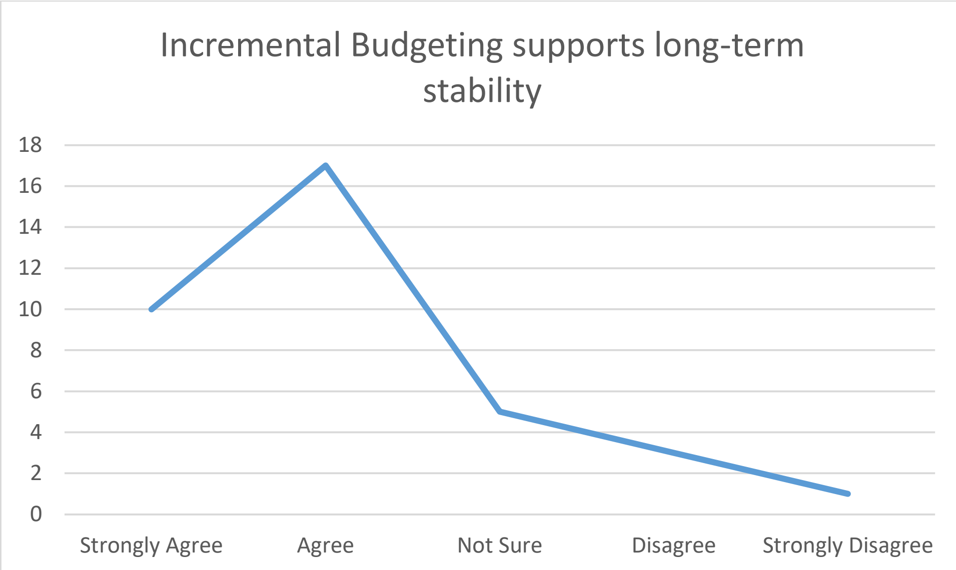

Figure 4.5. Incremental Budgeting supports long-term stability

The figure represents the opinions of 36 respondents representing 100% response rate about comparing the effects of budgeting methodologies on achievement of strategic goals and long-term objectives. From Figure 4.5 above, 27% strongly agreed that incremental budgeting supports long-term stability, while 47% agreed. 13% were not sure while 8% disagreed and 2% strongly disagreed. Incremental budgeting—where budgets are adjusted incrementally from prior year levels—"provides stability and predictability in financial planning," enabling manufacturing firms to sustain operational efficiency and performance over the long term (Eke & Ekpenyoung, 2025). This supports the contingency theory that states that incremental budgets are suitable for stability.

4.4.1.3 ***Budgeting method affects allocation to strategic priorities.***

The figure represents the opinions of 36 respondents representing 100% response rate about comparing the effects of budgeting methodologies on achievement of strategic goals and long-term objectives. From the above, 50% agreed that budgeting method affects allocation to strategic priorities while 30% agreed. 11% were not sure while 5% disagreed and 3% strongly disagreed. By adopting zero-based budgeting (ZBB) processes, organizations are better able to realign budgeted funds with strategic initiatives rather than simply rolling over past budgets, thereby ensuring that resource allocation is closely tied to the firm's evolving strategic priorities (Sun & Gao, 2023). This supports the budgetary control theory, stating that budgets result in efficient planning through achievement of objectives.

4.4.1.4 *Reviewing budgeting strategies aids long-term objectives.*

The figure represents the opinions of 36 respondents representing 100% response rate about comparing the effects of budgeting methodologies on achievement of strategic goals and long-term objectives. 47% of the respondents strongly agreed that reviewing budgeting strategies aids long-term objectives while 38% agreed. 8% were not sure while 5% disagreed. It was found that frequent review and evaluation of budgeting strategies significantly strengthen the alignment between budgets and long-term organizational objectives, thereby enhancing overall performance outcomes (Zhou, Li, & Wang, 2025). This supports the budgetary control theory, which emphasizes that budgets assist in the achievement of objectives, through evaluation of performance.

4.4.2 To analyze how budgeting methodologies affect employee performance and motivation.

4.4.2.1 *Effective budgeting increases motivation.*

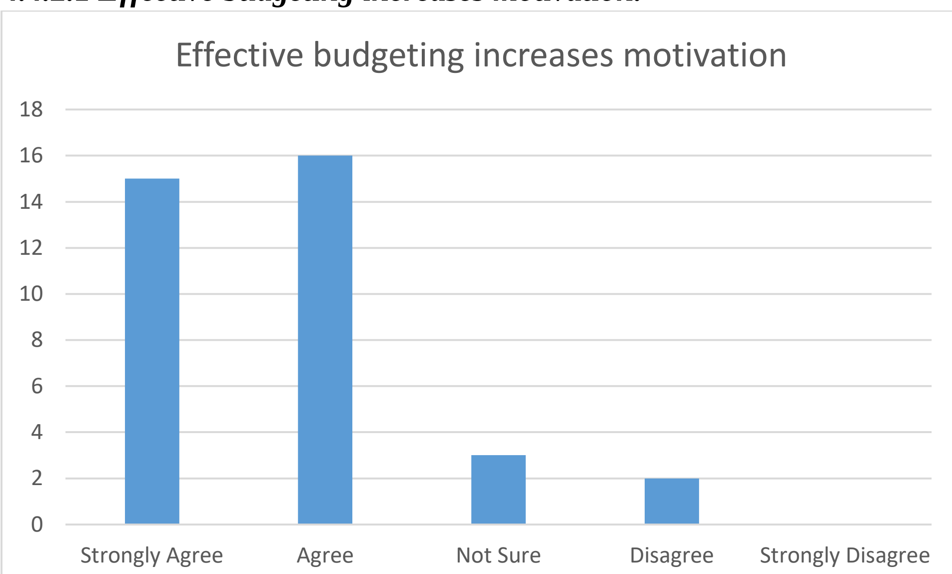

Figure 4.8. Effective budgeting increases motivation

The figure represents the opinions of 36 respondents representing 100% response rate about analyzing how budgeting methodologies affect employee performance and motivation. From Figure 4.8 above, 41% strongly agreed that effective budgeting increases motivation while 44% agreed. 8% were not sure while 5% disagreed. A positive association between the type of budgeting approach used and employee motivation was found — noting that organizations adopting more participative or flexible budgeting methods tended to have higher levels of workforce motivation, as opposed to strictly imposed budgeting systems (Egbide, Agi-Ilochi, Madugba, Taiwo, & Ayomide, 2022). This supports the behavioral theory of budgeting that states that budgets contribute to employee motivation and morale.

4.4.2.2 *Zero-based budgeting promotes accountability*

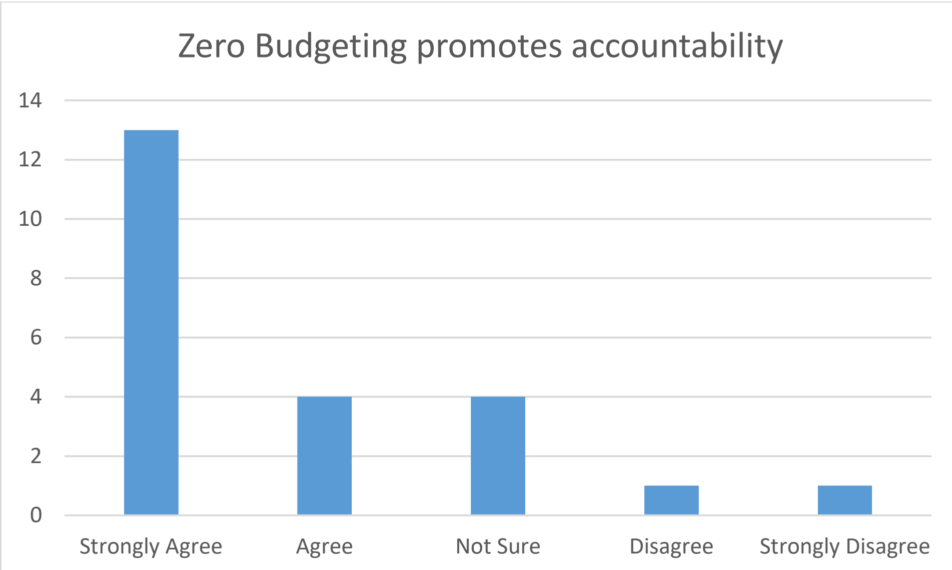

Figure 4.9. Zero budgeting promotes accountability

The figure represents the opinions of 36 respondents representing 100% response rate about analyzing how budgeting methodologies affect employee performance and motivation. From Figure 4.9 above, 36% of the respondents strongly agreed that zero budgeting promotes accountability while 39% agreed. 11% were not sure while 11% disagreed and 3% strongly disagreed. The zero-based budgeting approach every budget line must be justified from scratch each period, which significantly enhances visibility, spending discipline and accountability within organizations (Xactly Corp., 2024). This supports the agency theory of budgeting that states that budgets hold managers accountable to the owners and stakeholders.

4.4.2.3 *Budget limits reduce morale.*

The figure represents the opinions of 36 respondents representing 100% response rate about analyzing how budgeting methodologies affect employee performance and motivation. 25% of the respondents strongly agreed that budget limits reduce morale, while 36% agreed. 14% of the respondents were not sure while 19% disagreed and only 5% strongly disagreed. The tightening of budgetary controls during a crisis is positively associated with managers' emotional exhaustion because the stricter controls increase feelings of both role ambiguity and role conflict among the staff (Van de Walle & Van Thielen, 2022). This supports the behavioral theory of budgeting, which states that imposed or rigid budgets may lead to resistance, reduced motivation, and poor performance outcomes. It further supports the agency theory which states that excessive budgetary pressure may result in dysfunctional behaviors, such as manipulation of budget figures or reduced employee morale.

4.4.2.4 *Transparent allocation builds trust and teamwork.*

The figure represents the opinions of 36 respondents representing 100% response rate about analyzing how budgeting methodologies affect employee performance and motivation. 44% of respondents strongly agreed that transparent allocation builds trust and teamwork while 42% agreed. 8% were not sure while 6% disagreed. Budget transparency combined with inclusive stakeholder participation in budget preparation fosters trust among employees and strengthens teamwork by making budget decisions clearer and more collaborative (Alhasnawi, 2023). This supports the agency theory, by demonstrating that managers when transparent with owners foster trust and teamwork between the two.

4.4.3 To investigate the relationship between budgeting methodologies and adaptability to market changes.

4.4.3.1 *Flexible budgeting enhances adaptability.*

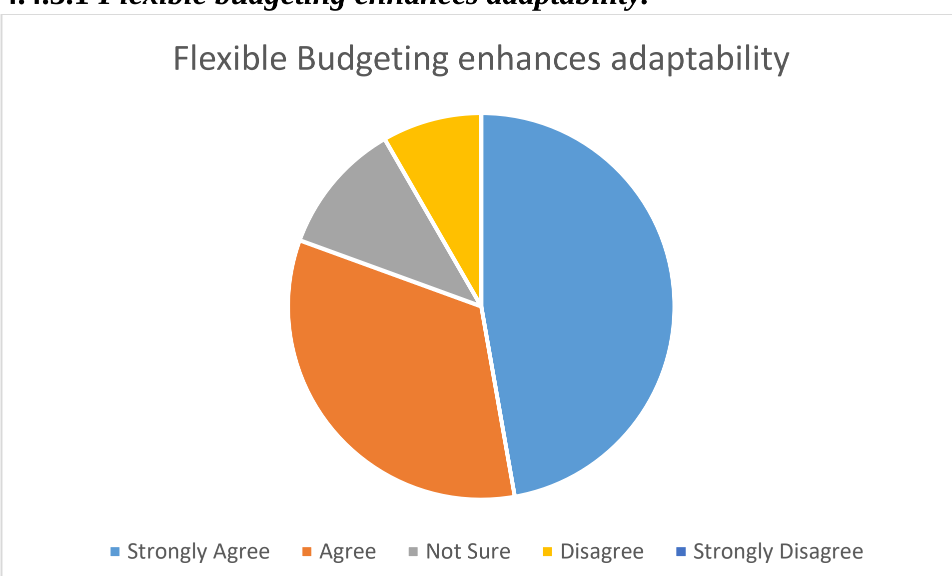

Figure 4.12 Flexible Budgeting enhances adaptability

The figure represents the opinions of 36 respondents representing 100% response rate about investigating the relationship between budgeting methodologies and adaptability to market changes. From Figure 4.12 above, 47% strongly agreed that flexible budgeting enhances adaptability while 33% agreed. 11% were not sure while 8% disagreed. Organizations which adopt more flexible budgeting and control processes are better able to respond to environmental uncertainty and enhance their overall adaptability (O'Grady, Akroyd, & Scott, 2017). This supports the contingency theory, that different budgeting approaches are suitable for different outcomes. This theory states zero-based budgeting or flexible budgeting may be more suitable in dynamic and competitive contexts.

4.4.3.2 *Rigid budgeting limits adaptability*

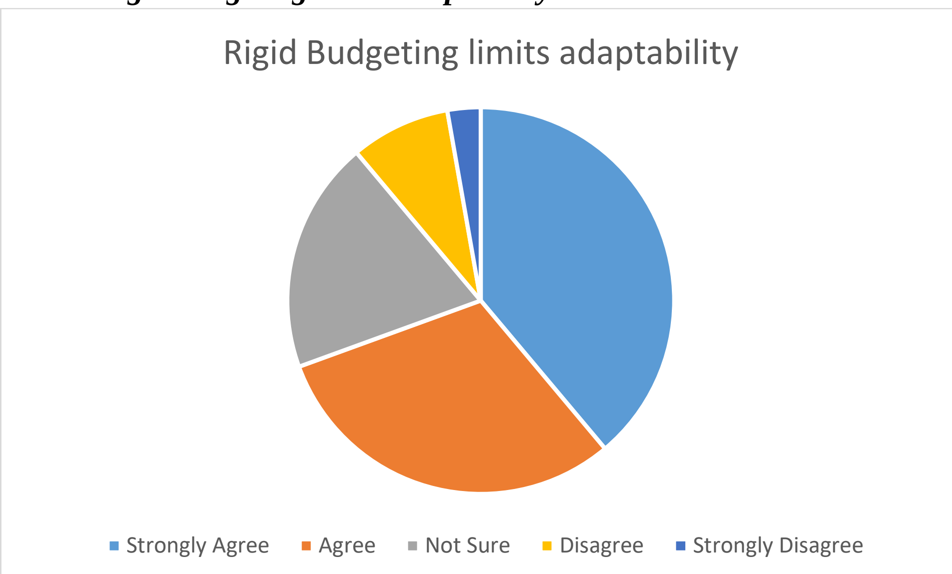

Figure 4.13. Rigid budgeting limits adaptability

The figure represents the opinions of 36 respondents representing 100% response rate about investigating the relationship between budgeting methodologies and adaptability to market changes. From Figure 4.13 above, 39% strongly agreed that rigid budgeting limits adaptability while 31% agreed. 19% were not sure while 8% disagreed and 3% strongly disagreed. Traditional annual budgets—characterized by fixed targets and rigid plans—undermine an organization's ability to respond rapidly to changing competitive and operational conditions, thereby limiting its adaptability (Hope & Fraser, 2003). This supports the contingency theory, which states incremental budgeting or rigid budgeting is not best suited for dynamic, adaptive environments.

4.4.3.3 *Regular budget reviews aid adjustment.*

The figure represents the opinions of 36 respondents representing 100% response rate about investigating the relationship between budgeting methodologies and adaptability to market changes. 44% of respondents strongly agreed that regular budget reviews aid adjustment while 42% agreed. 8% were not sure while 6% disagreed. It was found that more frequent and systematic budget reviews significantly improve an organization's ability to respond to business developments and adjust their resource allocations in a timely manner (Ali, 2023). This supports the agency theory which states that improved accountability and transparency enhance organizational performance by ensuring that resources are used efficiently and in line with organizational goals.

4.4.3.4 *Choice of method affects decision-making speed.*

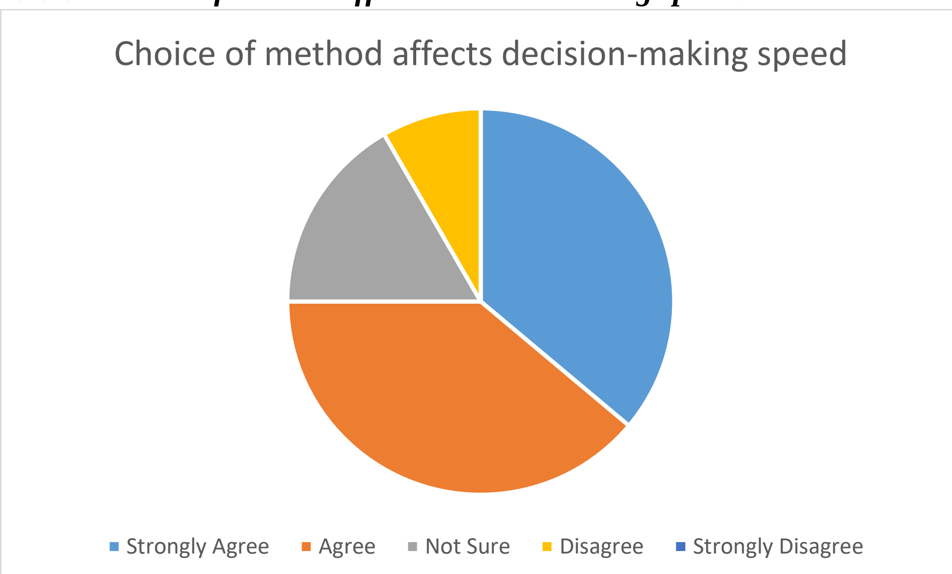

Figure 4.15 Choice of method affects decision-making speed

The figure represents the opinions of 36 respondents representing 100% response rate about investigating the relationship between budgeting methodologies and adaptability to market changes. From Figure 4.15, 36% strongly agreed that choice of method affects decision-making speed while 39% agreed. 17% were not sure while 8% disagreed. Organizations adopting more agile budgeting methods (e.g., rolling forecasts and "beyond budgeting") experienced significantly faster and more efficient decision-making compared to those using traditional budgeting approaches, suggesting that the choice of budgeting method can directly effect the speed of managerial decisions (Celestin, 2017). This supports the contingency theory which states organizational performance is therefore influenced not only by the existence of a budgeting system but also by the degree of fit between the budgeting approach and the organization's operating environment.

4.4.4 To evaluate the challenges organizations face in implementing different budgeting methodologies.

4.4.4.1 *Lack of expertise hinders advanced techniques.*

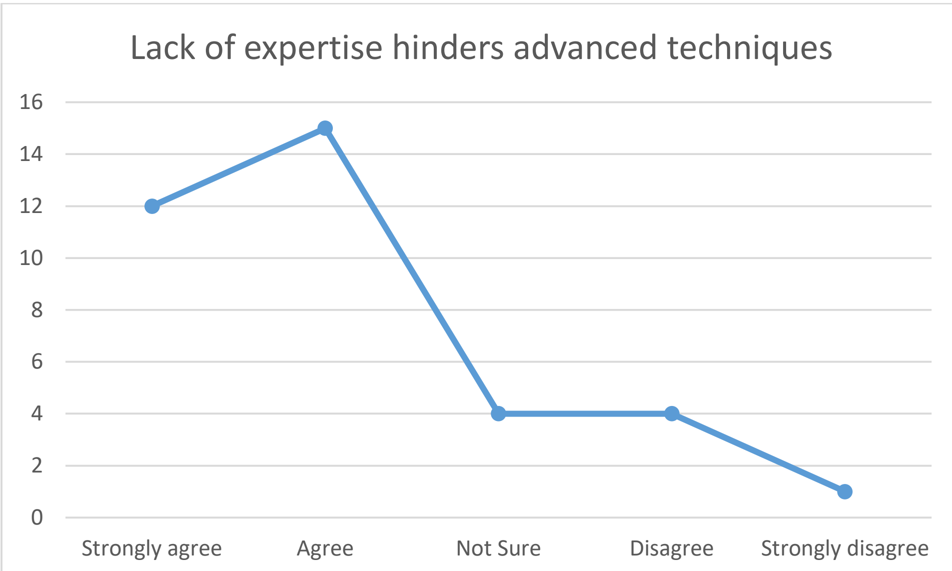

Figure 4.16 Lack of expertise hinders advanced techniques

The figure represents the opinions of 36 respondents representing 100% response rate about evaluating the challenges organizations face in implementing different budgeting methodologies. From Figure 4.16 above, 33% strongly agreed that lack of expertise hinders advanced techniques while 41% agreed. 11% were not sure while 11% disagreed and 3% strongly disagreed. Many small and medium-sized enterprises lacked sufficient management skills and technical expertise to effectively apply sophisticated capital budgeting methods, which in turn limited the organizations' ability to implement advanced budgeting practices and achieve desired planning outcomes (Nunden, 2022). This supports the agency theory which states that managers play a crucial role in the development and execution of budgets and budgetary control.

4.4.4.2 *Time and data constraints affect zero-based budgeting.*

The figure represents the opinions of 36 respondents representing 100% response rate about evaluating the challenges organizations face in implementing different budgeting methodologies. 39% strongly agreed that time and data constraints affect zero-based budgeting and 36% agreed.

14% were not sure and 8% disagreed while 3% strongly disagreed. Despite the theoretical appeal of zero-based budgeting, its implementation is frequently hampered by significant time requirements and insufficient performance data, which act as key obstacles to the method's widespread adoption (Grover, 2023). This supports the contingency theory which states that the effectiveness of budgeting depends on contextual factors such as organizational size, industry type, environmental uncertainty, management style, and technological complexity (Otley, 1980).

4.4.4.3 *Resistance to change affects transition between methods.*

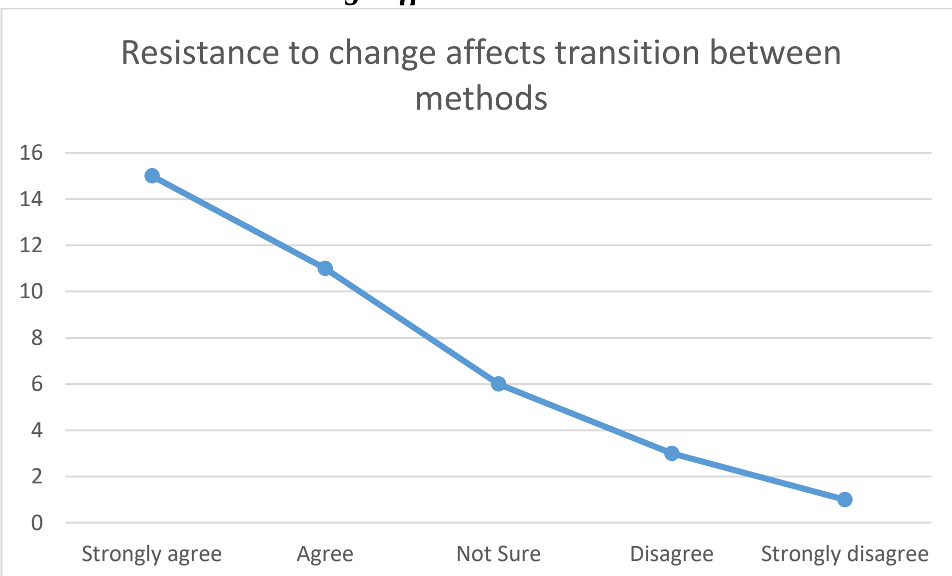

Figure 4.18 Resistance to change affects transition between methods

The figure represents the opinions of 36 respondents representing 100% response rate about evaluating the challenges organizations face in implementing different budgeting methodologies. From Figure 4.18 above, 42% strongly agreed that resistance to change affects transition between methods while 31% agreed. 16% were not sure while 8% disagreed and 3% strongly disagreed. The case study shows that organizations shifting from traditional budgeting to more adaptive methods frequently encounter substantial resistance to change—employees and managers alike hesitate to abandon established practices, which slows down and complicates the transition process (Beyond Budgeting & change…, 2014). This supports the behavioral theory of budgeting by indicating that employee participation, motivation, and perception of fairness influence the effectiveness of budgeting systems.

4.4.4.4 *Lack of management support reduces success.*

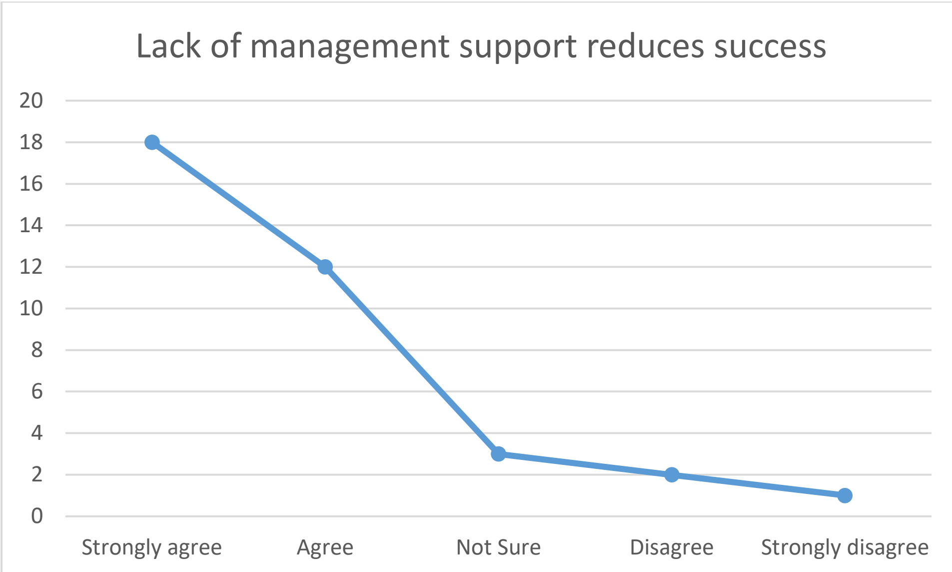

Figure 4.19 Lack of management support reduces success

The figure represents the opinions of 36 respondents representing 100% response rate about evaluating the challenges organizations face in implementing different budgeting methodologies. From Figure 4.19 above, 50% strongly agreed that lack of management support reduces success while 33% agreed. 8% were not sure while 6% disagreed and 3% strongly disagreed. Effective budgeting systems depend significantly on senior management commitment and oversight, noting that without visible top-management support the budgeting process tends to falter and organizational financial performance suffers (Kunnathuvalappil & Naveen, 2019). This supports the agency theory by demonstrating that managers may pursue personal interests that conflict with organizational objectives unless appropriate control mechanisms are in place.

Chapter 5 Conclusion and Recommendation

5.1 Introduction

This chapter provides the conclusion and recommendations based on the findings presented in Chapter Four. The study aimed to assess the effect of budgeting on organizational performance. This chapter summarizes the research findings, highlights the conclusions drawn from the study and provides actionable recommendations for stakeholders. Additionally, areas for further research are suggested to address any limitations and explore new dimensions.

5.2 Summary of Research Findings

The study examined the effect of budgeting on organizational performance by focusing on areas such as the effects of budgeting methodologies on achievement of strategic goals and long-term objectives, budgeting methodologies effect on employee performance and motivation, the relationship between budgeting methodologies and adaptability to market changes and evaluating the challenges organizations face in implementing different budgeting methodologies. The major findings are summarized as follows:

The main objective was to determine how different budgeting methodologies (such as incremental budgeting and zero-based budgeting) effect organizational performance. The findings demonstrated that budgeting methodologies do have an effect on organizational performance. Respondents strongly believe budgeting methodologies significantly effect performance, motivation, and adaptability — though challenges remain in implementation and management support.

The first specific objective was to compare the effects of different budgeting methodologies (such as incremental budgeting and zero-based budgeting) on the achievement of strategic goals and long-term organizational objectives. The findings determined that budgeting methodologies affect the achievement of strategic goals and long-term objectives as evidenced by 81% agreed budgeting methodologies influence achievement of long-term goals.

The second specific objective was to analyze how different budgeting methodologies affect employee performance and motivation through resource availability and departmental funding. The findings determined that budgeting methodologies affect employee performance and motivation as evidenced by 86% agreed effective budgeting improves morale and accountability.

The third specific objective was to investigate the relationship between budgeting methodologies and organizational adaptability to market changes and economic fluctuations. The findings determined that 83% agreed flexible budgeting enables responsiveness to economic changes.

The fourth specific objective was to evaluate the challenges organizations face in implementing different budgeting methodologies. The findings determined that challenges are present in implementing different budgeting methodologies as evidenced by 78% agreed that practical challenges (skills, time, and resistance) affect implementation. Additionally, most emphasized the need for training and leadership commitment.

5.3 Conclusion of the study

Business budgeting is important for the financial health and strategic management of all organizations. The problem statement examined that business budgeting still, however, remains a complex arena especially in its effect on organizational performance. Business budgeting and its effect on organizational performance is debated academically and professionally. Different literature argued in favor of business budgeting on organizational performance whilst others argue against. Some literature stated that business budgeting is favorable towards organizational performance as it results in improved financial control, enhanced accountability and improves performance monitoring and evaluations. Others argued against as they state it causes inflexibility, short-term focus and creates resistance to change. As a result, the inconsistency in academic and professional literature showed a need for the topic to be examined of its effect on organizational performance even further.

The study concluded that budgeting effects organizational performance. Budgeting significantly affect performance, motivation and adaptability. Challenges, however, remain in implementation and management support as lack of expertise hinders advanced techniques and lack of management support reduces success. These challenges can often be addressed by the budgeting approach used. Different budgeting methodologies suit different contexts and environments. Incremental budgeting is best for stability; whilst Zero Based Budgeting was best suited to dynamic, competitive environments.

5.4 Recommendations of the study

The first recommendation of the study is to enhance employee involvement in budgeting processes. The findings indicated moderate agreement that budgeting improves employee motivation. To strengthen this relationship, Nico Life should involve employees across all departments in budget formulation and review. This participatory approach can increase motivation, ownership, and accountability in achieving budget targets.

The second recommendation of the study is to align budgeting with long-term strategic objectives. Most respondents agreed that budgeting helps achieve long-term goals. However, for sustained success, management should ensure that annual budgets are directly linked to the company's strategic plans, ensuring resources are allocated to activities that drive long-term growth and competitiveness.

The third recommendation is to increase flexibility in budget implementation. Although budgeting was seen to enhance adaptability, some respondents were neutral or disagreed. Nico Life should adopt more flexible budgeting methods, such as rolling forecasts or activity-based budgeting, to better respond to market changes, economic fluctuations, and unforeseen challenges in the financial and insurance sector.

The fourth recommendation is to strengthen budget performance monitoring and feedback systems. To improve overall organizational performance, the company should implement regular budget performance reviews and variance analyses. Providing timely feedback and corrective action can ensure efficiency, improve financial control, and help managers make informed decisions.

5.5 Area for further study

The first further area for study is comparative study of budgeting techniques. Future research could compare the effectiveness of zero-based budgeting versus incremental budgeting in improving financial performance within financial institutions in Malawi or similar economies.

The second further area for study is the role of budgeting in employee motivation and retention. Since motivation results were less strong, further studies could explore how budget participation, transparency, and reward systems influence employee morale and retention in financial institutions.

The third further area for study is the effect of technological tools on budgeting efficiency. A study could examine how the use of digital budgeting tools and financial software enhances accuracy, timeliness, and adaptability in budget planning and execution.

The fourth further area for study is external economic factors and budget performance. Future research could analyze how macroeconomic variables (e.g., inflation, exchange rate volatility, or interest rate changes) affect budgeting effectiveness and organizational performance in the financial services industry.

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