

Research Article

Zero-Based and Financial Budgetary Control System as Predictors of Financial Performance of Manufacturing Companies in South-West, Nigeria

^aOkolocha, C.C. and ^{*b}Godwin-Maduiké, Chinwe Constance

^aDepartment of Business Education, Faculty of Technology and Vocational Education, Nnamdi Azikiwe University, Awka, Anambra State, Nigeria

^bDepartment of Procurement, Dangote Fertiliser Limited Ibeju-Lekki, Lagos State, Nigeria

*Corresponding Author Email: maduiké12@gmail.com

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Abstract

The study focused on zero-based and financial budgetary control system as predictors of financial performance of manufacturing companies in South-West, Nigeria. Two research questions guided the study and two null hypotheses were tested. Correlational survey research design was adopted for the study. The population comprised 44,082 budgetary control personnel in 18,666 manufacturing companies in South-West Nigeria. Proportionate stratified random sampling technique was used to select a sample size of 4409. The instrument for data collection was a structured questionnaire. The instrument was validated by three experts. Cronbach alpha method was used to obtain the reliability co-efficient for internal consistency and the values obtained were 0.89 and 0.93, with an overall co-efficient value of 0.91. Simple regression analysis was used to answer the research questions as well to test the null hypotheses. The findings of the study revealed that zero-based budgetary control is a strong predictor of financial performance of manufacturing companies in South-West, Nigeria while financial budgetary is a moderate predictor of financial performance of manufacturing companies. The findings further revealed that zero-based budgetary control and financial budgetary control significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience. The study concluded that zero-based and financial budgetary control system is a strong and moderate predictors of financial performance of manufacturing companies in South-West, Nigeria. It was recommended among others that institutions of learning where business/accounting education is offered should make conscious effort to formulate policies that will impact positively on knowledge and training on budgetary control systems. This is to enable students fit in properly in the work place after graduation.

Keywords: Zero-Based Budgetary, Financial Budgetary Control, Financial Performance, Manufacturing Companies.

Introduction

The annual public sector budget in any given economy in the world is targeted towards the developmental process of the country. It is an instrument of policy and as a vehicle for channeling resources to specific development projects and programmes. The potentiality of the budget to influence development is enormous and largely depends on the credibility of the budgeting control system in use or practice. Budgetary control is the process of developing a spending plan and periodically comparing actual expenditures against that plan to determine if it or the spending patterns need adjustment to stay on track. This process is necessary to control spending and meet various financial goals. Organizations rely heavily on budgetary control to manage their spending activities, and this technique is also used by the public and the private sector as well as private individuals, such as heads of household who want to make sure they live within their means (Mohamed *et al.*, 2015).

Adah (2016) defined budgetary control as the establishment of budgets relating to responsibilities of executives to the requirements of a policy and the continuous comparisons of actual with budgeted results, either to secure by individual action the objectives of that policy or to provide a basis for its revision. It is the

system of management control and accounting in which all the operations are forecasted and planned in advance to the extent of possible and the actual results compared with the forecasted and planned ones. Budget may be prepared for the business as a whole, for departments to function such as sales and production department, or for financial and resources items like cash, capital expenditure, manpower, purchase among others. The process of preparing and agreeing on type of budgets is a means of translating the overall objectives of the organization into detailed and feasible plans of action. Once the goals are set, which must be based on the detailed analysis of feasibility within the content of the political and social value which when properly planned enable the organization strive towards meet various financial goals. This mean that, when organization's goals are properly planned and put into operation, conditions prevail which tends to cause deviation from the plan and corrective measures are always taken into consideration through budget and its control. Therefore, to lend credence to goal congruence, suitable systems be applied to specific areas that need special attention, hence, effective implementation of budget in the organization. Thus, many organizations apply as many of the systems as possible in the cost control regardless of whether they are eventually used for initial trial in the business. Mohamed *et al.*, (2015) stated that budgetary control systems which include variance analysis, financial, responsibility accounting, adjustment of funds, zero-based budgetary are useful tool to predict financial performance of manufacturing companies and increases the goodwill of the business.

Businesses used budgetary control systems to monitor, evaluate, and ultimately enhance the efficiency of specific areas, such as departments, divisions, or product lines, with their operations. This is why, Odetoyinbo *et al.*, (2020) averred that budgetary control entails a predetermined plan, in financial terms to cover all phases of business activities and the operation of that plan in such a way that anticipated profit is as near as possible to realize profit achieved. This means that budgetary control system is a planning tool as well as a control. Odetoyinbo *et al.* noted budgetary control system to include variance analysis budgetary control, responsibility accounting budgetary control, zero-based budgetary control, financial budgetary control and non-monetary budgetary control among others. Thus, in this study, budgetary control systems used composed of zero-based budgetary control and financial budgetary control because they appear to be exceptionally vital for every business organization as it provides a comprehensive management platform for efficient and effective allocation of resources.

Zero-based budgetary entails constructing a budget without any reference to what has gone before, based on a fundamental reappraisal of purposes, methods and resources. The distinctive and essential hallmark of zero-base budgeting is its focus on the total budget request. The current spending level is not regarded as an inviolate base, predisposal from detailed scrutiny. Existing activities are examined along with proposed new activities as a contrast to traditional incremental budgeting systems, signifying that each spending agency has to justify every item in its request for funding. In the zero-based budgetary (ZBB) control system, every year budget is made on nil bases. It can only be possible, if an organization estimated income will be equal to the estimated expenses. At that time, difference between estimated revenue and estimated expenses will be zero. Any excess amount of money will be adjusted. To Ibrahim (2019), ZBB, takes a ground-up approach by taking a fresh look at merits and justifiability of all programmes and activities, past and proposed future activities, on a yearly basis and then makes the correct additions or removals of activities accordingly. Ibrahim *et al.*, (2017) revealed that the adoption of ZBB is politically feasible and offers more appealing opportunities in minimizing costs and prioritizing government's needs while adding value to the operational efficiency in the budgetary system. Beredugo *et al.*, (2019) reported that there is a significant difference between the zero-based budgetary and incremental budgetary techniques of time consumed, allocation of resources, zero-based budgetary control based on years of work experience. Alade *et al.*, (2020) revealed that budgetary control personnel with higher degrees may differ significantly from those with lower degrees on budgetary control systems in an organization. The finding is in line with that of Ka'oje *et al.*, (2018) who revealed that the state government has the capacity to implement ZBB. To this regard, zero-based budgetary control system is seen as a more detail-oriented alternative to increment of a list view. Another budgetary control system could be financial budgetary control.

Financial budgetary control is a system that details where the organization expects to get its cash for the coming period and how it plans to spend it. Mohamed *et al.*, (2015) noted that the usual sources of cash for financial budgetary control system include sales revenue, the sales of assets, the issuance of stock and loans. The importance of this system is to purchase new assets, and pay expenses, repay debts, or pay dividends to shareholders. Therefore, budgetary control systems are necessary to control spending and meet various financial goals. Manufacturing companies rely heavily on the budgetary control to manage their spending activities, and this system is also used by the public and the private sector as well as private individuals, such

as heads of household who want to make sure they live within their means (Mohamed *et al.*, 2015). Manufacturing companies use the budgetary control system in forecasting systems in order to make plan and budget for the future (Ekanem, 2014). Mohamed *et al.*, (2015) revealed that financial budgetary enhances budget control, improves efficiency and productively. Alade *et al.*, (2020) revealed budget planning has the ability to improve financial accountability in public sector. Koech (2015) stated that there was a significant relationship between financial performance in manufacturing companies and the three variables (planning, monitoring and control and participative budgetary irrespective of years of work experience. Therefore, acknowledging effects of company characteristics on firms' performance is paramount, whether the returns on investments, equity, assets or profitability.

Financial performance is a measure of the profitability position of an organization which is the difference between revenue generated from the sale of output and the full opportunity cost of factor used in the production of that output. Financial performance is the potential of a firm to be financially successful, the ability of an investment to make profit or the state or condition of yielding a financial profit or gain. However, profit could either be normal or supernormal. Normal profit is that minimum amount of profit which a firm must acquire in order to induce the firm to remain in operation. Basically, the issue of financial performance is a continuous issue that a company has to consistently make, because it is essentially concerned with the level of turnover that must be achieved in order to cover costs and make surplus. Tybout (2017) noted that in developed economies, the manufacturing sector is viewed as a leading edge of modernization and skilled job creation as well as a fundamental source of positive spillovers.

Thus, the financial performance of manufacturing companies is of vital importance since manufacturing firms stimulate entrepreneurial growth. In developing economies, Signé and Johnson (2018) stated that manufacturing firms in developing economies such as Ethiopia, Morocco, Malaysia, Nigeria and Turkey contribute significantly to the accumulation of physical and human capital. Considering the Nigerian economy, Oyedokun *et al.*, (2019) opined that quite a good number of manufacturing companies in Nigeria have ceased to operate, and more prominent companies have acquired many or at best, merged with other more prominent manufacturing companies. Few manufacturing companies that are still operating within the Nigeria market have resulted in performing at a suboptimal level due to managerial inefficiencies, internal control failures, fraud and weak corporate governance system.

The development of manufacturing companies is of paramount importance for any country, irrespective of their level of development. Manufacturing company is defined as industry that is involved in the turning of raw materials into new products by mechanical or chemical process at home or in the factory (Fapohunda *et al.*, 2017). It is viewed as companies that turn or convert raw materials into finished goods. Going by this definition, there are a lot of manufacturing companies in Nigeria and South-West in particular such as Dangote Group Plc, Unilever Nigeria Plc, Nestlé Nigeria Plc, Nigerian Breweries Plc, PZ Cusson Nigeria Plc, Flour Mills of Nigeria, Guinea Nigeria Plc, Lafarge Cement Wapco Nigeria Plc to mention but few. Some produce in small scale while others produce in large scale. They are classified into three groups such as light companies; that produce relatively light weight goods like matches, television sets, electric fans, books, among others; another one is consumer goods companies which turn raw materials into consumable goods and heavy companies that produce heavy or bulky goods. For the purpose of this study, the researcher utilized registered firms that manufacture in large scale within South-West, Nigeria because the area has numerous manufacturing companies and budgetary control personnel that need to apply budgetary control system in the courses of performing their office functions.

In manufacturing companies, budgetary control personnel usually perform the budgetary control or financial tasks of the companies. Egbunike and Unamma (2017) revealed that budgetary control personnel plan future directions and dimension of resources needed to attain selected goals of manufacturing companies. The budgetary control personnel in this study refers to finance managers, internal control managers and general manager of the company. The opinions of budgetary control personnel were considered in this study as they are experts in the business with varying length of work experience and educational qualifications. Mohamed *et al.*, (2015) reported that finance managers and internal control managers are in good position to achieve effective control of budgeting than the managers of manufacturing companies. As managers at the helm of budget control or financial management of the company, their decision on budgetary control system in their companies may be influenced by years of work experience.

Years of work experiences could influence budgetary control systems as predictors of financial performance of manufacturing companies. Years of work experience in the context of this study refers to number of years

in practice as budgetary control personnel. Egbunike and Unamma (2017) revealed that manufacturing companies who has more finance managers with 6-10 years and above 10 years of work experience had better results on budgetary control effectiveness in achieving organizational goals than those with below 11 years of work experience. Onyeka and Iroegbu (2019) revealed that was a significant relationship between financial budgetary control and financial performance in manufacturing companies' duo to growth rate of manufacturing companies in regards to control personnel years work experience. This assumption needs to be supported by empirical evidence in South-West, Nigeria which necessitated for this study. Therefore, years of work experience of budgetary control personnel are important for the coordination of the activities and departments of the manufacturing companies so that each aspect of the operations contributes towards the overall plan to achieve effective and efficient budgetary control. Thus, the decision on how to distribute limited financial and non-financial resources, in an effective and efficient manner, is an important challenge in all organizations and manufacturing companies in South-West Nigeria. The failure rate of the manufacturing companies in Nigeria particularly in South-West could be attributed to ineffective budgetary control system. Many of the manufacturing companies encountered various financial problem due to finance managers, internal control personnel and general manager's inability to apply budgetary control system appropriately. Poor budget control system may be attributed to overlapping of duties, indiscriminate use of fund meant for more viable activities which in most cases result to bankruptcy.

Again, the inability of many companies to plan and accomplished budget goals is traceable to their inability to apply controls in their budget system. Budgetary goals are not realized due to low level of understanding of the budget system by middle and low-level management staff. These deficiencies can therefore be addressed through the use of budgetary control system such as zero-based budgetary and financial budgetary. From the above scenario, the researchers considered it worthwhile to further determine whether difference exist in the respondents' opinions on zero-based budgetary and financial budgetary control as predictors on financial performance of manufacturing company in South-West, Nigeria based on the budgetary control personnel's, years of work experiences. This study is timely, necessary and a right-step in the right direction especially now that many manufacturing companies are facing serious issues which necessitated this study.

Statement of the Problem

The failure rate of the manufacturing companies in Nigeria particularly in South-West could be attributed to ineffective budgetary control system. Many of the manufacturing companies encountered various financial problem due to finance managers, internal control personnel and general manager's inability to apply zero-based and financial budgetary control system appropriately. Again, the inability of many companies to plan and accomplished budget goals is traceable to their inability to apply controls in their budget system. Budgetary goals are not realized due to low level of understanding of the budget system by middle and low-level management staff. These deficiencies can therefore be addressed through the use of budgetary control system such as zero-based and financial budgetary control system.

The need for appropriate zero-based and financial budgetary control system by manufacturing companies remains pivoted for their liquidity, profitability and sustainability of their companies. Considering the importance of budgetary control system above, contributions of manufacturing companies to the employment of youths and nations economy in particular, the researcher became worried at the rising cases of poor performance and collapse of manufacturing companies in South-West, Nigeria. The problem may not be unconnected with the budgetary control system as predictors of financial performance of manufacturing companies since no study was found to have been carried out in this regard in South-West, Nigeria.

Purpose of the Study

The main purpose of this study was to examine zero-based budgetary and financial budgetary control systems as predictors of financial performance of manufacturing companies in South-West, Nigeria. Specifically, the study determined if:

- 1) Zero-based budgetary control predicts financial performance of manufacturing companies in South-West, Nigeria.
- 2) Financial budgetary control predicts financial performance of manufacturing companies in South-West, Nigeria.

Research Questions

The following research questions guided this study:

- 1) What are the predictive value of zero-based budgetary control of financial performance of manufacturing companies in South-West, Nigeria?
- 2) What are the predictive value of financial budgetary control of financial performance of manufacturing companies in South-West, Nigeria?

Hypotheses

The following null hypotheses were tested at 0.05 level of significance:

- 1) Zero-based budgetary control does not significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience.
- 2) Financial budgetary control does not significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience.

Methods

The study adopted correlational research design. The population of the study comprised 44,082 budgetary control personnel in 18,666 manufacturing companies in South-West Nigeria. A sample of 4409 budgetary control personnel in registered manufacturing companies was used through proportionate stratified random sampling techniques. Data were collected using structured questionnaire. The instrument was a structured questionnaire titled "Zero-Based and Financial Budgetary Control System (QZBFBCS)" and "Financial Performance of Manufacturing Companies Questionnaire (FPMCQ)". The questionnaire was validated by three experts-two in business education and one in measurement and evaluation; all from Nnamdi Azikiwe University, Awka. Their comments enhanced the face validity of the instrument. To establish the internal consistency of the instrument, a trial-test was conducted.

Data collected in the pilot test were analyzed using Cronbach alpha to determine the internal consistency. Reliability coefficient values of 0.89 and 0.93 respectively with an overall coefficient value of 0.91 were obtained. Out of the 4409 copies of the questionnaire distributed to the respondents in their institutions through direct approach which facilitated the response rate, 4387 copies (representing 99 percent) were retrieved with an attrition rate of 12 copies (representing 1 percent) and used for data analysis. Data collected regarding the research questions were analyzed using simple regression analysis while hypotheses was tested using simple regression analysis.

In answering research questions, Cohen *et al.*, (2007) goodness of fit of regression model using squared regression coefficient (R^2) was adopted, where:

R^2 : 0–0.1 = weak;

0.2–0.3 = modest;

0.4–0.5 = moderate;

>0.5 = strong.

For the null hypotheses, the decision to reject or accept a null hypothesis is based on the probability value (p-value) and the 0.05 significance level. Where the p-value was less than or equal to 0.05, the null hypothesis was rejected but where it was greater, the null hypothesis was accepted. All analysis was done using Statistical Package for Social Sciences (SPSS) Version 23.0.

Results

Research Question 1: What are the predictive value of zero-based budgetary control of financial performance of manufacturing companies in South-West, Nigeria?

Table 1. Summary of simple regression analysis with zero-based budgetary control as predictor of financial performance of manufacturing companies in South-West, Nigeria.

	R	R ²	Adjusted R ²	B	SE B	B
Constant	.85	.76	.76	.22	.02	.87
Zero-based budgetary control				.93	.00	

The simple regression analysis as shown in the above table indicates that zero-based budgetary control is a strong predictor of financial performance of manufacturing companies in South-West, Nigeria. This is indicated by the regression coefficient ($R = .85$) and the coefficient of determination ($R^2 = .76$) which indicates that variance analysis budgetary control 76% of the variance in financial performance of manufacturing companies in South-West, Nigeria.

Research Question 2: What is the predictive value of financial budgetary control of financial performance of manufacturing companies in South-West, Nigeria?

Table 2. Summary of simple regression analysis with financial budgetary control as predictor of financial performance of manufacturing companies in South-West, Nigeria.

	R	R²	Adjusted R²	B	SE B	B
Constant	.71	.50	.18	1.47	.02	.42
Financial budgetary control				.51	.01	

Table 2 indicates that financial budgetary control is a moderate predictor of financial performance of manufacturing companies in South-West, Nigeria. This is shown by the regression coefficient ($R = .71$) and the coefficient of determination ($R^2 = .50$) which indicates that financial budgetary control explained 50% of the variance in the financial performance of manufacturing companies in South-West, Nigeria.

Hypothesis 1: Zero-based budgetary control does not significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience.

Table 3. Test of significance of simple regression analysis with zero-based budgetary control as predictor of financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel year of work experience.

	R	R²	Adjusted R²	F	p
Constant	.88	.78	.78	1839.24	.00
Zero-based budgetary control					

As shown in Table 3 above, the simple regression coefficient (R) is .88 while the R^2 is .78. The F-ratio associated with these is 1839.24 and the P -value = .00, since the P -value is less than the stipulated 0.05 level of significance, it was decided that zero-based budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies in South-West, Nigeria.

Hypothesis 2: Financial budgetary control does not significantly predict financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience.

Table 4. Test of significance of simple regression analysis with financial budgetary control as predictor of financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel year of work experience.

	R	R²	Adjusted R²	F	p
Constant	.74	.55	.55	628.86	.00
Financial budgetary control					

Table 4 above shows the simple regression coefficient (R) is .74 while the R^2 is .55. The F-ratio associated with these is 628.86 and the P -value = .00, since the P -value is less than the stipulated 0.05 level of significance, it was decided that financial budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies in South-West, Nigeria.

Discussion of Findings

The findings of research question one indicates that zero-based budgetary control is a strong predictor of financial performance of manufacturing companies in South-West, Nigeria. This indicates that zero-based budgetary control explained for 76% of the variance on financial performance of manufacturing companies. This means that zero-based budgetary control predicts financial performance of manufacturing companies as the system helps in having control over each and every amount of money spent during the year. The finding is in line with that of Ka'oje *et al.*, (2018) who revealed that the state government has the capacity to implement ZBB.

The simple regression coefficient revealed that zero-based budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies. The results revealed that years of work experience was significantly predicting zero-based budgetary control on financial performance of manufacturing companies. It followed therefore that both results revealed the null

hypotheses was rejected. The finding agrees with that of Beredugo *et al.*, (2019) who reported that there is a significant difference between the zero-based budgetary and incremental budgetary techniques of time consumed, allocation of resources, zero-based budgetary control among others irrespective of years of work experience. The finding is in line with that of Alade *et al.*, (2020) which revealed that budgetary control personnel with higher degrees may differ significantly from those with lower degrees on budgetary control systems in an organization. This implies that the similarities were as a result of cost incurred on the zero-based are curtailed, reduced to barest minimal and used for budget procedure rather than economic development.

The findings of research question two indicates that financial budgetary control is a moderate predictor of financial performance of manufacturing companies in South-West, Nigeria. This indicates that financial budgetary control explained for 50 percent of the variance in the financial performance of manufacturing companies. This means that financial budgetary control predicts financial performance of manufacturing companies as the system helps in purchase of new assets, pay expenses, repay debts, or payment of dividends to shareholders among others. The finding agrees with that of Mohamed *et al.*, (2015) who revealed that financial budgetary enhances budget control, improves efficiency and productively. The finding agrees with that of Alade *et al.*, (2020) who revealed budget planning has the ability to improve financial accountability in public sector.

The simple regression coefficient revealed that financial budgetary control of experienced budgetary control personnel is a significant predictor of financial performance of manufacturing companies. The results revealed that years of work experience and educational qualifications was significantly predicting financial budgetary control on financial performance of manufacturing companies. It followed therefore that both results revealed the null hypotheses was rejected. The finding agrees with that of Onyeka and Iroegbu (2019) who revealed that was a significant relationship between financial budgetary control and financial performance in manufacturing companies' due to growth rate of manufacturing companies in regards to control personnel years work experience. The finding agrees with that of Koech (2015) that there was a significant relationship between financial performance in manufacturing companies and the three variables (planning, monitoring and control and participative budgetary irrespective of years of work experience. This implies that the similarities were as a result of control spending to meet various financial goals.

Conclusion

Based on the findings of the study, it is concluded that zero-based and financial budgetary control system is a strong and moderate predictors of financial performance of manufacturing companies in South-West, Nigeria. It also revealed that budgetary control system helps to monitor, evaluate, and ultimately enhance the efficiency of departments, divisions, or product lines, with their manufacturing operations. Therefore, budgetary control are important systems and cannot be overemphasized. The findings revealed among others that zero-based budgetary control and financial budgetary control significantly predict the financial performance of manufacturing companies in South-West, Nigeria based on budgetary control personnel years of work experience. Finally, it was concluded that manufacturing companies' failure to use zero-based budgetary control and financial budgetary control effectively could result to the company being financially unsuccessful and inability to invest to make profit.

Recommendations

Based on the findings and conclusion of the study, the following recommendations are made:

- ☞ Institutions of learning where business/accounting education is offered should make conscious effort to formulate policies that will impact positively on knowledge and training on budgetary control systems. This is to enable students fit in properly in the work place after graduation. This will furnish students with the necessary information on applying various aspect of budgetary control by manufacturing companies in South-West and Nigeria at large for better performance, profitability and survival.
- ☞ Association of manufacturing companies should set yearly objectives for each performance indicator of their budgetary control system so that workers, the business owners and other employees should bear in mind the yearly set objectives for each indicator to be achieved.

Declarations

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