**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

****

**Department of A****ccounting**

**RESEARCH PROJECT**

**An investigation on the effects of using variance analysis as a tool for financial performance: case of Paramount Garment Works**

**BY**

**[Student Number B1953754]**

**This research is submitted to Bindura University in partial fulfilment of the requirements for the Bachelor of Commerce Honours Degree in Accounting.**

**YEAR: 2023**

# APPROVAL FORM

The undersigned is hereby certifying that she has supervised B1953754 research project entitled “An investigation on the effects of using variance analysis as a tool for financial performance: case of Paramount Garment Works,” submitted in partial fulfilment of the requirements of the Bachelor of Accountancy Honors Degree at Bindura University of Science Education.

…………………….. ………………………

Supervisor Approval Date

## RELEASE FORM

TITLE OF THE PROJECT : An investigation on the effects of using variance analysis as a tool for financial performance: case of Paramount Garment Works

DEGREE : Bachelor of Commerce Honours in Accounting Degree

YEAR GRANTED : 2023

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# DECLARATION

I the undersigned, [B1953754] declare that this research is my original work and has not been presented in any other University that all sources of materials used for the study has been accordingly acknowledged.

……………………………………………. ……………….

[B1953754] Date

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# ABSTRACT

The purpose of this research was to investigate the relationship between variance analysis technique and organizational performance. Paramount Garment Works has been facing significant budget variances due to ineffective variance analysis, resulting in repeated overspending and underspending by the organization. This challenge motivated the conduct of this study. The objectives of the research were to investigate the effect of variance analysis on enhancement of the financial performance, assess the effectiveness of variance analysis on enhancement of financial performance, To identify the benefits of using variance analysis as a tool for enhancement of financial performance and to determine challenges associated with using variance analysis to enhance financial performance. A descriptive research design was employed to gather the research data. 36 questionnaires were administered and interviews were carried out. The major findings were that the effects of using variance as a tool for financial performance are profit maximisation, facilitates business growth, expenditure tracking and operational costs; enhance employee motivation and forms base for performance evaluation. Variance analysis system is effective on enhancement of financial performance an organisation only when the external factors such as the prices of competitors, political stability and inflation are reduced to its lowest. Also when the organisational structure and culture supports the implementation and use of variance analysis within the organisation, the use of variance analysis will be effective and enhance financial performance. The management should engage into proper recruitment process and training of employees so as to reduce errors during the production which reduces negative variances, thus aiding to better financial performance.

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# CHAPTER ONE

## 1.0 Introduction

The significance of variance analysis as a cost-control tool has been studied in the past. In their studies, Suberu (2010), came to the conclusion that variance analysis is a crucial tool for management by exception, responsibility accounting, and organizational decision-making. Mohamed et al. (2015), on the other hand, came to the conclusion that variance analysis as a cost control has less relevance on the financial performance of the organization since organizational performance is primarily improved by the level of employee motivation. This chapter highlights the introduction of the research, background of the study, statement of the problem, research objectives, research questions, significance of study, assumptions of study, delimitation of study, limitations of study, definition of key terms and summary of the chapter.

## 1.1 Background of study

In any financial commitment normally for a prize, the costs that are accidental to it very well may be extensively investigated into material, work and upward. This is on the grounds that material is generally expected in any creation cycle; work is one more prerequisite to meet the compensation payable to the labourers and, thirdly, overheads which are treated as circuitous costs and are either factor or fixed. Nonetheless, in a help arranged business, accentuation on costs will be fundamentally not quite the same as say an assembling outfit as it will be more on work and upward. The costs that are unintentional to any financial commitment, typically for a prize, are likely to be thoroughly investigated in terms of material, labour, and upward. This is due to three factors: first, the common expectation that material would be used in any creative cycle; second, the requirement that work be done in order to pay the labourers’ wages; and third, overhead expenditures, which are regarded as indirect costs and can either be included in or fixed. Although the emphasis in a help-arranged business will be more on effort and upward, it will nevertheless differ fundamentally from, say, an assembling outfit. To upgrade an association's turnover and profit, however, costs and effective execution are unquestionably necessary for compelling administration management in cost reduction and evasion through waste in any structure. This is achieved by establishing a norm for each cost component in an action cycle. The following activities will be anticipated from a standard costing framework: (I) the precise planning of standard expenses; (II) the correlation of standard with real expenses; and (III) the routine survey of norms (Lynch, 2015). Despite the viability of the standard expenses setup, the results of comparing standard expenses and genuine displays rarely agree.

Pandey (2015) identifies two different types of modifications, namely: Positive and Negative Variances: When the actual expense deviates somewhat from the norm, it is referred to as a good or credit difference. However, when the true cost exceeds the usual costs, the important factor is referred to as terrible, hostile, or a charge difference. Overall, a change that positively impacts benefit is a positive difference, while a change that negatively affects benefit is a problematic difference. Positive differences give the image of effectiveness when standard expenses have been appropriately determined, while problematic variations show failure. A difference is considered to be a controllable variance if it can be inferred that a particular person is responsible for it, with the result that his degree of productivity can be indicated by its size. For instance, the foreman in question is normally responsible for making abundant use of the material. However, if the insufficient material was the source of the needless utilization, the Inspection Department may be responsible for failing to notice the flaws. It is regarded as wild fluctuation if it is assumed that a difference arises as a result of particular factors outside the control of the executives.

The attainment of an organisational goals depend on how organisations conducts planning and allocation of its available resources therefore variance analysis and budgeting are costing tools of paramount important in financial performance of the organisation (Njoki 2012). Paramount Garment Works, a clothing manufacturing company aims to coordinate variance analysis system be compliant with the requirements of the stakeholders and consistency. (Paramount Garment Works finance Manual 2020). According to the Finance Manual (2020), Paramount Garment Works (PGW) has been employing additional cost control strategies, such as activity based budgets, funding forecasts, and zero based budgets, which resulted in constant variances over the 10% benchmarks that are permitted by organization policies. Financial Statements (2021) show that the organization failed to analyze its budget deviations properly, and that failing to take corrective action had a detrimental influence on the organization's overall financial performance. The tables below show an example of the budget variations that PGW encountered in 2021:

**Table 1.1 Budgeted cost variance analysis for 2021**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Section** | **Actual** | **Budgeted** | **Variance** | **Variance** |
| 2021 | Corporate Wear | $1 000 000,00 | $650 000,00 | ($450 000,00) | -45% |
| 2021 | School uniforms | $800 000,00 | $694 800,00 | ($105 200,00) | -13.15% |
| 2021 | PPE Wear | $2 500 000,00 | $1 900 764,00 | ($599 236,00) | -23.97% |

**Source:** Paramount Garment Works Financial Reports 2021

Table 1.1 indicates illustration of analysis conducted at Paramount Garment Works (PGW) for the period 2021 which failed to conform to the 10% budgeted variance. Corporate wear, school uniforms and PPE wear all incurred costs above the budgeted costs by 45%, 13.15%, and 23.97% respectively giving a divergence from the established targets results from budgeted activities that were poorly executed, poor planning, and activities that cost more than what was anticipated.

## 1.2 Statement of the problem

Wide budget deviations at Paramount Garment Works over the course of 2021–2022, which indicate insufficient variance analysis management on the part of the organization, have resulted in no remedial action being done. Financial reports from 2021 said that insufficient budget management had a detrimental influence on the operation's performance because it failed to properly analyze budget deviations. Challenges have arisen, such as incomplete organizational activities, losing decrease in profits and failure to meet operational expenditures, motivating researchers to look into how variance analysis can improve financial performance.

## 1.3 Research Objectives.

### 1.3.1 Main objective,

To investigate the effect of variance analysis on enhancement of the financial performance

### 1.3.2 Sub-objectives.

1. To assess the effectiveness of variance analysis on enhancement of financial performance

2. To identify the benefits of using variance analysis as a tool for enhancement of financial performance

3. To determine challenges associated with using variance analysis to enhance financial performance

**1.4 Research Questions.**

### 1.4.1 Main research question.

What are the effects of using variance analysis as a tool for financial performance?

### 1.4.2 Sub-research questions.

1. How effective is the variance analysis on enhancement of the financial performance?

2. What are the benefits of using variance analysis as a tool for enhancement of the financial performance?

3. What are the challenges associated with using variance analysis to enhance the financial performance?

## 1.5 Significance of study

### 1.5.1 Bindura state university

The state university publishes exceptional research works or dissertations that can serve as a reference point for other students during their research.

### 1.5.2 Company

The study will be very helpful to the company since it will draw attention to the problem and motivate the top executives to come up with remedies or implement the research's suggestions in order to heal the financial wound.

### 1.5.3 Student

The researcher benefit from the study through developing innovative research ideas that enhance the skills which might vital in the accounting environment

**1.6 Assumptions**

The research study was carried out under the following set of assumptions. Non tax compliance by financial consultancy due to e-filing of tax returns will be present for the foreseeable future. The respondents work together and provide an honest assessment based on their best knowledge. The responders were eager to participate and offer accurate, timely, and trustworthy data. The researcher would maintain complete independence that will not affect the subject of the research. The researcher has enough financial resources to meet the expenses in carrying out the research.

## 1.7 Delimitations of the study.

The researcher’s study was limited to the effects of variance analysis on enhancement of financial performance of clothing manufacturing companies in Harare, using Paramount Garment Works as a case study. It was based on the data collected Paramount Garment works.

## 1.8 Limitations of the study

The presence of red tape and confidentiality which could limit the amount of data the researcher would be able to access directly from Paramount Garment Works. To mitigate this challenge, the researcher would convince the employees from Paramount Garment Works that the information collected would be used for academic purposes only and where necessary, publicly available sources such as the press, Websites, journal articles, business magazines and internet sites will be used.

Financial and time resources would also limit the ability of the researcher to analyse the whole population at Paramount Garment Works. The researcher would select a reasonable sample that is believed to fairly represent the population under study.

## 1.9 Definition of terms

**Variance analysis** - Is a quantitative analytical analysis of the discrepancy between actual and budgeted or intended levels of performance with the goal of determining the causes of the output deviations from expectations in order to maintain control over a firm.

**Financial Performance** – refers to an organization's actual output or results, which will be compared to its intended organizational objectives and aims.

**1.10 Organisation of the study**

The research will consist 5 chapters. The backdrop of the research problem, the research objectives, the research questions that will be addressed by the research and the rationale for the research are all provided in the first chapter. The literature on the subject of the investigation will be examined in Chapter 2 together with the secondary data that is available to support the study. The third chapter, which discusses research methodology, is concerned with how the researcher would collect the data for this study. Data from both field surveys and secondary sources of data will be presented, analyzed, and the results will be noted in chapter 4. Lastly, Chapter 5 will draw conclusions about the findings and offer suggestions for further research on the subject.

## 1.11 Chapter Summary

The specific concerns that have been examined and evaluated in this research are described in this chapter. The study's context, problem statement, objectives, sub-research questions, constraints, and delimitations were all given special attention. The following chapters will give a thorough overview of the research.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

The chapter reviews earlier research on the effect of variance analysis on financial performance. The chapter began with a theoretical framework before moving on to discuss literature that related to all of the study's aims. This chapter discusses empirical data. Research gaps left by earlier researchers were found, and the new paper clearly explains how it filled the hole. A summary of the literature studied appears at the end of the chapter.

## 2.2 Theoretical Framework

### 2.2.1 Agency Theory

Koech (2015) defines an agency relationship as an arrangement in which one or more individuals hire someone else to perform certain tasks on their behalf and grant a degree of decision-making authority to that agent. The central premise of agency theory is that principals and agents have different interests. It is worth noting that the principal can significantly reduce the discrepancy between his or her interests and those of the agent by creating appropriate incentives for the agent and incurring monitoring costs to prevent the agent from acting opportunistically. Managers and the board of directors act as representatives of a firm's stakeholders in the real business world. Therefore, managers are expected to attend to the needs of stakeholders who have the power to reward or punish them (ACCA, 2017).

Public firms hold annual general meetings to solve agency issues. The authority of managers and directors are constrained by the decisions made by shareholders at annual general meetings. According to Roberta (2010), some of the activities that take place during annual general meetings include the review and approval of the company's financial accounts, discussions on dividend distributions, and the review and approval of the company's budget and capital expenditures.

The theory is relevant to this research because it helps explain how managers (agents) can reduce conflicts with shareholders (principals) who expect dividends every year by addressing the variance issue. Negative variances usually result in reduced dividends, and this can lead to situations where management (agents) consistently fails to report dividends to the principal (shareholder), while still enjoying significant monthly benefits.

## 2.3 Effects of variance analysis on financial performance.

### 2.3.1 Profit Maximization

The implications of variance analysis were highlighted as profit maximization by Preetabh, (2010), who was quoted by Adongo (2013). Variance analysis targets to maximize profits for a company's departments, such as marketing, finance, production, and human resources, are properly planned and coordinated, and varied capital and revenue expenditures are properly controlled while making the best use of the resources at hand. Coordination can be achieved by collaborating with various departments and industries. The business is a network. It has departments that need to work together smoothly in order for it to accomplish the organizations' objectives. This is achieved through effective variance analysis systems within the organisation (Adongo 2013). The variance analysis systems are designed in such a way that they enhance financial performances of organisations.

### 2.3.2 Facilitation of Business Growth

Variance analysis is used by some private sector participants to gauge their industry's expansion Assey (2014). The global goliaths of tomorrow are the small industrial companies of today. Implementing efficient methods for variance analysis allows for this. Some companies use incremental budgeting as well as other techniques when establishing their sales budgets. The budget is therefore established at a level that is larger than the actual results from the preceding year. This leads to a situation where sales are growing yearly. An indication of growth is a rise in sales on an annual basis (Assey, 2014). The sales revenue can be used to gauge growth. The increased sales bring in increased profits, which are afterwards used to accumulate reserves in order to open new branches. In the long run, businesses that effectively manage their budgets achieve economies of scale (Assey, 2014)**.**

### 2.3.3 Provision of expenditure tracking and reduction of operational costs

Comparing the intended output with the actual outcome is what variance analysis entails. By comparing anticipated or budgeted expenditure with actual expenditure, management might spot disparities. Variations could be positive or negative. In order to determine which department has significantly contributed to the organization's profits or losses, management must examine variances across a number of cost categories, including material, labor, and overhead variances (ACCA 2017). Cost-effective procurement may result from some of the recommendations (Adongo 2013). Because it is challenging for certain clothes manufacturing companies in today's business environment to expand their top line, they have turned to cutting costs in order to increase their bottom line.

**2.3.4 Motivation of Employees**

According to Kaplan (2016), human resources professionals have noted that variance analysis is a useful tool employed by manufacturing companies to motivate their workforce. Motivation of employees is achieved when the workforce achieve a favourable variance, that is, when the actual sales is greater than the targeted sales, actual output is greater than the expected output or when actual costs incurred in procurement are less than the budgeted costs of purchasing raw materials Assey (2014). The difficulties they encountered that prevented them from meeting the outlined budgets were better understood by the workers on the ground. In contrast, a scenario where only top management sets the budget and requires staff to adhere to a strict and perhaps unachievable budget can be counterproductive. Such budgets may intimidate employees, leading to resistance instead of motivation, which could be detrimental to the organization.

### 2.3.5 Enhancement of performance evaluation

An effective way of measuring the performance of the management and other employees is through implementation of variance analysis system within the organisation. By contrasting actual results with budgeted results, managers' performances are assessed. This will make it possible for the business to distinguish between high- and low-performers. Managers that consistently accomplish favourable variances are probable to be acknowledged through promotion, allowing the organisations to use the available expertise to meet its overall objectives (Drury, 2013). The current research looked specifically at the effects of variance analysis on the financial performance of Paramount Garment Pvt Ltd, a garment manufacturing company, after realizing the various effects of variance analysis on the performance of businesses.

## 2.4 Factors affecting the use of variance analysis on financial performance

Numerous external and internal factors that have an impact on an organization's variance analysis process have been discovered by researchers and academic experts. Political, economic, social, technological, and legal considerations are examples of external variables. The internal variables include a company's structure, culture, employee engagement, and internal training program.

### 2.4.1 External Factors

According to Horgren (2009), cited in Muzadzi (2014), changes in the political environment such as rallies, wars, protests, and political campaigns—and economic changes, like meltdowns, force businesses to change their budget techniques and factors. As a result, businesses must adapt to the current political and economic climate in order to survive.

Amoako et al. (2008) challenged the notion that political structure, economic change, social change, legal change, and ecological change have a significant impact on enterprises, as changes in today's business environment occur more frequently and without prior notice. The external factors that shape the current business environment are constantly changing. Kazeem et al. (2014) cite Anohene (2011) who argues that external factors, including political, economic, and social changes, compel firms to alter their operations, which can affect the variance analysis and budgeting process.

### 2.4.2 Organisational Structure

Kaplan (2013) has noted that the centralization of authority affects variance analysis methods. A prominent author has identified three components of organizational structure that can positively or negatively impact the budgeting process: the complexity of the organizational structure, the scope of control, and the decision-making procedures. Lucey (2010) argues that a decentralized organization can respond quickly to changes in the operational environment since local managers have the authority to adjust their budgets to reflect current local changes. In contrast, a centralized organizational structure, where all decisions must be approved by senior management or head office, may negatively affect the organization's ability to control costs. Decision-making can also be slower in a centralized organization.

### 2.4.3 Organisational Culture

Muzadzi (2014) asserts that if an organization fosters a culture of honesty and transparency from top management to subordinates, the variance analysis process will be devoid of budget slacking and gaming, thus enhancing the budget process. However, budget slacking and gaming are persistent issues in organizations with top management lacking integrity, openness, and honesty. Due to organizational politics, some departmental heads may manipulate the scheme to promote their personal interests at the expense of the company's interests, leading to skepticism during the variance analysis process. In such situations, budget figures may be altered, significantly affecting the results of variance analysis (Demera, 2017)

### 2.4.4 Recruitment and training of employees

The competence, experience, and credentials of personnel determine their capacity to build a suitable variance analysis system (Kaplan 2013). Employees who have received proper training are better equipped to create realistic budgets that can be achieved, as well as better ways to apply variance analysis and budgets. The outcomes are consistent with the empirical outcomes of Lajevardi (2017), who discovered that employment strategies in the Iranian automobile industry were crucial because they reveal the quality of the company's human resources in relation to their contribution to competent and high-quality output for the company. If variance analysis is to be successful, Perrin (2012), cited in Adongo (2013), it must have the full acceptance and support of the people who hold important managerial positions.

## 2.5 Benefits of variance analysis on financial performance

Westland (2011) outlines a four-step approach that helps organizations to analyze their variations efficiently in order to enhance their decision making, which will then improve the overall financial performance of the organization.

### 2.5.1 Continuous business forecast

According to Periasamy (2010), continuous forecasting refers to predicted behaviors and occurrences that are primarily concerned with the assessment of likely long-term events that are merely a rough guess and lead to planning. According to him, the variance analysis approach is beneficial because continuous budget forecasting allows management to address negative deviations as soon as they occur. This view is shared by Terfassa (2015) and Westland (2011), who both stated that budget predictions give management frequent budget oversight and shield an organization from significant budget overruns.

### 2.5.2 Well informed team

According to Westland (2011), an excellent awareness system in which all organisational personnel are kept well informed of the budgets established as each personnel contributes to the advancement of the organisational performance, is necessary for effective variance analysis. Mukumba (2014) asserts that a participative approach is necessary for an organization to succeed, employees and management must be well informed to improve performance. Terfassa (2015) concurs with the other authors when he states that keeping the team informed fosters a culture in which workers take full responsibility for their tasks. As a result, they are more likely to keep an eye out for their projects' budgetary requirements, which improves the effectiveness of variance analysis.

### 2.5.3 Regular resource usage forecast

According to (Smith 2014), the secret to a successful variance analysis is to assign the appropriate resources to the appropriate tasks for the appropriate length of time. According to Westland (2011), who concurs with this, maintaining track of resource utilization guarantees that a company is using its resources wisely and within the limits of the budget, which has a good effect. Terfassa (2015) agrees with the former writers when he claims that regular resource usage forecasts help organizations achieve their goals because they provide an early warning of any unfavorable deviations, enabling the organization to take remedial action before deviating from its budgetary plans. Therefore, resource utilization forecasting acts as a deterrent to unfavorable budget variations, enhancing the efficiency of variance analysis.

## 2.6 Limitations of variance analysis on financial performance

### 2.6.1 Human judgement, interpretation and evaluation

The information used in the variance analysis method is largely generated from predicted budgets, which are significantly impacted by human judgment, interpretation, and evaluation. The variance analysis system involves forecasting, which carries the risk of unexpected future events. According to CIMA (2016), the primary issue with traditional budgetary control is that it mostly focuses on expenditures while paying little attention to the outcomes achieved as a result of the expenses incurred. For instance, the marketing director may forego an opportunity to sell more products by increasing the travel of their salespeople because it would result in an unfavorable variance, where travel expenses exceed the budget. Kaplan (2016) also identifies another common limitation of financial controls, which relates to how budgets are finalized. The budgets are typically prepared in a few companies based on historical performance rather than anticipated future needs. This tends to give the impression that the organization is working according to a plan when, in reality, it is simply following historical trends.

### 2.6.2 Inconsistency in application of the variance analysis technique

According to Bragg (2012), the adopted variance analysis system must be used consistently throughout all manufacturing areas and customized as necessary. This is done in accordance with the organization's actions at all times, reaction to on-going losses and declining revenue (Lehman, 2013). Furthermore, Sahu (2015) hinted that on-going cost reduction helps businesses quickly stabilize in the face of uncertain occurrences like economic downturns. To ensure that the plan is successful, the variance analysis scheme must be applied uniformly throughout the organization (Burbige, 2014). Inadequate planning within the organization and recurring losses will come from failing to implement the variance analysis system year after year.

### 2.6.3 Improper cost management and control

Schawk (2014), before using variance analysis programs to improve financial performance, businesses must start their education and training programs. Only when the variance analysis schemes are properly introduced and implemented to the workforce with a wealth of knowledge about how to use the scheme to enhance financial performance can the organization's financial performance be improved (Suer 2013). Companies must start working on cost-cutting engineering and use certain professionals in the program.

## 2.7 Empirical review

The company benefits from variance analysis when valuing costs and spotting wasteful spending (Bloomberg (2012). Management must start evaluating the benefits of a specific spending. Rajan (2012) conducted a study on the benefits of variance analysis implementation and came to the conclusion that manufacturing companies can reduce costs and boost profits by performing variance analysis on specific costs and cost centers. According to the Institute of Value Engineers (2016), it then looks for ways to improve financial performance by either reduction their costs or increasing the value contained therein. The company avoids extra cost by substituting items that don't meet the required specifications and adding more costs to the manufacturing process, which lowers costs and boosts financial performance (Singh 2014).

A study on the application of variance analysis as a technique for manufacturing enterprises in the food production industry was conducted by Bicheno and Gage in 2014. They used mixed research and random sampling. Some of the conclusions include the fact that variance analysis is time-consuming, labor-intensive, and slow in identifying issues in various production components. In order to keep up with completion and a rise in output to fulfill consumer demand, it is also necessary to analyze competition strategies..

Munoz (2014), on the other hand, came to the conclusion that variance analysis boosts a company's financial performance by enhancing the effective use of limited resources. This was the result of study he conducted in Spain on a variety of organizations. Chigara et al. (2013) also concurred that starting a variance analysis helps remove idle and surplus production expenses and promotes efficient resource allocation, which enhances an organization's financial performance.

However Cole (2012) disagreed that the variance analysis has a significant effect on financial performance of manufacturing firms. In his study, he found that the decisions shareholders make to improve financial performance differ from shareholder to shareholder, therefore one shareholder may not have an impact on the decision the company makes to apply variance analysis. Additionally, he came to the conclusion that actions made by shareholders, both majority and minority, had a neutral impact on financial performance.

Sandal's (2015) research corroborated this, some of the benefits implementing variance analysis within organisation include continuous forecast, facilitates basis for performance evaluation within the organisation, regular resource usage forecast, and Some of the benefits encountered in businesses include controlling internal resources and improving service quality.

## 2.8 Chapter Summary

This chapter presents a review of the literature on variance analysis and its impact on financial performance. Using supporting literature from other researchers, the effectiveness of the variance analysis tool implemented at Paramount Garment, its impact on the organization's financial performance, and other factors influencing organizational performance have been assessed

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# CHAPTER 3

# RESEARCH METHODOLOGY

## 3.0 Introduction

In Chapter 3, the research technique that was used to collect pertinent data is detailed, along with how the data from the research were analyzed and how the methodology was justified. There is also a complete explanation of the population and sample techniques, as well as the study strategy and design. The chapter defines the data sources used, as well as the authenticity and dependability of the tools used to obtain the data.

## 3.1 Mixed Research Method

Venkatesh et al. (2013) define the mixed research strategy as a research framework that involves the collection, analysis, and integration of both qualitative and quantitative data in a single study. This approach combines both types of research data.

The advantages of utilizing a hybrid strategy outweigh the drawbacks of either the qualitative or the quantitative technique, according to Kowalczyk (2015), who also supports its use because it offers a more thorough grasp of the study subject. The fact that the mixed research approach takes into account both quantitative and qualitative research material makes it the most suitable. The study's other objectives included assessing the efficacy of the measures implemented by manufacturing organizations in its variance analysis tool, as well as the connection between successful variance analysis and organizational financial performance.

**3.2 Research Design**

This section presents a comprehensive description of the methodology that will be employed for the research. Bynner & Stribley (2010) define the research design as a plan that details how the research data will be collected, the instruments to be used, how they will be utilized, and how the data will be analyzed. According to Mooi (2011), the research design is a logical approach for integrating various components of a study. Based on the research topic, descriptive research was deemed the most appropriate method for this study, as noted by the authors cited below.

### 3.2.1 Descriptive Research

Johnson (2013) defines descriptive research as a branch of science that involves watching and characterizing a subject's behavior while maintaining objectivity. This sort of research is useful for analyzing relationships between variables and describing the current issue because it can be either quantitative or qualitative. It is possible for this study to achieve its goal of analyzing the relationship between variance analysis and financial performance because of this feature of the research design.

According to Bynner & Stribley (2010), research approach adopts a "what is" approach, making it suited for this study's goal of assisting manufacturing organizations in determining the optimum strategy for achieving successful variance analysis. Descriptive research, according to Johnson (2013), reveals problems so that corrective action may be taken, since it reveals what is desired, what is not desired, and how to obtain the desired outcomes. Additionally, this design helps to clarify the research topic and is therefore highly helpful in comprehending the variance analysis idea that is at the heart of this study. As a result, this study will be carried out utilizing a descriptive methodology using Paramount Garment Pvt Ltd as a case study.

## 3.3 Population and sampling

### 3.3.1 Population

According to Wienclaw (2015), the population is the totality of elements that meet the researcher's requirements and have specific characteristics. It refers to all of the instances from which the sample is drawn. Populations that are accessible and those that are targets are segregated

**Target Population**

Target population constituted population of 60 individuals from the three main sectors that make up Paramount Garment, which is the full group of respondents or objects to which a research will generalize the findings of the study according to Wienclaw (2015).

### 3.3.2 Sampling

This study was conducted using a sample rather than a census because it was impossible to speak with every employee at Paramount Garment. Farooq (2013) criticized the use of a census as a tool for data gathering, claiming that while it is feasible in certain situations, such as population censuses, it is inconvenient because it needs a lot of time and labour. The selection of a set of behaviors, persons, events, which may includes characteristics with which a study was conducted, according to Wienclaw (2015), constitutes sampling. As stated, sampling is a useful technique for data gathering that makes it possible to gather data more quickly while still giving detailed and comprehensive data. Basing on time limits and resources available, the sample method was the best option for gathering information from Paramount Garment since it is less expensive, takes less time, and is more accurate.

### 3.3.3 Sample size

This is the number of observations included in a sample, and in this study, the sample consisted of 60 people, or 33% of the population that was the subject of the study.

**Table 3.1: Sample size**

|  |  |  |
| --- | --- | --- |
| **Targeted group** | **Population** | **Sample population** |
| Corporate wear department | 60 | 20 |
| School uniforms department | 60 | 20 |
| PPE wear department | 60 | 20 |
| **Total** | **180** | **60** |

### 3.3.4 Sampling method

Stratified random sampling, according to Andersen et al. (2011), includes grouping components with similar qualities into strata. According to Mohamed et al. (2015), stratified random sampling is encouraged since it allows for accurate population representation and lowers selection bias because the population is separated into subgroups.

## 3.4 Data Source

### 3.4.1 Primary Data Source

### A data source refers to the origin of the information gathered for a study, which can be either primary or secondary. Primary data sources are described as firsthand and original information, and according to Johnson (2013), they provide an author's unique perspective, fresh information, or original conclusions based on prior research, making them more useful and effective for a study. This study employed primary data sources to enable the interpretation of data, rather than relying on findings from previous studies. Furthermore, the advantage of using this data source was the ability to create custom inquiries.

### 3.4.2 Secondary Data

According to Jewel (1997), secondary data is "already available and collected information." This suggests that the data were acquired prior to this investigation and with a different goal in mind. The key area of interest for the researcher was variance analysis and how it affected the financial performance of Zimbabwean apparel manufacturing companies. In light of the objectives of the variance analysis system, these variables were investigated.

## 3.5 Data collection instruments.

This is a reference to the methods that will be utilized to gather data for a study. Data from Paramount Garment were gathered through questionnaires and interviews for this study.

### 3.5.1 Questionnaires

It is possible to obtain primary data via questionnaires, which also have the advantage of collecting both qualitative and quantitative data. Questionnaires can also be useful for gathering substantial amounts of data from a sizable sample. McNabb (2013) supports the usage of questionnaires. Questionnaires allowed for the collection of quantitative data because the purpose of this study was to determine the association between poor variance analysis and organizational performance. At the same time, goals like figuring out how well Paramount Garment's variance analysis tool works were accomplished because the surveys were also used to gather qualitative data.

### 3.5.2 Interviews

According to McNabb (2013), interviews are a type of qualitative data source used to extract information from subjects through the use of predetermined questions. Interviews provide the advantage of getting more data from fewer participants, which is helpful in gathering an expert or knowledgeable perspective on a topic. The interviewer might take note of the respondents' expressed and unstated activities by asking respondents to elaborate on their areas of interest. Face-to-face interviews were used in the research to acquire a wide variety of data.

## 3.6 Validity and Reliability

The consistency and veracity of a study's facts are what determine a study's reliability and validity (Saunders 2010). A study must accurately represent the population being studied in order to be viable. In this study, reliability was achieved by consistently using the same data subject to generate the same results using the same research tools. By contrasting the what, why, and how of the current situation under study with the information collected, viability was called into question. Since primary data was collected, the research became pertinent to the current research topic since it was grounded in actual data.

## 3.7 Data Presentation

The results of this study were presented in flow diagrams, tables, and pie charts. From the conducted interviews and the disseminated questionnaires, both the qualitative and quantitative data were gathered.

## 3.8 Data Analysis

Biffignandi (2011) defines data analysis as a process of logically and analytically examining the different components of data to generate information that can aid decision-making. In this study, the data was organized and analyzed using tables, pie charts, and statistical measures such as the mode. The researcher utilized Microsoft Excel 2010 to analyze the data in a simple manner.

## 3.9 Ethical Consideration

According to Driscoll and Brizee (2012), doing research researcher must consider how participants may feel about the study's possibilities. To make room for this, participants' consent was requested, and their participation was voluntary. Respondents were instructed not to include their names on the questionnaires; therefore the study was done in an anonymous manner. The study was conducted strictly for academic objectives, and as was noted, the research findings were accurately conveyed without bias.

## 3.10 Chapter Summary

The study approach used to gather the research data was thoroughly described in Chapter 3 of the book. There were detailed descriptions of the population, design, and research methods. The analysis and presentation of the data gathered will be discussed in the next chapter.

**CHAPTER IV**

**DATA** **PRESENTATION AND ANALYSIS**

## 4.0 Introduction

The objective of Chapter 4 is to present and analyze the data collected in this study to draw conclusions regarding the impact of variance analysis on enhancing the financial performance of Zimbabwean textile manufacturing enterprises.

## 4.1 Questionnaire response rate

The researcher managed to send out 60 questionnaires to the selected respondents from Paramount Garment Works in Harare. A total of 60 questionnaires were completed and collected, representing a 100% response rate.

**Table 4.1 Questionnaire response rate:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Respondents** | **Questionnaires distributed** | **Questionnaires returned** | **Response Rate %** |
| Corporate wear division | 20 | 20 | 100 |
| School uniforms division | 20 | 20 | 100 |
| PPE wear division | 20 | 20 | 100 |
| **Total** | **60** | **60** | **100** |

**Source: primary**

Wegener and Babbie (1993) considered a response rate of fifty percent as adequate while that of sixty percent as good. Since the response rate is 100 percent (100%), the researcher proceeded to analyse the data in this case.

## 4.2 Demographic data

### 4.2.1 Level of qualification

**Table 4.2 Level of highest qualification**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Qualification** | **Diploma** | **Degree** | **Masters’ Degree** | **Professional** |
| **Corporate Wear** | 10 | 3 | 4 | 3 |
| **School uniforms** | 12 | 2 | 2 | 4 |
| **PPE Wear** | 9 | 8 | 3 | 0 |
| **Total** | **31** | **13** | **9** | **7** |

**Source: primary**

As shown by the table above the level of education of the respondents with the highest frequency is the diploma class with a frequency of 31. They constitute 52% (31/60) of the respondents. Respondents who are holders of degrees constitutes 22% (13/60), followed by those with Masters Degrees at 15% (9/60) and holders of professional certificates constitutes 12% (7/60). The findings of the study show that the respondents had reasonable education to execute the roles assigned to them effectively and efficiently and make prudent decisions.

### 4.2.2 Years of working experience

The researcher also tried to ascertain the work experience of the respondents amongst the 3 divisions in Paramount Garment works which are corporate wear, school uniforms and PPE wear in order to determine experience with variance analysis. The following table depicts the information.

**Table 4.3: Working experience**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Number of Years** | **5-10 years** | **11-15 years** | **16-20 years** | **Above 20 years** |
| Corporate wear division | 8 | 6 | 4 | 2 |
| School wear division | 10 | 5 | 3 | 2 |
| PPE wear division | 5 | 7 | 5 | 3 |
| **Total** | **23** | **18** | **12** | **7** |

**Source: primary**

Results in Table 4.3 above indicates that 23 employees have 5-10 years working experience, 18 employees have 11-15 years working experience at Paramount Garment Works, 12 employees have work experience ranging between 16-20 years while only 7 respondents out 60 respondents have working experience above 20 years. This aided to obtaining credible data from a bigger number of chosen respondents who were highly knowledgeable about effects of variance analysis on enhancement of financial performance of Paramount Garment works in Zimbabwe.

## 4.3 RESEARCH FINDINGS

### 4.3.1 Effects of variance analysis on financial performance

**Source: primary**

**Figure 4.1 Effects of variance analysis on financial performance**

The results shown in table above 60% strongly agree and 15% agree that variance analysis has effects on financial performance through profit maximisation that is variance analysis can enhance profit maximisation within the organisation. 15% of the respondents were neutral and only 10% of the total respondents disagree that variance analysis affects the profitability of the organisation. The results are in agreement with the findings highlighted by Profit maximization was one of the outcomes of variance analysis that Preetabh, (2010), emphasized.

The findings shows that 80% and 10% of the chosen respondents strongly agree and agree respectively that variance analysis has effects on business growth, that is variance analysis enhances business growth, thus improving financial performance of the organisation. 5% of the respondents were neutral, while the other 5% of the respondents were in disagreement with the fact that variance analysis enhances business growth which further enhances financial performance of the organisation. The findings corroborate Assey's (2014) assertion that tiny manufacturing companies of today will eventually grow into international behemoths. Implementing efficient methods for variance analysis allows for this. This leads to a situation where sales are growing yearly. An indication of growth is the annual increase in sales.

The respondents highlighted that the use of variance analysis enables the organisation to keep on tracking its daily expenditure effectively. The view is supported by the results presented in **figures 4.1** which show that 55% and 20% of the involved respondents strongly agree and agree respectively that the use of variance analysis enables the organisation to track its expenditure. Only 5% of the respondents were neutral to the question, while 20% of the respondents disagree that variance analysis facilitates expenditure tracking within the organisation. The view was supported by the Adongo (2013) who highlighted that variance analysis involves the process of comparing the targeted output against the actual output. In order to identify variances, which can be either favorable or unfavorable, management must compare targeted or budgeted expenditure with actual expenditure, according to Adongo (2013). By analyzing variances of different cost categories, such as material variances, labor variances, and overhead variances, management can identify the department that has made a significant contribution to the organization's losses or profitability.

Moreso respondents highly regarded that the use of variance analysis enhance employees motivation within the organisation, this supported by the results presented in **figure 4.1** which shows that 70% and 15% of the respondents strongly agree and agree to the question. Only 5% of the respondents were neutral and 10% were in disagreement that variance analysis enhances employees’ motivation within the organisation as they will be closely monitored on variances. The results were corroborated by Kaplan (2016), who emphasized that human resources professionals had noted that businesses in the manufacturing sector were using variance analysis as a powerful tool to energise their workforces. Motivation of employees is achieved when the workforce achieve a favourable variance, that is, when the actual sales is greater than the targeted sales, actual output is greater than the expected output or when actual costs incurred in procurement are less than the budgeted costs of purchasing raw materials Assey (2014).

Lastly another effect of variance analysis is that it forms base of performance evaluation as this aid to better financial performance since the employees will be working hard for better evaluation. 85% and 5% of the respondents strongly agree and agree that variance analysis forms base of performance evaluation within the organisation. More so 5% of the respondents remained neutral, while only 5% of the respondents disagree that the variance analysis forms base of performance evaluation since it involves human judgement and this might end up affecting the financial performance goal of using variance analysis within the organisation. This was corroborated by Drury (2013), who said that managers who frequently generate favorable variances are likely to be rewarded through promotion so that the company can use their expertise to accomplish broader organizational goals.

**4.3.2. Factors affecting the use of variance analysis on financial performance**

**Source: primary**

**Figure 4.2 Factors affecting the use of variance analysis on financial performance**

The table above displays the results of the survey, indicating that 60% of the respondents strongly agree and 20% agree that the effectiveness of variance analysis is mostly influenced by external factors like inflation, political stability, and economic environment of the organization. Only 15% of the respondents disagree, while 5% are neutral. Foster (2017) refutes the notion that political structure, economic change, social change, legal change, and ecological change have a significant impact on enterprises since changes occur more frequently and without prior notice in the current business environment, which is dynamic, and external forces are continually shifting. However, Anohene (2011), cited by Kazeem et al. (2014), notes that businesses adjust their operations due to external factors like political, economic, and social changes, which can impact the variance analysis and budgeting process.

Regarding organizational culture, the findings indicate that 75% and 20% of respondents strongly agree and agree, respectively, that organization culture affects the effectiveness of variance analysis in enhancing the financial performance of the organization.

If the culture of the organisation supports the use of variance analysis on financial performance, the variance analysis system will be effectively adopted and implemented leading to significant improvement in financial performance of the organisation. Only 5% of the respondents were neutral. The aforementioned findings were in line with those of Muzadzi (2014), who stated unequivocally that a culture of honesty and transparency from top management on down will prevent budget slacking and gaming during the variance analysis process, which will in turn help the organization's budget process. Due to organizational transparency and honesty, however, there are businesses with senior management that lacks integrity. Divisional heads use a scheme to further their personal goals before those of the organization, and budget slacking and gaming are persistent problems from year to year. With suspicions that there may be some politics involved, the departments will move forward with the variance analysis procedure. In these situations, budgetary figures might be changed, which has a big impact on the results of variance analysis (Demera, 2017).

The respondents highlighted that organisational structure has impact on the effectiveness of variance analysis on enhancement of the financial performance of the organisation. The view is supported by the results presented in **figures 4.2** which show that 55% and 25% of the involved respondents strongly agree and agree respectively that the type of organisational structure affect the effectiveness of the variance analysis on financial performance. Only 15% of the respondents were neutral to the question, while 5% of the respondents disagree. The aforementioned findings corroborated author T. Lucey's (2010) assertion that management's centralization of authority has an impact on variance analysis techniques

Moreso respondents highly regarded that recruitment process and training of employees is another factor that affects the use of variance analysis to enhance financial performance within the organisation, this supported by the results presented in **figure 4.2** which shows that 80% and 10% of the respondents strongly agree and agree to the question. Only 5% of the respondents were neutral. The competence, experience, and credentials of personnel determine their capacity to build a suitable variance analysis system (Kaplan 2013). Employees who have received proper training are better equipped to create realistic budgets that can be achieved, as well as better ways to apply variance analysis and budgets. The results of this study are in agreement with the findings of Lajevardi (2017), who noted that recruitment strategies in the Iranian automobile industry were critical because they reflect the quality of the company's human resources and their contribution to producing competent and high-quality products for the company. If variance analysis is to be successful, Perrin (2012), cited in Adongo (2013), it must have the full acceptance and support of the people who hold important managerial positions.

**4.3.3. Benefits of variance analysis on financial performance**

**Source: primary**

**Figure 4.3 Benefits of variance analysis on financial performance**

The results shown in table above 70% strongly agree and 15% agree that continuous business forecast is one of the benefits of using variance analysis to enhance financial performance, as it facilitates continuous business forecast such as sales forecast, expenditure forecast and profit forecast which are for organisational success and survival. 5% of the respondents were neutral and only 10% of the total respondents disagree that continuous business forecast is one of the benefits associated with using variance analysis to enhance financial performance. The findings are consistent with those of Periasamy (2010), who sees continuous forecasting as predicted behaviors and occurrences that are primarily concerned with the assessment of likely future occurrences across extended time periods, which are simply a rough guess that leads to planning. According to him, the variance analysis approach is beneficial because continuous budget forecasting allows management to address negative deviations as soon as they occur.

The findings shows that 65% and 10% of the chosen respondents strongly agree and agree respectively that variance analysis enables the employees to be well informed about the outcomes of their work, hence eliminate confusion within the organisation. Less confusion within the organisation reduce unnecessary errors which might result in decrease in financial performance, thus enhancing better financial performance within the organisation. 5% of the respondents were neutral, while only 20% of the respondents were in disagreement. The aforementioned findings concur with Westland (2011), who holds that an efficient variance analysis requires an efficient awareness system that keeps all organization members well-informed of the budgetary goals because each person contributes to the enhancement of the organization's performance. Mukumba (2014), in support of Westland (2011), asserts that a participative approach is necessary for an organization to succeed and managers and employees should be well-informed to improve performance. Terfassa (2015) agrees with other authors in asserting that keeping the team informed fosters a culture where employees take full responsibility for their work, increasing the likelihood that they will be attentive to the budgetary requirements of their projects.

The respondents highlighted that variance analysis facilitates regular resource forecast as the outcome from variance analysis are used to predict quantity required to meet high production level. The views are supported by the results presented in **figure 4.3** which show that 80% and 5% of the involved respondents strongly agree and agree respectively that variance analysis facilitates regular resource usage forecast which enhance financial performance of the organisation. Only 5% of the respondents were neutral to the question, while 10% of the respondents disagree that variance analysis promotes regular resource usage forecast within the organisation. The outcomes corroborated Smith's (2014) research, which emphasized that the secret to successful variance analysis is allocating the right resources to the correct projects for the accurate period of time. According to Westland (2011), who concurs with this, maintaining track of resource utilization guarantees that a company is using its resources wisely and within the limits of the budget, which has a good effect on variance analysis. Terfassa (2015) agrees with the other writers when he claims that regular resource usage forecasts help organizations achieve their goals because they provide an early warning of any unfavorable deviations, enabling the organization to take remedial action before deviating from its budgetary plans. Forecasting resource utilization is a proactive approach to prevent unfavorable budget variances, which in turn enhances the effectiveness of variance analysis

### 4.3.4. Challenges of variance analysis on financial performance

#### 4.3.4.1 Human judgement, interpretation and evaluation

**Source: primary**

**Figure 4.4 Human judgement, interpretation and evaluation**

The results shown in pie chart above show that 60% and 15% strongly agree and agree respectively that one of the limitations of variance analysis is human judgement, interpretation and evaluation of the results from the variance analysis process; this might limit its effectiveness on financial performance enhancement. 20% of the respondents were neutral and only 5% of the total respondents disagree. Variance analysis system heavily depends on information derived from forecasted budgets which are severely impacted by human evaluation, interpretation, and judgment. The budgetary control system uses forecasting, which carries the risk of unforeseen future events. The main problem with traditional budgetary control, according to CIMA (2016), One of the main limitations of traditional budgetary control is its emphasis on expenses while overlooking the outcomes resulting from the expenses incurred. For instance, the marketing director may forego an opportunity to increase product sales by increasing the travel of salespeople because it would result in an unfavorable variance, where travel expenses exceed the budget.

#### 4.3.4.2 Inconsistency in application of the variance analysis technique and improper cost management and control

**Source: primary**

**Figure 4.5 Inconsistency in application of the variance analysis technique and improper cost management and control**

The results shown in table above 75% strongly agree and 15% agree that another limitation of associated with variance analysis is inconsistency in application of the variance analysis technique, that is it is not all the cases when variance analysis can be applied effectively, this can affect the financial performance of the organisation, while 10% of the respondents were neutral. According to Bragg (2012), the adopted variance analysis system must be used consistently throughout all manufacturing areas and customized as necessary. This is done in accordance with the organization's actions at all times, not as a reaction to on-going losses and declining revenue (Lehman, 2013). Furthermore, Sahu (2015) hinted that on-going cost reduction helps businesses quickly stabilize in the face of uncertain occurrences like economic downturns. To ensure that the plan is successful, the variance analysis scheme must be applied uniformly throughout the organization (Burbige, 2014). Inadequate planning within the organization and recurring losses will come from failing to implement the variance analysis system year after year.

The findings shows that 65% and 10% strongly agree and agree correspondingly that variance analysis is also affected by the improper cost management and control implemented by the management of the organisation. 15% of the respondents were neutral, while only 5% of the respondents were in disagreement with the fact that variance analysis is affected by the type of cost management and control being used by the organisation. Schawk (2014) Firms must embark on education and training before implementing variance analysis schemes to enhance financial performance. Financial presentation of the organisation is only enhanced when the variance analysis schemes are well introduced and implemented to the workforce full with vast knowledge about how to use the scheme to enhance financial performance (Suer (2013).

## 4.4 Interview Response Rate

### 4.4.1 What are the effects of using variance analysis as a tool for financial performance?

From the interviews that were conducted 70% of the respondents suggested that the effects of using variance as a tool for financial performance are profit maximisation, facilitates business growth, expenditure tracking and operational costs, enhance employee motivation and forms base for performance evaluation.

### 4.4.2 How effective is the variance analysis on enhancement of the financial performance?

All the respondents that were interviewed mentioned that variance analysis system is effective on enhancement of financial performance an organisation only when the external factors such as the prices of competitors, political stability and inflation are reduced to its lowest. Also when the organisational structure and culture supports the implementation and use of variance analysis within the organisation, the use of variance analysis will be effective and enhance financial performance. More so the respondents highlighted that the management should engage into proper recruitment process and training of employees so as to reduce errors during the production which reduces negative variances, thus aiding to better financial performance.

### 4.3.3 What are the benefits of using variance analysis as a tool for enhancement of the financial performance?

From the interviews that were conducted 90% of the respondents suggested that variance analysis system is more beneficial to the organisation since it enhance continuous forecast of the business in terms of growth, sales, market share and cost management. Also the organisation is able to conduct regular resource usage forecasting through using variance analysis, thus variance analysis can complement well with other tools used by the organisation such as Enterprise Resource Planning tools (ERP).

### 4.4.4 What are the challenges associated with using variance analysis to enhance the financial performance?

The outcomes of the research show, 80% of the interviews respondents highlighted that variance analysis system are usually affected by inconsistency application of the variance analysis system, human judgment, interpretation and evaluation of the variances incurred and improper use of cost management techniques and controls which do not support the use of variance analysis.

### 4.5 SUMMARY

The chapter presented the finding of the research on tables, graphs. The chapter also analysed the data which the research found. The next chapter will give conclusion of the research as well give the recommendations and areas of further study.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter summarizes the research findings, draws conclusions, and provides recommendations based on the study's objective of investigating the impact of variance analysis on enhancing the financial performance of clothing manufacturing firms in Zimbabwe. Additionally, research gaps are identified for future studies.

## 5.2 Summary of major findings

The main objective of the study was to investigate the effects of variance analysis as a tool for enhancement of financial performance in manufacturing firms in Zimbabwe.

The respondents suggested that the outcomes of using variance as a tool for financial performance are profit maximisation, facilitates business growth, expenditure tracking and operational costs; enhance employee motivation and forms base for performance evaluation.

Based on the effectiveness of variance analysis on enhancement of financial performance, the researcher discovered that variance analysis system is effective on enhancement of financial performance an organisation only when the external factors such as the prices of competitors, political stability and inflation are reduced to its lowest. Also when the organisational structure and culture supports the implementation and use of variance analysis within the organisation, the use of variance analysis will be effective and enhance financial performance. More so the respondents highlighted that the management should engage into proper recruitment process and training of employees so as to reduce errors during the production which reduces negative variances, thus aiding to better financial performance.

Based on the benefits of using variance analysis on enhancement of financial performance the researcher found out that variance analysis system is more beneficial to the organisation since it enhance continuous forecast of the business in terms of growth, sales, market share and cost management. Also the organisation is able to conduct regular resource usage forecasting through using variance analysis, thus variance analysis can complement well with other tools used by the organisation such as Enterprise Resource Planning tools (ERP).

The researcher found out that variance analysis system is usually affected by inconsistency application of the variance analysis system, human judgment, interpretation and evaluation of the variances incurred and improper use of cost management techniques and controls which do not support the use of variance analysis.

## 5.4 Conclusions

From the reveal of the findings, one can conclude that the effects of variance analysis system on financial performance are profit maximisation, facilitates business growth, expenditure tracking and operational costs; enhance employee motivation and forms base for performance evaluation.

The findings concluded that efficiency of variance analysis system depend on the external factors such as the prices of competitors, political stability and inflation are reduced to its lowest. Also when the organisational structure and culture supports the implementation and use of variance analysis within the organisation, the use of variance analysis will be effective and enhance financial performance. Also recruitment process and training of employees aid to effectiveness of variance analysis on financial performance.

The search concluded that benefits associated with using variance analysis on enhancement of financial performance of the organisation include, variance analysis enhance continuous forecast of the business in terms of growth, sales, market share and cost management. Also the organisation is able to conduct regular resource usage forecasting through using variance analysis, thus variance analysis can complement well with other tools used by the organisation such as Enterprise Resource Planning tools (ERP).

The main challenges of using variance analysis include inconsistency application of the variance analysis system, human judgment, interpretation and evaluation of the variances incurred and improper use of cost management techniques and controls which do not support the use of variance analysis.

## 5.5 Recommendations of the study

The organization should incorporate additional controls into its variance analysis system, such as responsibility accounting, which improves organizational performance by identifying the specific employee in charge of a task. As a result, employees are more committed to their work because they are accountable for the results, and they stop abdicating all accountability on critical variances to the finance department.

Given that every employee plays a role in achieving organizational objectives, clothing manufacturing companies like Paramount Garment Works should create a platform to educate all staff about the budgeting system. Such an initiative can reduce the likelihood of deviations from the set budgets, thereby preventing unfavorable budget variances.

To address the persistent and significant budget variances that the organization has experienced over the years, top management should take a more proactive role in supporting, engaging with, and regularly evaluating the variance analysis system.

## 5.6 Suggestions for further research

The impacts of the variance analysis budget control technique on organizational performance were the main focus of this study. There is still need for additional research on different budget management strategies, such as zero-based budgeting, which has consistently produced budget deviations over the years that are higher than the 10% threshold permitted by organization policy.

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**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**



**School: Bindura University**

**Department: Accounting**

**Dear respondents**

My name is Belinda Tawonezvi a final year student studying a degree in Accountancy at Bindura University of Science Education. I’m carrying out a research on: An investigation on the effects of using variance analysis as a tool for financial performance: case of Paramount Garment Works. Participation on this study is done on voluntary basis. The data collected will be treated with utmost confidentiality and anonymous and will be strictly used for academic research only. Your cooperation, contributions and responses will be greatly appreciated.

Thank you.

Yours sincerely  
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**SECTION A: Demographic data**

**Answering Instructions**

1. Answer all questions

2. Please kindly show your response by ticking from the provided answers below.

**Questions**

**1. Kindly indicate your gender choice question here.**

|  |  |  |  |
| --- | --- | --- | --- |
| 20-30 years | 30-40 years | 40-50 years | Above 50 years |

**2. Level of highest qualification**

|  |  |
| --- | --- |
| Diploma |  |
| Degree |  |
| Master’s Degree |  |
| Professional |  |

3**. Years of experience working at Paramount Garments Pvt Ltd**

|  |  |  |  |
| --- | --- | --- | --- |
| 5-10 years | 11-15 years | 16-20 years | Above 20 years |

**SECTION B**

**Answering Instructions**

**1. Answer all questions**

**2. Please kindly show your response by ticking from the provided answers below.**

**Section B: Questions**

**4. Effects of variance analysis on financial performance.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Effects of variance analysis on financial performance | Strongly Agree | Agree | Neutral | Disagree |
| Profit maximisation |  |  |  |  |
| Facilitates business growth |  |  |  |  |
| expenditure tracking and operational costs |  |  |  |  |
| Enhance employee motivation |  |  |  |  |
| Forms base for performance evaluation |  |  |  |  |

**5. Factors affecting the use of variance analysis on financial performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Factors that affect the use of variance analysis | Strongly Agree | Agree | Neutral | Disagree |
| External factors |  |  |  |  |
| Organisational structure |  |  |  |  |
| Organisational culture |  |  |  |  |
| Recruitment and training of employees |  |  |  |  |

**6. Benefits of variance analysis on financial performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Benefits associated with variance analysis | Strongly Agree | Agree | Neutral | Disagree |
| Continuous business forecast |  |  |  |  |
| Well informed team |  |  |  |  |
| Regular resource usage forecast |  |  |  |  |

**7. Limitations of variance analysis on financial performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Limitations associated with variance analysis | Strongly Agree | Agree | Neutral | Disagree |
| Human judgement, interpretation and evaluation |  |  |  |  |
| Inconsistency in application of the variance analysis technique |  |  |  |  |
| Improper cost management and control |  |  |  |  |

**APPENDIX 3: INTERVIEWS**

1. What are the effects of using variance analysis as a tool for financial performance?

2. How effective is the variance analysis on enhancement of the financial performance?

3. What are the benefits of using variance analysis as a tool for enhancement of the financial performance?

4. What are the challenges associated with using variance analysis to enhance the financial performance?

**Thank you**