

**RELATIONSHIP BETWEEN SALES BUDGET AND PROFITABILITY AT  
CLICKS RETAIL PHARMACIES LIMITED**

by

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## DECLARATION

I declare that the mini-dissertation hereby submitted to the University of Limpopo for degree of Master of Business Administration has not previously been submitted by me for a degree at this or any other university; that it is my work in design and in execution, and that all material contained herein has been duly acknowledged.

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Madiba MK (Mr)

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Date

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# **CHAPTER 1**

## **OVERVIEW AND BACKGROUND OF THE STUDY**

### **1.1 INTRODUCTION**

Budgets are used by some business entities to communicate goals, plans and objectives set by management for a designated time frame. They provide targets, direction and control over the immediate business environment. It is a strategy that results in systematic productive management when done with the presence of the ability to predict, defined communication lines, authority and accountability, as well as precise and trustworthy accounting information with assistance at all levels of management (Shim & Siegel, 2009).

Other than facilitating communication and control on future operations and results (expected revenue, costs, profit, production purchases, net worth etc.), budgets keep expenditure within the defined limits and also motivate employees if the budgets are understandable and attainable (Shim & Siegel, 2009). Business entities employ different budgets purposefully to achieve different goals set. Amongst various budget types available, retail pharmacies, such as Clicks group employ “sales budgeting” to ensure good financial performance of their retail pharmacies. The sales budget is then given to the responsible pharmacist of that particular pharmacy to present to the rest of the pharmacy personnel in order to be aware of the plans set by the company to achieve good financial performance. The study seeks to investigate the significance of budget/performance targets and profitability, a measure of financial performance. The study seeks to examine how the variables i.e. sales budget/performance and profitability correlate using Clicks Pharmacies Limited.

### **1.2. PROBLEM STATEMENT**

Clicks pharmacies a division of Clicks Group Limited employs a top-down sales budgeting process as part of strategic planning to ensure good financial performance of pharmacies and also to achieve the organisation’s long-term plans. However, the problem observed is that the pharmacy personnel do not understand budgeting as well as the effect it has on profitability. Poor understanding is mainly attributed to the top-



down budgeting process and lack of participation in budget creation by subordinates which are pharmacy personnel (Supriyanto, Tri Hadyannur, Muhammad, Jeremy, & Raafi Ar, 2021).

The part that is disconcerting is the fact that when personnel do not understand the rationale behind the planning made by management or perceive the effect it has on profitability, they may not be keen on achieving that plan (Supriyanto, et al., 2021). The current study intends to analyse the relationship between sales budgeting and profitability. The research will expectantly close the knowledge gap by showing how sales budgeting affects and relate to profitability.

### **1.3. AIM OF THE STUDY**

The aim of the current study is to determine the relationship between sale budget and profitability at Clicks Retail Pharmacies.

### **1.4. OBJECTIVES OF THE STUDY**

The study would like to achieve the following objectives:

- To examine the relationship between sales budget and sales turnover at Clicks retail pharmacies.
- To evaluate the relationship between sales budget and net profit at Clicks retail pharmacies.
- To determine the relationship between sales budget and earnings before interest, taxes, depreciation, and amortization (EBITDA)

### **1.5. HYPOTHESES OF THE STUDY**

The study will be looking to examine the following hypotheses:

Null Hypotheses:

- There is no relationship between sales budget and sales turnover.

- There is no relationship between sales budget and net profit.
- There is no relationship between the sales budget and (earnings before interest, taxes, depreciation) EBITDA.

Alternative hypotheses:

- There is a relationship between sales budget and sales turnover.
- There is a relationship between sales budget and net profit.
- There is a relationship between sales budget and EBITDA

## **1.6. RATIONALE/MOTIVATION FOR THE STUDY**

The study aims to fill gaps in existing knowledge of budget settings. Knowledge on whether budgets alone are good drivers of financial performance or not. The study will further clarify on whether organisations achieving set budgets are more profitable than those that are not achieving budgets. The results will be very useful to employees of the organisation and management, as they will be used as foundation or cornerstone for policy development at Clicks retail pharmacies and many other retail organisations.

It is envisaged that the current study results will assist managers and decision-makers at Clicks retail pharmacies in drafting future budgets. The study will also indicate the relevance of set sales budgets on the overall financial performance of pharmacies. The information on sales targets and sales achievements will assist in setting relevant and realistic sales budgets. Likewise, related organisations will also benefit from the results of this study, as it will inform them about whether budgeting and profitability have a positive or negative relationship. Finally, the study will contribute to academic knowledge about this subject area.

Through the results of the current study, pharmacy personnel will have an idea of how set sales budgets will affect the financial performance of the pharmacies, and this might serve as a positive reinforcement. In addition, it will hopefully be easier to explain the importance of budgeting to the pharmacy personnel at Clicks retail pharmacy, so

that they can help the group to become profitable by adhering to the set targets or even trying to surpass them.

## **1.7. DEFINITION OF CONCEPTS**

### **1.7.1. Budget**

A budget is an official declarative statement of management's financial plans for a specific time period in the future. (Kimmel & Weygand, 2009). It outlines the future financial plans and objectives set by the budget committee or management to the entire organisation for adoption, and once the budget is adopted, it then becomes a tool for evaluating performance.

According to Hansen and Mowen (2003), the annual budget of a firm, known as the master budget, is divided into operating and finance budgets. An operating budget encompasses all revenue-generating operations, whereas a financial budget is concerned with cash flows and financial positions. The current research will focus on the operating budget, mainly the sales budget, in-order to accomplish the aim and objectives of the research.

### **1.7.2. Sales Budget**

The Sales Budget is a forecast of future sales. It can either be expressed in units or monetary value. Business entities use budgets to create sales goals (Kariuki, 2010). If the sales goals are met, then the business entity will have sufficient liquidity to fulfil the expected cash disbursement.

### **1.7.3. Financial Performance**

Financial performance is the financial status of a corporate entity over a given time frame. It encompasses the gathering and use of money as determined by liquidity, leverage, capital adequacy ratio, solvency, and profitability (Fatihudin, Jusni & Mochklas, 2018). It simply serves as a gauge of a business's ability to generate revenue or profit.

#### **1.7.4. Profitability**

Profit is commonly defined as sales revenues in excess of all associated expenses. According to (Kimmel & Weygandt, 2009), gross profit rate and profit margin ratios are more informative than gross profit amounts because they offer a more meaningful qualitative relationship between gross profits and net sales. Therefore, the current research will use gross profit rate and profit margin ratio to measure Clicks pharmacies' ability to make a profit.

### **1.8. ETHICAL CONSIDERATIONS**

According to (Eriksson & Kovalainen, 2008), research ethics indicate respect for the research process as well as the overall results that are presented for consumers of research. In business research, ethical concerns need consideration of questions that extend beyond ethics. To ensure the above mentioned respect for research many organisations including organisations of higher learning have ethics committees in place which enforces code of ethics through issuing of ethical clearances/approval employ before researches are conducted.

To obtain permission to conduct the research, the researcher presented the research proposal at the School Research Higher Degree Committee (SRHDC) of the Turfloop Graduate School of Leadership (TGSL) at the University of Limpopo. The SRHDC, after giving inputs, made a recommendation for further submission to the Faculty Research and Higher Degrees Committee (FRHDC), which gave permission to conduct the study (see Appendix A). In addition the researcher made sure that the data collected is reported with professionalism, honesty and integrity, without manipulation.

## **1.9. RESEARCH REPORT OUTLINE**

### **Chapter one: Introduction**

The chapter explains the study's background, the research topic, as well as the research aims and hypotheses.

### **Chapter two: Literature Review**

Literature review provide an overview of current knowledge from various books and journal articles. Furthermore, the chapter critically analyse, synthesise and provide evaluation on how budgets are set, and also how they influence financial performance of organisations.

### **Chapter three: Research Method**

The chapter outlines how and where the research was conducted. It further outlines the technique to be used for sampling and also presents how data was collected.

### **Chapter four: Data Analysis**

Data collected from the Clicks group website was populated and then displayed in a form of tables and graphic formats. Data analysis followed data display in an attempt to understand how factors of profitability correlate with sales budget.

### **Chapter five: Summary of Results, Conclusions and Recommendations**

The chapter summarises research results and also make conclusions on how sales budgets correlates with profitability. The chapter also give recommendations on a view of significantly increasing profitability of organisation.

## **1.10. CONCLUSION**

Chapter one has provided a broad introduction of study by offering an overview and context on the budgeting strategy as a management tool used to communicate goals, plans and objectives to employees, as set by top or strategic management. Furthermore, the chapter has presented problem of the study, aim, objectives hypotheses and also rationale of the study with emphasis on the correlation between Sales budget and profitability. The study will establish whether there is any relation

between the variables, and if there is a relationship. To determine whether its negative or positive.

To avoid misinterpretation, the chapter also provided definition of key terms used in the study namely: budgets, sales budgets, financial performance and profitability. In addition, the chapter also highlighted processes which must be adhered to in order to guarantee that the study is completely ethical.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. INTRODUCTION**

This chapter provides a review of the literature on main variables of the study namely budgeting and profitability. It provides an overview on how sales budgeting correlates with profitability, whether the relationship between the two variable is negative or positive. Profitability is represented by its measures sales turnover, net profit and EBITDA respectively as outlined in the objectives of the study.

For better understanding of the study theoretical concepts on budgeting and profitability are outlined in this chapter. Various types of budgets which can be adopted by an organisation are listed, discussed and differentiated in order to lay down or cover theoretical framework of the study. This was also done on profitability, which is the dependant variable in the study, whereby with support of literature profitability was defined and discussed taking into consideration different measures of profitability and also factors that influences profitability of a business organisation.

#### **2.2. BUDGETS AND THE BUDGETING CYCLE**

Budgeting is an activity that most managers regard as the most important component of their job. Management establishes goals and objectives for the organisation, and then strategies are developed to achieve these goals and objectives. The budgeting process is used to design and analyse the financial effect of these strategies (Marimuthu, Sinclair, du Toit, Steyn, Fouche and Cloete, 2017).

The concept of budgeting was defined in various ways by different authors; Mohamed and Ali (2013) explains budgeting as a procedure of preparaparing future company activities and articulating them as official plans in monetary terms. Blumentritt (2006), cited by Aru 2017:16, explains budgeting as the procedure of assigning an organization's fiscal resources to its divisions, operations, and investment, whereas (Horngren et al., 2004) views the budget as the quantitative description of management's suggested action plan for a given time frame, as well as a tool for enabling execution of the suggested plan. Expenditure budget shows the fiscal estimate for consumption of resources necessary to accomplish the goals of the

organisation whereas the revenue budget indicates the fiscal estimate for selling the organisation's goods and services.

According to the Certified Management Accountant Review (1994), as cited by Masakala, Omol, Wauyo and Okumo (2017), budget is a quantitative planning tool that aids to convert the plan's goals into monetary terms and explains how money will be sourced and used to accomplish the plan's goal. The researchers in this study will use the definition made by Horngren et al. (2004) cited by (Aru, 2017) because it aligns with the study's objectives. According to Horngren, Datar and Foster (2003), a budget encompasses both fiscal and non-fiscal aspects of the strategy. A fiscal budget quantifies management's estimates for revenue, flow of cash, and economic state, whereas a non-fiscal budget is for units created or sold and employees' number of new goods presented to the marketplace.

Depending on the organisation's operations and nature, a budget can be created for any time frame from a month to years (Marimuthu, du Toit, Jodwana, Mungal, du Plessis and Panicker 2016). The budgeting process is commonly referred to as a budget cycle because it covers the entire fiscal year (Masakala et al., 2017), with budgeting documents demonstrating how the entire plan will be carried out on monthly basis and generally including income, expenditure and flow of cash estimates, as well as estimated reduction of debt. Budgets are frequently set at the start of a fiscal year, allowing for changes when revenue increases or decreases. Budgets are compared to actual financial records to determine the differences (Manyuchi and Sukdeo 2021).

The budget development process includes creating budget objectives, acquiring past and actual financial records, building a basic budget, producing, analysing, and revising a budget, publishing and communicating outcomes, assessing progress, and modifying the budget (Manyuchi and Sukdeo 2021). Companies which are well-managed employ budgeting strategies through the following budgeting steps (Horngren, Datar and Foster 2003,):

1. Planning the company's and divisions' performance.
2. Setting a benchmark, or a standard to measure of actual performance.
3. Examine deviations from the plan and taking remedial action.
4. Re-planning following feedback and changed conditions.

Budgets are either a bottom-up or a top-down strategy (Masakala et al., 2017). According to works of literature, participative budgeting is referred to as a "bottom-up"



method, while authoritative budgeting is referred to as a "top-down" approach (Uyar and Bilgin 2011). In the bottom-up budgeting strategy, managers in lower level design the budget for their divisions, while managers in top level establish the prescripts and start the budgeting process. This strategy of budgeting has a number of advantages for the company, including enhanced staff motivation, a higher possibility of employee engagement, and improved communication across the board. The strategy also provides accurate and dependable budget projection and approval by all members of the organisation (Mah'd 2020).

According to surveys, budgets are some of the most often utilised accounting instruments for planning and regulating operations of businesses in both developed and developing nations (Uyar and Bilgin 2011). Budgets present tremendous opportunities to organisations by translating their objectives and strategies into action plans, connecting short-term and long-term goals, and bringing together diverse levels of leadership within businesses (Zamfir and Florea 2019). They are generally acknowledged for having an important role in the administration of institutions, both private and public, and for being a vital step in most firms' management control systems. The ultimate purpose of the budget is to maintain control of the organisation's activities by giving a direction for future operations and establishing a set of objectives to be met and the manner to attain those objectives (Aru, 2017).

Marimuthu et al, (2016) perceives budget as a useful tool which can be used to achieve co-ordination, communication, motivation and evaluation. It brings different parts of the organisation together, communicates responsibilities or expectations to the employees, motivate and is also a measure of how well employees have succeeded achieving the budget.

Furthermore, Budgeting plays a considerable role in the performance of businesses. Research findings by Mulani, Chi and Yang (2015) demonstrate a positive relation between budgeting and performances of small, medium enterprises in India (SME). Business organisations engaging in budgeting processes demonstrated higher growth rate in sales and profit. In order for firms to grow profitably, a variety of systems and structures are put into place to ensure a firm gets better performance. Thus, budgets provide useful information to superiors for evaluating firm performance and

determining how to allocate resources across various aspects of a firm (Pimpong and Laryea, 2016).

### **2.3. BUDGET CONTROLS**

Budgeting and budgetary control entails an organization's management creating goals and developing a method that serves as a foundation for the firm to successfully express entire planned activities. Budgeting is the financial measurement of these planned activities, whereas budgetary control is the development of an efficient procedure to ensure the desired outcome (Isaac, Lawal and Okoli, 2015).

Budget control acts as a watchdog, ensuring that no deviation from the path goes unnoticed and that the target is achieved. This is accomplished mostly by continuously assessing the results obtained in comparison to the budgeted target. It must be established whether the budgeted items can be carried out in practice. Budgetary control also identifies the source of the variance between planned and actual outcomes and takes the required steps to fix the problem in a timely manner (Els, van der Walt, de Wet and Meyer, 2012). Budgetary control is also a cost-management system that comprises budget formation, department facilitation and responsibility taking, contrasting actual performance to that budgeted, and taking actions on outcomes in order to maximise profitability (Isaac et al., 2015).

Budget variance accounts for the difference between actual costs and comparable budgeted figures. It is further subdivided into positive and negative variances. The variance is positive if actual revenues surpass expected revenues. It is negative when budgeted amounts exceed actual revenues. In the case of costs, a negative variation happens when operating income falls below the projected amount; a positive variation occurs when operating income rises over the budgeted amount. In such cases, a system is considered effective and efficient (Mulani et al., 2015).

## **2.4. BUDGETARY APPROACHES**

Ibrahim (2013) identifies the following as four main approaches to budgeting, with each having both strengths and weaknesses which can be relevant not to all financial environments, as thus they need not be applied with careful judgement.

### **2.4.1. The Line-Item Budget Approach**

The Line-Item Budget Approach (LIB) also referred to as “traditional budget approach”, “incremental budget approach”, “object expenditure or object approach”, or “commodity approach” (Ibrahim, 2013). LIB approach is a budget type that entails utilising the previous year's actual revenue and spending as a baseline and implementing changes for predicted changes in circumstances (Du Toit, Erasmus and Strydom, 2010). LIB approach focuses on the incremental change compared to the prior year. It is assumed that the prior year's activities and programs are necessary and therefore must be resumed (Shim and Siegel, 2005). According to Idio (2011), using the previous year's budget as a guide and a certain percentage, the budget for each subsequent year is projected to be larger than the previous year, since the inflation element must be considered, as well as some necessary spending, such as interest on loans and employee wages that grow yearly.

### **2.4.2. The Zero-Base Budget Approach**

Unlike the LIB approach, the Zero-Base Budget (ZBB) approach does not take historical or previous year results as the basis for the next budgeting period (Du Toit et al., 2010). This is an effort to overcome the problem of incrementalism, which uses the previous period's budget as a reference point for the creation of every subsequent budget (Ibrahim, 2019). According to Shim and Siegel (2005), benefit and cost estimations are created from the ground or zero level and must be substantiated. Rather than beginning with the previous year's expenditures, an organisation will begin with the goals it wants to achieve in a certain area and examine whether it is the correct area and if it is a priority (Idio, 2011).

### **2.4.3. The Program and Performance Budget Approach**

Managers must split programs into the key activities in which their organization participates, determine which performance indicators perfectly complement each activity, and create budgets based on the expenditures for each indicator (Jones and McCaffery, 2010). The program and performance budget approach is made up of two parts: particular programs and projected performance. The program and performance budget approach first proposes that funds be allocated typically to various departments based on particular types of expenditures, secondly, based on a prepared, detailed description of all activities of a whole department (program), and thirdly, a listing of task or work in return (performance) (Ibrahim, 2013).

Like other budget types, performance budgets have benefits and drawbacks. Performance budgets are still utilised as incentives to boost organizational performance and employee productivity. Other benefits include better planning, more effective administrative control, improved public relations due to more openness about programs and expenditures, improved focus on organizational activities, and the provision of more accurate quantitative measures, which, if applicable and practical, are preferable to sweeping generalizations for evaluating the organization in accordance with a set of established standards.

It's also possible to cite certain drawbacks, such as the fact that not all organizations can benefit equally from performance budgeting. The output of many organizations is difficult to quantify. Efficiency is not guaranteed, for instance, by discovering and comparing unit cost data to performance indicators. For instance, managers may use a performance budget to pinpoint inefficient or problematic agencies, but this does not advance efficiency (Jones and McCaffery, 2010).

### **2.4.4. The Planning Programming Budgeting System**

Similar to ZBB, Programming Budgeting System (PPBS) does not assume that all programs must be re-justified at the completion of each budget cycle (Lunenburg, 2010). These kinds of budgeting approach prioritised goals above baselines and increments. As a result, it is a method for combining planning and budgeting into a single procedure. The system connects three factors such as: the desired outcome

(planning), the structuring of ways to achieve the outcome (programming), and the funds available to achieve the end result (budgeting) (Ibrahim, 2015).

PPBS, according to Lunenburg (2010), were created to give factual information to school administrators in order to help them design instructional programs and make decisions about how to spend resources to achieve the school's objectives.

## **2.5. TYPES OF BUDGETS**

Storey (1995) claims that in order to be successful, all commercial and service organisations must plan for the future. Not planning does not necessarily imply that a business will fail; rather, it implies that the firm will function on a day-to-day basis, thereby missing out on prospective business prospects, that preparing for the future brings up. Failure to plan, on the other hand, comes with its own set of costs and lost opportunities.

Storey (1995) likewise, asserts that there are two forms of planning: long and short term planning. Long term planning is frequently referred to as strategic or corporate planning. Its objective is to define long-term corporate goals that can be accomplished in more than three years. Short-term plans are strategic plans that last for a one year and are broken down into days, weeks, and months. Budgets are a typical term for them.

A master budget, which is the basic strategy of what the company aims to accomplish in a time, comes before budgets (usually a year). The impact of both operating and financing decisions is reflected in the master budget (Horngren et al., 2003). According to Raiborn and Kinney (2009), the master budget is essentially a collection of budgets, budgetary schedules, and budgeted financial statements of a business. It consists of operating and financial budgets.

### **2.5.1. Operating Budgets**

The operations budget is a special kind of budget that includes both analysis and estimated income and spending over a specific time frame. The period might be weekly, monthly, quarterly, or annual. To create a clear image for the manufacturing firm, the operating budget must incorporate aspects such as production and labour costs (Manyuchi and Sukdeo, 2021). The operating budget is expressed in both units and rand. When it comes to revenue, the units are the ones that are projected to be

sold, and the rand is the price at which they will be sold. Sales, production, procurement, labour, overhead, and administrative budget are kinds of budgets that form part of the operational budget (Raiborn and Kinney, 2009).

### **2.5.2. Financial Budget**

Company's plan to manage its assets, such as its machinery and equipment, as well as its income and expenditure patterns, is covered by the financial budget. It contributes to the broader view company's financial health by providing a general description of its expenditure in relation to its income from key business operations. Company's financial budget is a key measure of its stability; a healthy financial budget predicts strong business, while a poor one suggests the opposite (Manyuchi and Sukdeo, 2021).

Financial budgets are created by combining monetary facts from several operations budgets to show the amounts that will be earned or used over the budget period. Cash and capital spending budgets, as well as budgeted financial statements, are all part of the financial budget (Raiborn and Kinney, 2009).

### **2.5.3. Cash Budget**

Budgets in this format are used for planning and managing finances. It shows estimated cash movements, both in and out cash flow for a certain time frame. The cash budget assist managers in preventing idle cash and potential cash deficits by managing cash levels in a reasonable relation to its demands (Shim, J.K., Siegel and Shim, 2011). Cash budget may be thought of as a decision-plan maker's for how a certain organization's disposable cash status should seem throughout the course of a given term of financial. They also enable decision-makers to manage and keep track of their respective organizations' cash flow while placing them in a position to consider the financial state and performance of their respective organizations (Kempet al., 2015).

The relationship between cash budgeting skills and firm financial performance is controversial. Scholars are divided on the relationship, with some claiming a positive

substantial association and others claiming there is no relationship between the factors (Wanjiru and Nyatete, 2021). Findings from Qi's (2010) study demonstrates a substantial positive relation between cash budgeting and the financial behaviour of entrepreneurs including the financial performances of their businesses.

#### **2.5.4. Capital Budget**

Capital budgeting is evaluating and rating prospective future investments in order to effectively and economically allocate limited capital resources (Raiborn and Kinney, 2009). The budget represents the anticipated (budgeted) future capital investments in physical infrastructure such as: buildings and equipment required to maintain current capacity or grow future production capacity (Du Toit et al., 2010).

The process entails planning for and developing a capital budget, as well as assessing previous investments to assess the performance of previous decision processes and to improve future decision processes (Raiborn and Kinney, 2009). Pinches (1982) and Mintzberg et al. (1976) cited in Batra and Verma (2014) regard capital budgeting as a four-stage model. The first step entails locating an investment opportunity, the second stage entails refining an original concept into a particular proposal, the third stage entails choosing a project, and the fourth stage entails control, including a post-audit to evaluate prediction accuracy.

#### **2.5.5. Sales Budget**

According to Hansen, Mowen and Guan (2009) sales budget is a forecast of predicted sales in units for each product. Sales budgeting is normally the first to be completed (Du Toit et al., 2010) and it serves as the foundation for other budgets, as it is often established first before additional budgets are created. As a result, the sales budget is regarded to be a key budget and a sales forecast is normally created first before constructing the sales budget. It shows what products will be sold, in what quantities and at what prices they are sold and sometimes in which regions they should be sold (Marimuthu et al., 2017). A sales budget can operate well if the predictions are fairly accurate, such that the planned sales are not significantly different from the realised sales (Puspaningtyas et al., 2019). For production company sales budgets may

include sales by product, sales by sales representatives, sales by customers or any other classification a company may wish to use (Storey, 1995).

#### **2.5.6. Production Budget**

The sales budget serves as the primary foundation for the production budget. It consists of the amount of production, the calculated cost of production, and the manufacturing activities (Bužinskienė, 2019). It is intended to be linked to the requirements of the sales budget, as well as to take into consideration management's decision on the number of inventories to be carried during the fiscal year (Storey, 1995). Their principal duty is to provide management with information on cost of production and the production volume that will be chosen for the fiscal term. When estimating production budgets, the following factors need to be taken into account: inventory at the beginning of the fiscal term, inventory that needs to be maintained at the end of fiscal term. The quantity made; a year-round supply of buffer units will be held available in stores. The budget of production is further broken into three sections: the production or factory overhead budget, direct labour budget, and raw material expenditure budget (Buinskien, 2019).

#### **2.5.7. Direct Labour Budget**

Direct labour budget multiplies quantity of items to be manufactured by the projected hours needed to manufacture one item to calculate total labour hours needed. To determine the overall budgeted labour cost, multiply the number of total hours necessary by the expected hourly rate of labour (Manyuchi and Sukdeo, 2021).

#### **2.5.8. Overhead Budget**

Overhead budget is a form of a budget that includes all expenditures required during a specific time of production. It covers indirect labour as well as direct and indirect plant expenditures. The distribution, administrative, and plant overheads are all included in the overheads budget, which is created departmentally for efficient cost control (Manyuchi and Sukdeo, 2021).



## **2.6. RELATIONSHIP BETWEEN SALES BUDGETING AND PROFITABILITY**

The most important factor in creating the financial strategy is the sales budget (Burns and Walker, 2001). It is the initial budget that was produced by commercial companies. According to the information needed by each business, sales budget frequently breaks down the one-year period into months, quarters, or semesters. It provides the entity's estimates for the quantities to be sold for each product/service category and related pricing (Zamfir and Florea, 2019).

It ensures the sustainability of the profit plan and other financial plans by acting as the basis for almost all other projections (flow of cash, cash and capital budget, capital structure analyses, financial valuation, and planning) (Burns and Walker, 2001). Pokhrel (2018) maintains that sales budget serves as the beginning point for budgeting because the budget for inventory levels, purchases and operational expenditures are all dependent on the estimated sales. Furthermore, according to Koochakpour and Tarokh (2016), sales revenues are the most significant variables in the survival of profitable businesses. Sales budget and sales are therefore viewed as crucial factors affecting all the other decision-making factors in a business.

The concept turnover emerge with two meanings within the business industry, one that relate to staff leaving the business organisation and the other one referring to “the amount of money taken by a business in a particular period” (Oxford Business Dictionary, 2021). Both meaning of the concept turnover could affect the sales budgeting thus confirming the existence of a relationship between the two. For example, high staff turnover has a negative impact to the sales budgeting. While an organization's sales budgeting is directly impacted by sales turnover. Additionally, a prediction of the turnover expected during the designated time can be created inside the sales budget (Zamfir and Florea, 2019).

The researcher as well as other scholars has observed a scarcity of scholarly literature relating to sales turnover, with staff turnover or turnover intention dominating the literature (Ngqeza and Dhanpat, 2021; Redelinghuys, 2021; Barkhuizen and Gumede, 2021). The scarcity of literature confirms the significance of conducting the current study. The researcher argues the same for the other concepts such as net profit and earnings before interest and tax, which exist in direct relation to each other and with sales budgeting. This relationship is deliberated more in non-scholarly contexts such

as in toggle track(blog) or Corporate Finance Institute (CFI). The scholarly environments contain less content about the relationship of sales budgeting with net profit and earnings before interest and tax.

Pokhrel (2018) determined using multiple statistical techniques, that there is a favourable correlation between profitability and budgeted sales after analysing budgeting processes. NTC's (Nepal Telecommunication Company) net profit was positive in the last five years. The NEA's (Nepal Electricity Authority) net profit has been negative for the past five years, although it is on the rise. The regression and regression model results showed that sales budget positively affect profitability, and that changes in sales budget cause changes in profitability.

Company's sales budget has a big impact on profit margins, as well as the organization's potential for future growth. Management should develop a turnaround plan if sales are weak or sales goals are not met to ensure that the business remains competitive in all markets in which it operates (Zweni, 2017).

## **2.7. RELATIONSHIP BETWEEN BUDGETING AND FINANCIAL PERFORMANCE**

Financial performance is a hot topic among business and strategic management academics. Most current studies use financial performance (profitability and growth) to measure the effectiveness of company performances. While on the other side, financial performance metrics have come under fire for being overly narrowly focused in their assessment of organizational effectiveness (Masakala et al., 2017)

For starters, an accounting report does not incorporate all key performance elements, such as management action. Secondly, the economic cost function of an organisation is rarely understood accurately, and an accounting system can only estimate its complexity. Thirdly, whereas management activity in a firm is concerned with the full process that results in the final outputs, accounting data is primarily concerned with showing outcomes.

Regardless of how well the manager performs, the accounting information will be an unsatisfactory depiction of his success, if there are circumstances that restrict the process' claimed efficiency. Fourthly, accounting reports place a strong focus on short-term results, with little regard for the long term. Finally, because accounting reports

are utilized for a variety of reasons, they may not precisely meet the requirements for any particular function. (Masakala et al., 2017). Business practitioners throughout all types of organisations are also concerned about financial performance, since it has implications for all types of operations (Pimpong and Laryea, 2016).

## **2.8. EFFECTS OF BUDGETS ON STAFF BEHAVIOUR**

Goals have a huge influence on performance and behaviour of employees in business and management practices (Locke and Latham, 2002). The impact goals have on employee behaviour and motivation is best explained by Goal setting theories (Lunenburg, 2011). Research has shown that employees who are given specific, challenging, but doable objectives perform much better than those who are given easy, unclear, or no goals at all. This is the core finding of goal setting. However, people must possess the necessary skills, accept the objectives, and get performance feedback all at once (Latham, 2003).

A goal that is too simple to accomplish won't provide the anticipated increases in performance. The key idea is that a goal must be both difficult and specific in order to increase performance. Employees will put up a lot of effort to accomplish challenging goals if they are within their reach, but the difficulty must have a limitation. Performance suffers as a result of people in the organization dismissing goals as absurd and unachievable when they become too difficult to attain (Bandura, 1997). Setting too difficult targets for subordinates may also lead to budgetary gaming, such as lowering sales estimates to make the budget simpler to meet, and spending the whole budget towards end of the budgetary term to avoid losing your "entitlement" when the next budget is set, and so on (Uyar and Bilgin, 2011).

To avoid such gaming, the goals should be logical and established through communication with subordinates. To put it in another way, participation in the financial process is critical to avoiding gaming (Uyar and Bilgin, 2011). According to Mohamed and Ali (2013), participation in budgetary decisions can be linked to performance in two ways. First of all, participation in budgeting procedures may boost employees' motivation and dedication, which in turn improves their performance and job satisfaction. Secondly, budget participation allows superiors to provide subordinates with information about their organisational roles and responsibilities, which aids them

in clarifying the responsibilities they have, and what to expect, which in turn provides them with better job performance.

## **2.9. PROFITABILITY AND MEASURES OF PROFITABILITY**

There are differences between the terms profit and profitability. Profit is defined as the difference between a certain activity's linked revenues and expenses during a specific time period, while profitability is the capacity of an investment to provide a return on its utilisation (Nishanthini and Nimalathan, 2013). According to Yusuf and Surjaatmadja (2018), profitability refers to a company's capacity to earn profits within a predetermined time frame. This capacity is often measured using profitability ratios.

Recent research examines the profitability of businesses across various nations and economic fields using measures such as net operating profitability (NOP), return on total assets (ROTA), return on invested capital (ROIC), and return on assets (ROA) (Burja, 2011). The measures are classified as profitability ratios, which fall under two main classes, namely profit margin ratio and return ratios (Elangkumaran and Karthika, 2013). They are both indicators of the return on invested capital, estimating the amount by which company revenue surpasses various cost measures (Perisa, Kurnoga and Sopta, 2017)

Profit margin ratios include gross profit margin, net profit margin and operating profit margin, earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA). Return ratios include return on assets (ROA), return on equity (ROE) and return on capital employed (Elangkumaran and Karthika, 2013). According to Perisa et al. (2017), net profit margin (NPM), EBITDA margin, EBIT margin, return on equity return on invested capital (ROI), return on equity and return on capital employed are the most commonly used profitability indicators.

Financial ratio analysis is not only used to analyse performance of the company in terms of liquidity, solvency, and profitability in the field of finance, but it may also be used to analyse a company's strengths and weaknesses. Furthermore, they may be utilised as early warning systems as well as to track current trends in the industry's organisations (Kusmayadi, Rahman, and Abdullah, 2018).

### **2.9.1. Profit Margin**

Profit margin is a profitability ratio that computes a company's net profit as a proportion of total revenues. It calculates how much of each dollar of sales may be kept in profits. When compared to rivals, a greater profit margin suggests a more lucrative firm that has more control over its operational costs, finance costs, and taxes (Lu and Cui, 2011)

#### **2.9.1.1. Gross Profit Margin**

Sales less gross profit or gross sales is what is referred to as gross profit margin. After subtracting the gross sales or gross profit, it determines relative profitability of a company's revenues. The greater the improvement in or decrease in the relative cost of the items sold, the higher the gross profit margin (Gowd, Kiran, and Prasada Rao, 2013).

#### **2.9.1.2. Net Profit Margin**

NPM is one of the factors utilised to assess a company's profitability. It reflects how much of the company's net profit is generated from sales. As a result, the greater the value of NPM, the more efficient the company's functioning (Kusmayadi et al., 2018). The efficiency can be seen by comparing firms in the same sector since it reflects the degree of expenditures that the firms incur in order to make a profit. This demonstrates their productivity and cost-cutting efficacy (Singapurwoko, 2013). Earnings after taxes (EAT) sales equals net profit margin (Gowd et al., 2013).

#### **2.9.1.3. Operating Profit Margin**

Operating profit margin refers to a firm's profit after subtracting all operational expenditures from gross profit. Operating expenditures comprise all administrative, selling, and distribution costs, but not financing costs or taxes (Nishanthini and Nimalathan, 2013). Operating profit margin is defined by Gowd et al. (2013) as operating profit divided by sales. It determines the share of each sales amount that is left over after subtracting all expenses and costs other than interest, taxes, and dividends on preferred stock. The larger the operational profit margin the better.

### **2.9.2. Earnings Before Interest and Taxes and Earnings Before Interest, Taxes, Depreciation and Amortization**

EBITDA is a non- generally accepted accounting principles (GAAP) measure; which is not subject to widely accepted accounting rules, but the direct calculation is based on GAAP-compliant statistics or numbers. EBITDA is defined as operational profit EBIT plus depreciation and amortisation charges (DA). EBITDA does not include interest expenses, taxes, or investments necessary to maintain or develop the firm, such as changes in net working capital, capital expenditures, and acquisitions (Mauboussin, 2018).

After operating expenditures are paid, the EBIT margin reveals how much EBIT earnings are retained by the firm for each cash unit of operational income. A higher EBIT margin is preferred because it allows businesses to keep a bigger share of their income after deducting business expenditures than those with a smaller EBIT margin. The EBITDA margin is the amount of money left over after paying for regular or operational expenditures. A larger EBITDA margin is desirable since it suggests that these businesses have a better cost structure because they can keep more of their earnings after deducting company expenditures (Perisa et al., 2017).

### **2.9.3. Return on Assets**

ROA measures a business's ability to make profit as a result of successful management and efficient use of resource (Burja, 2011). ROA is also known as Return on Investment (ROI) and it is calculated as earnings after taxes (EAT) divided by Total Assets (Gowd et al, 2013). It demonstrates the extent to which a company's revenues surpass its costs (Mondal and Ghosh, 2012). The higher a company's ROA, the more efficiently it uses its assets, resulting in more profits. Large earnings will entice investors since the firm has a high rate of return (Yusuf and Surjaatmadja, 2018).

### **2.9.4. Return on Equity**

ROE measures the investment return of a company's common stockholders (Gowd et al., 2013). For investors, ROE is a crucial financial metric since it shows the earnings that are accessible to equity stockholders. It is determined by dividing the net earnings (minus preference dividends) by the entire equity book value (Mondal and Ghosh,

2012). EAT divided by common stock equity equals return on common equity (Gowd et al., 2013).

ROE should be further used to show how the firm is able to create profit for its equity holders. When compared to ROA, ROE may also be used to determine the amount of equity and liabilities required to make a profit. When the value of ROA exceeds half of the value of ROE, it implies that the corporation relies on liabilities rather than equity to produce profit (Singapurwoko, 2013). The greater the rate of return, the better off the owners are (Gowd et al., 2013).

### **2.9.5. Return on Capital Employed**

ROCE assesses profitability by demonstrating how well a firm uses its capital to generate a profit (Perisa et al., 2017). It displays the amount of profit generated for each rand invested in the company. This is calculated by taking the net profit after taxes and interest and dividing it by the capital invested. The result is expressed as a percentage. The sum of net current assets and net tangible fixed assets is known as capital employed (Nishanthini and Nimalathasan, 2013). Small-profit margins (numerator) or huge amounts of capital invested (denominator) lead the ROCE indicator to have a low value, whereas high ROCE has the opposite effect (Perisa et al., 2017).

## **2.10. FACTORS THAT INFLUENCE PROFITABILITY**

Previous empirical research has shown that organisations that aim to attain consistent profitability must be cognisant of both factors in the internal and external environment that might have a substantial impact on the ability of business to make profit. These include company size, age, risk, liquidity, leverage, industry type, capital intensity, skill, concentration ratio, capacity utilization, market share, advertising intensity, R&D intensity, retention ratio, sales growth, long-term financing, cash flow, ownership characteristics, export markets, working assets, debt level, and so forth (Alarussi and Alhaderi, 2017).

### **2.10.1. Age of the Firm**

According to Ilaboya (2016), a business's age is "the number of years from its inception. Studies on the relationship between profitability and business age have shown mixed results. Dogan (2013) identified a negative association between profitability and business's age, as noted in (Rahman and Yilun, 2021); the older a business is, the more productive but less profitable it will be. Ilaboya and Ohiokha (2016) discovered a substantial positive relation between the business's age and its profitability. The findings were strong and consistent with the learning-by-doing concept, which claims that increasing knowledge of successful manufacturing procedures boosts business profitability. Negative relation between business's age and profitability was also observed in Yilun's (2020) study.

### **2.10.2. Firm Growth and Size**

A firm's growth is a gradual process, it may be measured using a variety of indicators such as sales, employment, net profit, market share, asset size, business expansions, market and product diversity, physical production, and all indicators that might characterise a company's growth. Although each of the aforementioned growth measures has benefits and limitations, no one measure can be considered the greatest for business growth (Hossain, Ibrahim and Uddin, 2016).

Many studies utilise the sum of sales of the current year minus sales of the previous year and then divided the difference by sales of the previous year to calculate rate of growth which is also known as sales growth (Kouser, Bano, Azeem and Hassan, 2012). Growth in sales leads to additional income for the current period, which will assist in facilitating expansion that will further increase profitability (Asimakopoulos, Samitas and Papadogonas, 2009)

Firm size has a substantial influence on both growth and profitability and is a key indicator of both (Kouser et al., 2012). According to Jiang (2003), as referenced by (Yilun, 2020), defines size in terms of number of employees per business or establishment, the number of sales per business, and the value contributed per business. Because of the definition, most studies have utilised total assets, total revenues, or the number of workers as measures of business size (Doan, 2013). Several studies have been carried out to study the how firm size relate with profitability.



The findings were inconsistent, with some studies showing a positive association, others finding a negative correlation, and yet others finding no correlation at all (Rahman and Yilun, 2021). The majority of research examining the relationship discovered that firm size does have positive impact on profitability (Doğan, 2013). Ilaboya and Ohiokha's (2016) study established a positive correlation between firm size and profitability. Shim, Siegel, and Shim (2011) study demonstrated that an increased firm size results in a higher level of profitability. Yilun (2020) also discovered that size of a firm has a substantial positive relationship with profitability, and this supported the findings of Ilaboya and Ohiokha's (2016) study. Mulani et al., (2015) observed that firm size significantly relates positively with profit growth rate. Profit growth rates grew as company size increased. The reason for this is because firms in their early years are smaller in size and their focus is primarily on sales growth rather than profit growth. As their size grows, the focus turns to profit growth.

### **2.10.3. Productivity**

Theoretically, profitable organizations efficiently utilize all resources at their disposal and take advantage of any opportunity to increase profits. Businesses that are more productive and efficient in their operations and management are more likely to be profitable (Yazdanfar, 2013). Highly productive companies have a competitive advantage over less productive competitors, as a result, they become more profitable. Companies' profitability is seen to be higher when they have higher levels of total factor productivity. Furthermore, companies with lower levels of productivity quit the market, while those with greater levels of efficiency thrive (Salman and Yazdanfar, 2012).

Previously conducted empirical research has found that the most significant factor in explaining profitability is productivity. Total factor productivity (TFP) was calculated by dividing the book value production by cost of labour plus cost of capital (Yazdanfar, 2013).

### **2.10.4. Leverage on Profitability**

"Leverage" signifies that the company borrowed money to finance the acquisition of assets. The alternative option is to employ owner cash, or equity, to acquire assets (Hossain et al., 2016). The leverage ratio, also known as the debt asset ratio, is a calculation that determines how much of a firm's assets are financed by debt. In other

words, the leverage ratio is a ratio used to determine how much debt a company should hold in the order of asset fulfilment. Leverage ratio is calculated by dividing sum of debt by sum of assets. Based on the development of the retail firm, the asset held is decreasing and total debt is increasing, which may cause some companies to liquidate their business locations (Susanti, Latifa and Sunarsi, 2020).

Leverage is negatively related to profitability. Increased debt has a detrimental impact on the company's performance. This is due to the fact that increasing debt levels need higher interest payments, which raises the firm risk, resulting in lower profits or poor performance. However, this is not always the case, there may be instances whereby a company may need financial support or assistance, which is set to improve the financial performance of the company (Agiomirgianakis, Magoutas and Sfakianakis, 2013). The capital structure trade-off hypothesis states that the appropriate amount of debt balances the advantages of debt with its drawbacks. Tax advantages of debt are predominant up to a specific debt ratio, leading to improved profitability, but the advantage diminishes after that point since the cost is greater than the gain. A business confronts more financial risks the more debt it uses, which results in a decreasing amount of income tax payments (Alarussi and Alhaderi, 2017).

Findings from Asimakopoulos et al.'s (2009) study indicates a negative correlation between higher debt levels and profitability. The fact that businesses with higher financial leverage ratio utilise a portion of the profits to cover the high interest expenditure also contributed to the negative trend. Furthermore, the amount of money available for reinvestment is reduced when a significant share of profits is needed to pay interest, which restricts the company's potential for growth.

#### **2.10.5. Liquidity**

The ability of a company to change asset into cash is referred to as liquidity. It is often referred to as the ability of a company to repay its short-term debts. A multitude of ratio such as current ratio (CR), quick ratio(QR), and cash ratio(CHR), are used to assess liquidity (Alarussi and Alhaderi, 2017). The current ratio being one of the liquidity ratios represents the amount of safety (margin of safety) of short-term creditors, or the company's capacity to pay such liabilities. It contrasts current assets and liabilities,

showing that an asset in this retail company has declining value and rising debt, which might force some businesses to close or liquidate their locations (Susanti et al., 2020)

According to Rehman, Khan, and Khokhar (2015), there is just one positive significant association between the ROA and the CR of the organisations studied. Furthermore, it is discovered that there is a negative but negligible association between the firms' ROA, QR, and CHR. ROE has a negligible association with the QR, and CHR. As a result, two of the three liquidity ratios are negatively related to profitability.

## **2.11. CONCLUSION**

The chapter provided a lengthy literature review on budgeting and profitability. For better understanding definitions of key variables namely budgeting and profitability were defined, taking into considerations various definitions available in academic literatures. The process of budgeting and budget cycle was outlined, focusing more attention on how budgeting is drawn and dispatched by management with budgetary controls in place for monitoring. The chapter further outlined the importance of budgeting in an organisation and various types of budgeting an organisation can adopt, placing more emphasis on the fact that sales budget precede all other budgets.

Furthermore, the provided a distinction between profit and profitability through definitions, and further indicated how profitability can be measured using profitability measures or indicators as outlined in the chapter. Factors affecting profitability which needs to be taken into consideration when comparing organisations, were also outlined, as well as how they can affect profitability. Scarcity of literature or previous researches on relationship between sales budget and profitability observed as thus, brief literature review was outlined on the relationship between sales budgeting, profitability and firm financial performance.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1. INTRODUCTION**

According to Hamilton and Clare (2003) cited by Disman, Ali, and Barliana (2017), research methodology should include a research design that addresses the research plan, research participants, and how they are chosen, as well as ethical approval (if required). Specific techniques for collecting, processing, analysing, and constructing research data will be explored in this chapter.

Following on what Hamilton and Clare (2003) mentioned about research methodology, this chapter explains the method applied to measure the relationship between two variables. In this case independent variable will be sales budgets and dependant variables, profitability which will be represented by its measures namely, sales turnover, net profit and EBITDA respectfully. Each measure of profitability will be tested separately against sales budgets.

The study will adopt quantitative research approach, as thus the approach will be defined and outlined for better understanding. Reasons for adoption of this research approach will also be provided and will be based on the nature of quantitative research approach. The study will be conducted in South Africa. The sample will consist of approximately 704 Clicks retail pharmacies in South Africa. Data in a form of sales budget and profitability of all Clicks retail pharmacies will be collected and analysed using simple linear regression equation. Data will be downloaded from clicks annual integrated report uploaded on clicks group website.

### **3.2. RESEARCH PARADIGM**

A paradigm is a framework, viewpoint, or worldview based on beliefs and presumptions about the social environment and the knowledge itself, as well as how the researcher observes and interprets material about reality and drives the resulting action (De Vos, Strydom, Fouche and Delport 2011:513). In basic terms paradigm can be defined as way of observing or looking at something, be it phenomenon, business strategies or common business practices used in the business environment.

Amongst other paradigms in research the study adopted Positivist paradigm to ground the study. Creswell (2018:38) regards Positivism research paradigm as one that embraces greater veracity in quantitative research studies than qualitative research studies, as thus it was chosen for this study. Positivism is a worldview that thinks knowledge can be created via numbers and relies on a statistical approach to analysis. Furthermore, the positivist approach to data collection emphasizes gathering data in numerical form so that evidence may be quantitatively presented. (Al Riyami, 2015). As a result, the researcher determined that Positivism was the most suitable paradigm for the study, particularly because the research was correlational, the researcher wanted to establish the link between sales budget and profitability of the Clicks retail pharmacies South Africa. Furthermore, data collected and used in the study was in form of numbers which were subjected to simple linear regression for analysis. According to Creswell (2007) positivism is characterised by use of quasi-experimental and experimental designs that draw causal conclusions about the relationship between an independent variable and dependent variables, with the researcher's aim of maximizing the influence of the independent variable on the dependent variable while minimising the influence of external factors that have potential to affect accuracy of results.

### **3.3. RESEARCH DESIGN**

An approach to responding to research questions is called a research design. It includes everything from theoretical reading through methodological decisions to actual data collection, analysis, and publishing (Eriksson and Kovalainen, 2008). According to Kumar (2014), research design may be defined as a road plan that a researcher chooses to follow in a research journey in order to uncover the most valid, objectively correct, and economically feasible answers to research questions.

The study was designed as a case study of the South African retail pharmacy, whereby the researcher conducted an in-depth enquiry into how sales budgeting correlates with profitability at Clicks retail pharmacies. According to Kumar (2014), the premise behind case study design was that the case being researched was representative of cases of specific categories, and hence a single example had the ability to give insight into the events and situations frequent in the group from which the case was taken.

Quantitative or structured approach was used by the researcher. According to Leedy and Ormrod (2015), quantitative research is a type of study that is distinguished by its propensity to generate data that is inherently numerical in nature or that is readily convertible to numbers. According to Kumar (2014), quantitative research is based on the rationalism philosophy, employs rigid, predetermined methods and processes to probe, seeks to quantify the level of variation in a trend, emphasizes variable measurement and process objectivity, appears to believe in corroboration on the basis of a larger samples, puts more focus on validity and reliability of research results, and communicates results in an analytical and succinct manner. The approach was appropriate to the study since it enabled the researcher to quantify variation in a phenomenon of setting sales targets in order to boost business profitability.

Quantitative secondary data was collected and utilised in the study. Using secondary data in the study had more advantage over using primary data, this was in according to Saunders, Lewis and Thornhill (2016). The advantage was from the fact that secondary data was already available for evaluation before use (Kumar, 2014). In this study the data extracted from the annual integrated reports which were uploaded on the company website, as results of that it was much less expensive and less time consuming because it was already processed (compiled data). Furthermore, using secondary data allowed the study to provide longitudinal perspective, whereby the study was able to provide correlation between the two variables over the previous fourteen years.

### **3.4. POPULATION AND SAMPLING DESIGN**

#### **3.4.1. Population**

Banerjee and Chaudhury (2010) use the term "population" to describe an entire group where the particular information must be collected. McBurney (2001) as cited by De Vos et al., (2011:223) defines population as the entire set of individuals, incidents, organizations or any other case records pertinent to the study. As far as this study is concerned the population comprised of over 704 Clicks retail pharmacies across South Africa (Clicksgroup, 2022). All this stores were considered to fall under population because they shared similar attributes of interest which qualified them to be population

members (Asiamah, Mensah, and Oteng-Abayie, 2017). The attributes of interest were that they were under Clicks group.

### **3.4.2. Research Area**

The research was conducted in South Africa, whereby the researcher studied all Clicks retail pharmacies in the chain.

### **3.4.3. Sampling Technique and Sample**

Leedy and Ormrod (2015:389) describe a sample as a fraction of a population of humans, other living species, or non - living things; data collected from this fraction is used to derive inferences about the community from which it came. A sample, according to de-Vos et al., (2011:223), is a fraction of the population selected for inclusion in the study, or it may be understood as a fraction of measures drawn from a population in which we are interested. Through sampling a smaller, more manageable number of population which are a representative of the entire population are selected to take part in research (Dawson, 2009).

According to Walliman (2018), sampling is used when a researcher seeks information about a sizable group of distinct individuals or things, such as cars and stores, about which it would normally be impossible to obtain answers from all of them because doing so might be prohibitively expensive or take an excessive amount of time. This was not the case in this research, secondary data used contained consolidated information of all Clicks retail pharmacies, which were in operation from 2008 financial year to 2021 financial year. Hence, sampling was not done in this research all Clicks retail pharmacies which were in operation did form part of the study.

## **3.5. DATA COLLECTION**

Data collection is the procedure of gathering and organizing information on relevant factors in a methodical and organized way that helps in providing answers to research questions, testing hypotheses, and weighing results (Kobo, 2016). Jonker and Pennink (2013) define data collection as the discovery, collecting, or generation of data that would be analysed by the researcher. The quantitative data collecting method was used to collect secondary data. Quantitative data collecting methods, according to Mkandawire (2019), are those mostly from the positivist paradigm that emphasise

objective measures that are generally in amounts and whose data is analysed using descriptive and inferential statistics.

More often there is great availability of secondary data from books, libraries, archives and the websites (Adams, Khan and Raeside, 2014). According to Walliman (2018), there are various forms of secondary data, the most common of which are documentary sources in the form of written (e.g. organisational records) and non-written materials (e.g. recordings, radio) and survey data in the form of statistical data. To ensure validity and reliability. The researcher used archival or document approach, meaning that data for this research was extracted from Clicks annual integrated reports which are uploaded on clicks group website. The reports extracted were from the past fourteen years, from 2008 to 2021. These were reports meant for investors and other members of the public with interest in financial performance of Clicks group, as thus they were uploaded on company website for easier access by the public.

### **3.6. DATA ANALYSIS**

Quantitative data analysis according to de-Vos et al. (2011), can be regarded procedure for assembling, classifying, tabulating and summarising numerical data either manually or by computer to obtain meaningful information. The procedure can be conducted on a Microsoft excel spreadsheet or on a popular and more user friendly software package known as Statistical Package for the Social Sciences (SPSS) (Adams et al., 2014).

In qualitative research, data collection, analysis, and interpretation are all interconnected and dynamic processes. Analysis takes place both during and after data gathering (Saunders , et al., 2016). Data display and analysis approach will be followed, whereby data will be condensed and displayed into summary diagrammatic or visual display such as tables with defined number of rows and columns or any graphic format (Saunders, et al., 2016). The Statistical Package for the Social Sciences (SPSS) will be used as a statistical tool of analysis.

Discriptive statistics will be produced and tabulated before correlation and regression results respectively. Discriptive statistics will provide overview information about the secondary data used in the study. Information such as Mean, median, mode, skewness and kurtosis. (Mishra, Pandey, Singh, Gupta, Sahu, & Keshri, 2019).



Correlation and regression formulas are some of the approaches which can be used to determine the association between variables. The association between variables if linked do assist in building a model of relationship (Adams et al., 2014). However, in this research data was analysed quantitatively using simple linear Regression Statistics. The rationale for using Regression Analysis is based on the notion that was promoted by Verdinelli & Scagnoli (2013), because the research paradigm is positivist with financial variables to analyse. Creating causal or explanatory correlations that eventually result in prediction and control of the phenomenon under study is one of the core aims of positivist research (Park, Konge and Artino, 2020). Furthermore, according to Walliman (2018) regressions are useful for showing relationship between two variables plotted on a scattergram.

To be able to produce accurate, meaningful, and credible results necessary to model or determine how independent variable (sales budget) and dependent variables. (sales turnover, net profit and EBITDA) relate to one another, all other unknown variables were kept constant. With this strategy the researcher was able to eliminate other possible explanation for the results observed, improving validity of results.

The relationship between the variables was analysed separately using the following linear regression equation in-order to find answers for research questions (Yunus and Tambi, 2013:78).

$$Y_i = B_0 + B_1 X_i + E_i$$

Where:

$Y_i$  will represent the sales turnover, net profit and EBITDA respectively.

$B_0$  will represent the y-intercept (mean value of dependable variable [  $Y$  ] when the value of independent variable [  $X_i$  ] is zero

$B_1$  will represent the gradient (the slope that measures the change in the value of the independent associated with one-unit increase in the value of the independent variable.

$X_i$  will represent the sales budget (independent variable) and

$E_i$  will represent the error. (the effects on  $Y_i$  of all factors other than the value of  $X_i$ )

### **3.7. ETHICAL CONSIDERATIONS**

In this study, secondary data from Clicks group website will be used to determine research objectives. Following permission from FRHDC to collect data, secondary data will be extracted with accuracy from certified budget reports and annual financial reports uploaded on clicks group website. The data collected will not be manipulated, it will be analysed in its original context by the researcher. Furthermore, the researcher will ensure that data collected is reported with professionalism, honesty and integrity.

### **3.8. CONCLUSION**

The research approach used to conduct this study was covered in this chapter. Research paradigm was positivist, where measurable variables such as sales turnover, net profit and EBITDA were analysed respectively. The research adopted the quantitative research approach, since the above-mentioned variables were compared with the sales budget.

Secondary Data from 2008 to 2021 was extracted from the online annual integrated reports for analysis taking into consideration all ethical issues. Simple linear regression method was employed to measure and model how independent variable (sales budget) and dependent variables (sales turnover, net profit and EBITDA) relate to one another.

## CHAPTER FOUR RESULTS OF THE STUDY

### 4.1. INTRODUCTION

The study aimed to determine the relationship between sale budget and profitability of Clicks Pharmacies Limited. To achieve the study aim, secondary data were collected and analysed in line with the research methodology outlined. This chapter presents the results of the study from the linear regression model applied in the study. Literature, both empirical and theoretical is utilised in the interpretation and discussion of the study results.

### 4.2 DESCRIPTIVE STATISTICS

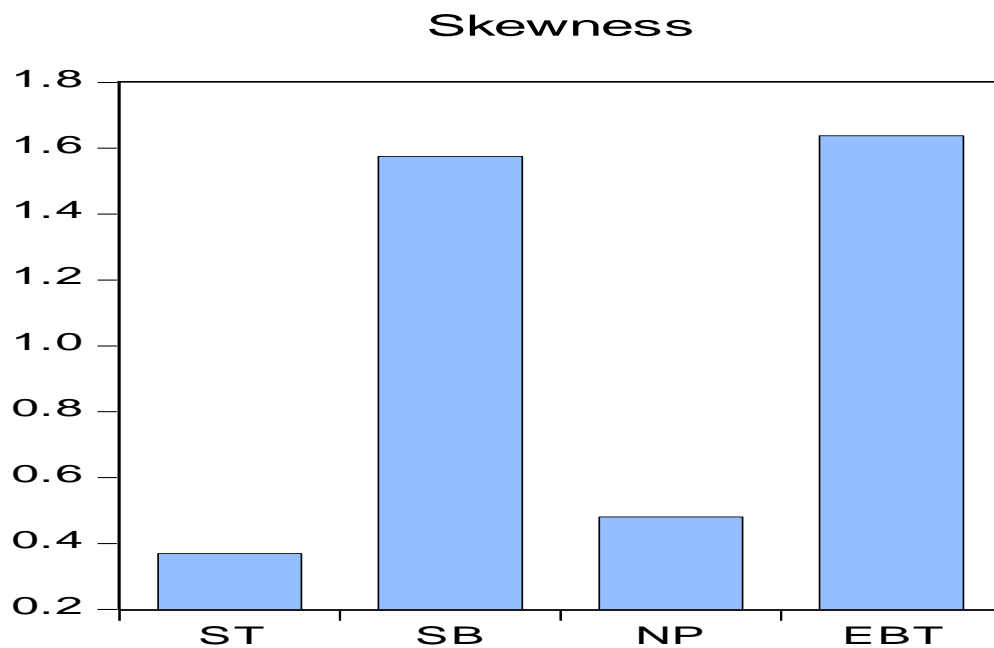
Descriptive statistics are significant because they indicate the type of data utilised in the study. Table 4.1 below highlight descriptive statistics:

**Table 4.1: Descriptive Statistics**

	ST (Sales turnover)	SB (Sales Budget)	NP (Net Profit)	EBT (EBTDA)
Mean	22019.59	9.657143	1046.842	1195.724
Median	20610	9.2	909.9225	1268.5
Maximum	37339	12.8	1880	2642
Minimum	11244	8.7	441	586
Std. Dev.	8671.811	1.179122	506.4324	497.6302
Skewness	0.369332	1.574896	0.480284	1.637855
Kurtosis	1.818508	4.591935	1.817997	6.281693
Jarque-Bera	1.13257	7.265676	1.353229	12.54154
Probability	0.56763	0.026441	0.508335	0.001891
Observations	14	14	14	14

Table 4.1 shows that all the variables are positively skewed as reflected by positive values of skewness. Positive skewness implies that the mean is larger than the median and the distribution has a longer tail on the right (Bono et al., 2019). If the skewness is less than -1 (negatively skewed) or larger than 1 (positively skewed), the data are highly skewed, and if it is between -0.5 and 0.5 (relatively symmetrical), the data are

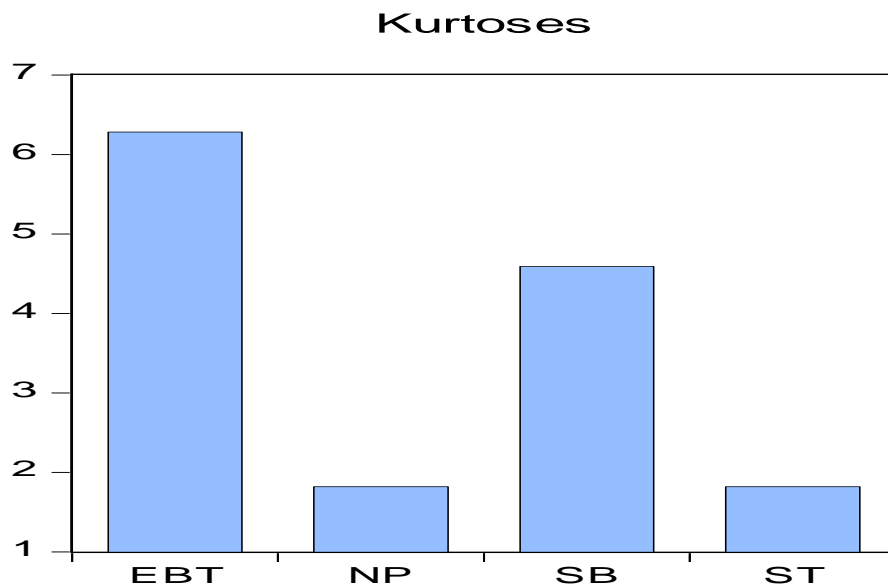
moderately skewed (Xiang et al., 2020). Figure 4.1 shows the skewness of the variables in the study.



**Figure 4.1: Skewness**

From Table 4.1 and Figure 4.1 it can be shown that sales turnover (ST) and net profit (NP) are asymmetrical, whereas EBITDA (EBT) and sales budget (SB) are highly skewed. High skewness indicates the possibility of large positive outliers and non-stationary data.

In terms of kurtosis, Table 4.1 shows that sales budget and EBITDA are leptokurtic (kurtosis > 3) whilst sales turnover (ST) and net profit are platykurtic (kurtosis < 3). This is exhibited by Figure 4.1 which shows kurtoses of the variables.



**Figure 4.2: Kurtoses**

Figure 4.2 shows that sales budget and EBITDA have kurtosis which is greater than 3 (leptokurtic), whilst net profit and sales turnover have kurtosis which is less than 3 (platykurtic). Leptokurtic denotes that the distribution is longer, the tails are fatter, and the peak is higher and more pronounced than Mesokurtic, which indicates that the data are heavy-tailed or abundant in outliers (Bazavov et al., 2020).

### 4.3 CORRELATIONS

Correlation is a statistical measure (represented as a number) that reflects the magnitude and direction of a connection between two or more variables (Cui et al., 2021). Correlation analysis may identify substantial associations between variables in a model, therefore revealing fresh insight about the relationship between variables and revealing interrelations (Behrens et al., 2020). The study wanted to analyse the correlation between sales budgeting and sales turnover, net profitability and EBITDA. Correlations between variables in study are shown in Table 4.2.

**Table 4.2: Correlations**

	<b>ST</b>	<b>SB</b>	<b>NP</b>	<b>EBT</b>
<b>ST</b>	1.0000			
<b>SB</b>	0.86982	1.0000		
<b>NP</b>	0.99086	0.87358	1.0000	
<b>EBT</b>	0.84129	0.86203	0.78149	1.0000

Table 4.2 shows that there are positive correlations between sales budget (SB) as an independent variable and the dependent variables (sales turnover, net profitability and EBITDA). A correlation between variables does not always indicate that the change in one variable is the cause of the change in the other variable's values. According to Gujarati (2008), correlation does not imply causation therefore there is need to conduct the regression analysis to further establish the statistical relationship between the variables.

#### **4.4 REGRESSION RESULTS**

The simple linear regression was employed to demonstrate the statistical relationship between sales budget and the dependent variables. Each dependent variable was regressed against sales budget as the independent variable and the study results were presented and discussed.

##### **4.4.1 Sales Budget and Sales Turnover**

The study applied the linear regression model to establish the relationship between sales turnover and sales budget. Table 4.3 below shows the regression results for the model.

**Table 4.3: Regression Results, Sales Budget and Sales Turnover**

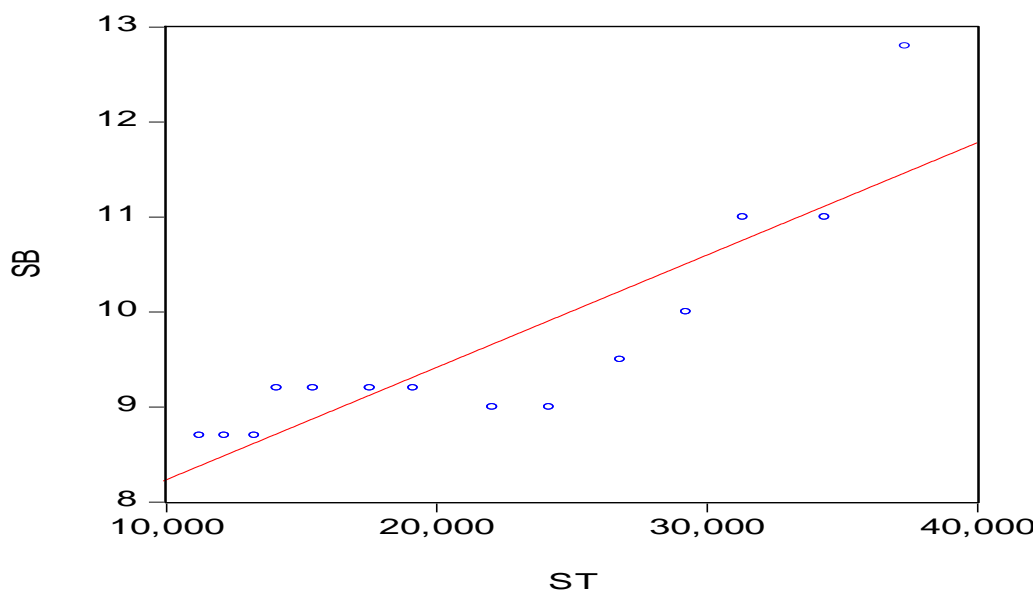
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SB	6397.062	1047.446	6.107298	0.0001
C	-39757.75	10185.11	-3.90352	0.0021

$R^2 = 0.757$       Adjusted  $R^2 = 0.736$       F-Statistic = 37.29908

Prob (F-Statistic) = 0.000053

The model  $R^2$  of 0.757 shows that approximately 75.7% of the variations in sales turnover are explained by the sales budget and the remaining 24.3% of the variation in sales turnover is explained by other factors contained in the error term. The adjusted  $R^2$  of 73.6 shows that after adjusting for degrees of freedom, 73.6% of the variations in sales turnover are determined by sales budget and the remaining 26.4% determined by other factors contained in the error term. The F-statistic probability of 0.000053 shows that the model is statistically significant, hence according to Gujarati (2008), a model is statistically significant if the F-statistic probability is less than 0.05.

Table 4.3 shows that there is a positive correlation between sales budget and sales turnover as reflected by the positive coefficient of sales turnover. This is supported by the line of best fit presented in Figure 4.3 below.



**Figure 4.3: Sales Budget and Sales Turnover Line of Best Fit**

Figure 4.3 shows that the line of best fit is straight and upward sloping indicating the presence of a positive linear association between sales budget and sales turnover.

#### 4.4.2 Sales Budget and Net Profitability

The scientific or theoretical expectation is that sales budget is positively correlated to net profitability of the organisation. Table 4.4 below presents the regression results in the model with sales budget as the independent variable and net profitability as the dependent variable.

**Table 4.4: Regression results, sales budget and net profitability**

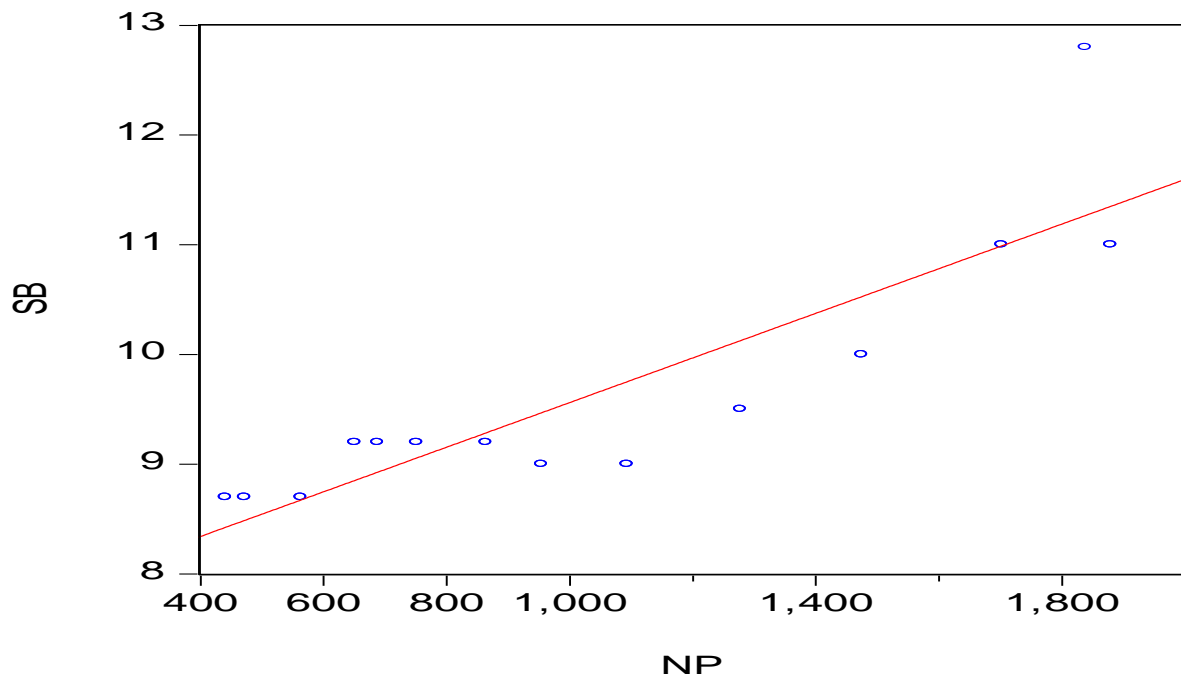
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SB	375.202	60.34149	6.217977	0.0000
C	-2576.537	586.746	-4.391232	0.0009

$R^2 = 0.763$       Adjusted  $R^2 = 0.743$       F-Statistic = 38.66324      Prob (F-Statistic) = 0.000045

A high  $R^2$  of 0.763 shows that approximately 76.3% of the variations in net profitability are explained by the sales budget and the remaining 23.7% of the variation in net profitability is explained by other factors contained in the error term. The adjusted  $R^2$  of 74.3 shows that after adjusting for degrees of freedom, 74.3% of the variations in net profitability are determined by sales budget and the remaining 25.7% determined by other factors. The F statistic of 38.66324 shows that the model is statistically significant, hence according to Gujarati (2008), a model is statistically significant if the F-statistic is greater than 5.

Table 4.4 shows that there is a positive correlation between sales budget and net profitability as reflected by the positive coefficient of sales budget. The positive correlation is supported by the line of best fit contained in Figure 4.4 below.





**Figure 4.4: Sales Budget and Net Profit Line of Best Fit**

Figure 4.4 shows that the line of best fit is straight and upward sloping indicating the presence of a positive linear association between sales budget and net profit.

#### 4.4.3 Sales Budget and EBITDA

The study applied the linear regression model to establish the relationship between sales turnover and EBITDA. Table 4.5 below shows the regression results for the model.

**Table 4.5: Regression Results, Sales Budget and EBITDA**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
<b>SB</b>	363.8078	61.75011	5.891614	0.0001
<b>C</b>	-2317.62	600.443	-3.85985	0.0023

$R^2 = 0.743$

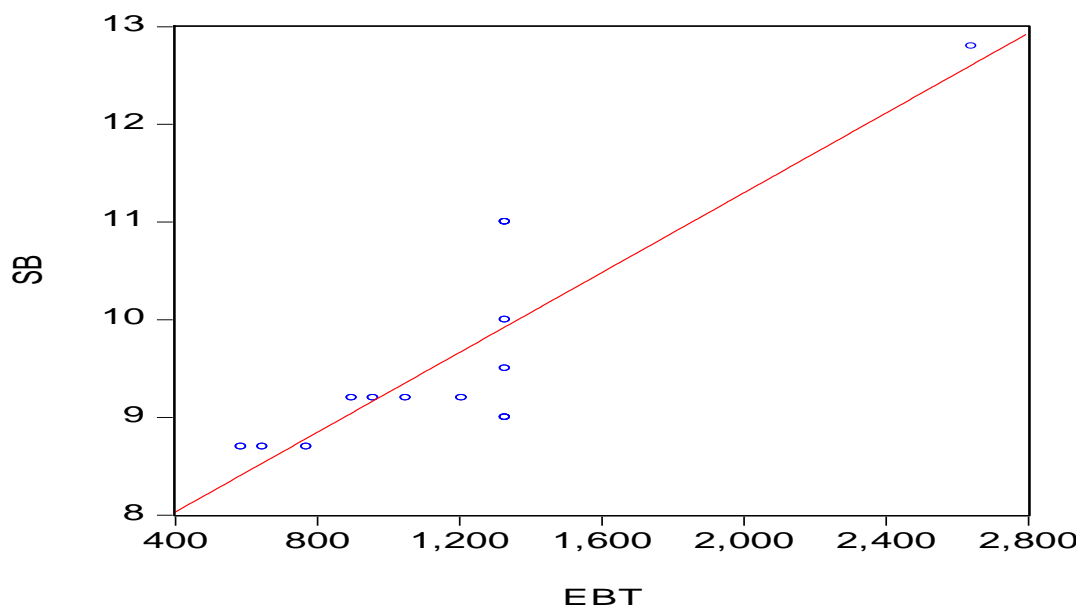
Adjusted  $R^2 = 0.722$

F-Statistic = 34.71112

Prob (F-Statistic) = 0.000073

Table 4.5 shows that the  $R^2$  is 0.743, which indicates that 74.3% of the variations in EBITDA are explained by the sales budget, whilst 25.7% of the variation is explained by other factors contained in the error term. The adjusted  $R^2$  of 72.2 shows that after adjusting for degrees of freedom, 72.2% of the variations in net profitability are determined by sales budget and the remaining 27.8% determined by other factors contained in the error term.

Table 4.5 shows that there is a positive correlation between sales budget and EBITDA. This is supported by the line of best fit shown in Figure 4.5 below.



**Figure 4.5: Sales Budget and EBITDA Line of Best Fit**

Figure 4.5 shows that the line of best fit is straight and upward sloping indicating the presence of a positive linear association between sales budget and EBITDA.

## 4.5 DISCUSSION OF RESULTS ON RESEARCH HYPOTHESES

The development of a study hypothesis enhances the understanding of the research topic or problem. This section presents a discussion of the results on the research hypotheses.

### 4.5.1 Discussion of Results on Research Hypothesis 1

$H_0$ : There is no relationship between sales budget and sales turnover.

$H_1$ : There is a relationship between sales budget and sales turnover.

Mathematically, the relationship between sales turnover and sales budget is represented as follows:

$$\text{Sales Turnover} = -39757.75 + 6397.1 \text{ Sales Budget Target}$$

It implies that a 1% improvement in sales budget has a positive effect on sales turnover. The probability value of the sales budget in Table 4.3 is less than 0.05, which shows that the relationship between the variables is statistically significant. Therefore, the study does not accept the null hypothesis which states that there is no relationship between sales budget and sales turnover.

Budget assist economic organisations in attaining their objectives, coordinating the activity, empowering and motivating managers and staff, and allowing for effective activity control, resulting in an increase in revenue (Nafisatu, 2018). The study results are aligned to the study by Nafisatu (2018) which show that budgeting has a positive effect on sales turnover. Budgeting show predicted income projections, enabling management and staff to assess budget implementation and accomplishment and boost sales revenue (Nso, 2020). The study results imply that there is need to improve sales budget, so as to improve sales turnover.

#### **4.5.2 Discussion of Results on Research Hypothesis 2**

$H_0$ : There is no relationship between sales budget and net profit.

$H_1$ : There is a relationship between sales budget and net profit.

Statistically, the relationship between net profitability and sales budget is represented as follows:

$$\text{Net profitability} = -2576.537 + 375.2 \text{ Sales Budget}$$

The probability value of the sales budget in Table 4.4 is less than 0.05, which shows that the relationship between the variables is statistically significant. Therefore, the study does not accept the null hypothesis which states that there is no relationship between sales budget and net profitability.

It implies that a 1% improvement in sales budget leads to 375% increase net profitability. If sales budgets are not completely utilised or acknowledged by a business, profitability may not be maximised, as resources may be allocated and channelled towards under-performing sales projects/ventures and thus reducing profitability (Muharlisiani et al., 2019). Statistically, it is difficult to establish a connection between budgets and profitability, despite the fact that variations in profit may be explained by changes in sales income and costs as shown in the sales budget (Nafisatu, 2018). The study results are aligned to the study by Nafisatu (2018) hence indicate the need for sales budgeting to increase profitability.

### **4.5.3 Discussion of Results on Research Hypothesis 3**

$H_0$ : There is no relationship between sales budget and (earnings before interest, taxes, depreciation) EBITDA.

$H_1$ : There is a relationship between sales budget and EBITDA.

The relationship between EBITDA and sales budget is represented as follows:

$$EBITDA = -2317.62 + 6397.1 \text{ Sales Budget Target}$$

It implies that a 1% improvement in sales budget has a positive effect on EBITDA. The probability value of the sales budget in Table 4.5 is less than 0.05 which shows that the relationship between the variables is statistically significant. Therefore, the study does not accept the null hypothesis which states that there is no relationship between sales budget and EBITDA. Budget have a positive effect on various measures of financial performance as it results in effective resource utilisation. Some firms' declining earnings are mostly attributable to incompetence and inefficient short-term planning and management systems, especially poor budgeting (Segersvärd, 2022). Therefore, there is need to improve budget, so as to improve EBITDA in the organisation.

## **4.6 CONCLUSION**

The chapter presented the results of the study from the linear regression model that was applied in the study. The results are presented in linking with the study objectives as outlined in the first chapter of this study. The study results show that there is a

positive correlation between sales budget as an independent variable with measures of profitability which are sales turnover, EBITDA and net profits. The regression results further validated the positive relationship between sales budget as an independent variable and the dependent variables. Since the relationships were statistically significant, the study did not accept the null hypotheses which hypothesised that sales budget does not have a relationship with sales turnover, EBITDA and net profitability.

## **CHAPTER FIVE**

### **RECOMMENDATIONS AND CONCLUSIONS**

#### **5.1 INTRODUCTION**

Chapter four presented the results of the study based on the linear regression model. Based on the study results, this chapter contains study summary, recommendations and conclusion. The study summary provides a brief overview of the main areas of the study based on literature and the study results. The recommendations aim at providing measures to improve sales budget, so as to improve EBITDA, net profitability and sales turnover. Improving the above stated indicators will improve profitability of an organisation. The recommendations presented by the study are primarily guided by the study results. The conclusion provides the end note to the entire study. The purpose of the conclusion is to assist the reader understand why the study is significant after reading the study.

#### **5.2 SUMMARY OF THE STUDY**

Some company organisations utilise budgets to express goals, strategies, and objectives established by management for a specified time period. They offer objectives, direction, and management of the immediate corporate environment. It is a strategy that results in structured, high performing management when implemented in the presence of ability to predict; defined communication lines, authority, and accountability; as well as accurate and reliable accounting information with support from all levels of management. Clicks Pharmacies, a division of Clicks Group Limited, use a top-down sales budgeting method as part of strategic planning to assure the financial success of pharmacies and fulfil the organisation's long-term objectives. However, it has been discovered that the pharmacy staff does not comprehend budgeting and its influence on profitability. The aim of the study was to determine the relationship between sales budget and profitability of Clicks Pharmacies Limited.

A budget is an official written declaration of management's financial goals for a certain future time period. It specifies the future financial goals and objectives established by the budget committee or management for approval by the entire organisation, after which it becomes a tool for measuring performance. Sales budget forecasts future sales. It can be stated in either any currency or units. Sales objectives are derived from budget by business organisations. Financial performance of a company is its financial health over a certain time period. It addresses the collection and use of funds as measured by the capital adequacy ratio, liquidity, leverage, solvency, and profitability.

In order to achieve the study objective, the study adopted simple linear regression. The argument for doing regression analysis is based on the theory advanced by Verdinelli and Scagnoli (2013). The research paradigm is positivist and financial variables were analysed. One of the fundamental goals of positivist research is to build causal or explanatory relationships that would ultimately lead to the forecast or controlling of the phenomena under study. Regressions are excellent for demonstrating the link between two variables in a scattergram.

### **5.2.1 Summary of Results on Research Objective 1: Relationship between Sales Budgeting and Sales Turnover.**

The correlation and regression results showed that there is a positive relationship between sales budget and sales turnover. Thus sales turnover increases as sales budget increases. The relationship between the two variables was statistically significant and the null hypothesis which stated that there is no relationship between sales budget and sales turnover was not accepted.

### **5.2.2 Summary of results on research objective 2: Relationship between sales budgeting and net profit**

The correlation and regression results showed that there is a positive relationship between sales budget and net profit. The results show that net profit increases as sales budget increases. The relationship between the two variables was statistically significant and the null hypothesis which stated that there is no relationship between sales budget and net profit was not accepted.

### 5.2.3 Summary of Results on Research Objective 3: Relationship between Sales Budgeting and EBITDA

The correlation and regression results showed that there is a positive relationship between sales budget and EBITDA. The results show that EBITDA increases as sales budget increases. The relationship between the two variables was statistically significant and the null hypothesis which stated that there is no relationship between sales budget and EBITDA was not accepted.

## 5.3 RECOMMENDATIONS

Based on the study finding, the study presents the following recommendations:

**Data driven budgeting:** A budget may be a useful management tool provided it is developed with accurate statistical information. A solid statistical or data record should be kept, and practical budgeting estimates and data should be used for preparing and evaluating sales budget.

**Employee involvement:** Setting budget involves developing explicit, quantifiable, time-bound goals. Goals offer a sense of direction and purpose. Moreover, when budgets are created at the managerial level, employee motivation with regard to reaching these goals and enhancing performance is significantly diminished. Employees should be permitted to participate in the goal-setting process, which is connected to increased sales turnover and profitability, in order to promote efficiency.

**Setting achievable targets:** In order for a budget to be effective, the objectives must also be difficult; requiring that targets elicit higher performance, so unrealistic targets are typically counterproductive. There is an urgent need for them to enhance the design and implementation of budgetary objectives. Management must make further efforts to ensure that diligence, due process, dedication, and discipline are applied throughout the whole budgeting and budget process in order to maximise the benefits inherent in a successful budgeting and target exercise.



***Budget as the basis for performance measurement:*** The level of budget attainment should serve as the basis for measuring performance and efficiency. This aligns with the belief that budgeting is a useful management tool for measuring the performance of individuals and units, particularly in sales.

## **5.4 CONCLUSION**

A budget is one the key instruments that the organisation can utilise in order to improve its financial performance. The study aimed to determine the relationship between sale budget and profitability at Clicks Retail Pharmacies Limited. One of the study objectives was to examine the relationship between sales budget and sales turnover at Clicks Retail Pharmacies. The study objective was attained, the study results shows a statistically significant direct relationship between sales budget and sales turnover. Furthermore, another study objective was to evaluate the relationship between sales budget and net profit at Clicks Retail Pharmacies. The study results indicate a positive relationship between sales budget and net profit, hence did not accept the null hypothesis that there is no relationship between sales budget and net profit. The third objective was to determine the relationship between sales budget and EBITDA. This objective was achieved, and consequently the study results showed a positive relationship between the variables.

The study added to the existing body of knowledge by demonstrating the relationship between sales budget as an independent variable with EBITDA, sales turnover and net profit. In addition, the study has managerial implications. It shows the importance of the sales budget in order to improve profitability of an organisation. The study concludes that sales budget is an effective tool which can be used to improve and achieve better outcomes for the organisation.

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## **APPENDIX A:**

### **FACULTY RESEARCH HIGHER DEGREES COMMITTEE APPROVAL LETTER**

## APPENDIX B

### REGRESSION RESULTS

#### Sales Budget and Net Profitability

Dependent Variable: NP  
 Method: Least Squares  
 Sample: 1 14  
 Included observations: 14

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SB	375.2020	60.34149	6.217977	0.0000
C	-2576.537	586.7460	-4.391232	0.0009
R-squared	0.763142	Mean dependent var		1046.842
Adjusted R-squared	0.743404	S.D. dependent var		506.4324
S.E. of regression	256.5350	Akaike info criterion		14.06397
Sum squared resid	789722.5	Schwarz criterion		14.15526
Log likelihood	-96.44780	Hannan-Quinn criter.		14.05552
F-statistic	38.66324	Durbin-Watson stat		0.825717
Prob(F-statistic)	0.000045			

#### Sales Budget and Sales Turnover

Dependent Variable: ST  
 Method: Least Squares  
 Sample: 1 14  
 Included observations: 14

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SB	6397.062	1047.446	6.107298	0.0001
C	-39757.75	10185.11	-3.903519	0.0021
R-squared	0.756588	Mean dependent var		22019.59
Adjusted R-squared	0.736303	S.D. dependent var		8671.811
S.E. of regression	4453.096	Akaike info criterion		19.77215
Sum squared resid	2.38E+08	Schwarz criterion		19.86344
Log likelihood	-136.4051	Hannan-Quinn criter.		19.76370
F-statistic	37.29908	Durbin-Watson stat		0.587579
Prob(F-statistic)	0.000053			

#### Sales Budget and EBITDA

Dependent Variable: EBT

Method: Least Squares  
Sample: 1 14  
Included observations: 14

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SB	363.8078	61.75011	5.891614	0.0001
C	-2317.620	600.4430	-3.859850	0.0023

R-squared	0.743102	Mean dependent var	1195.724
Adjusted R-squared	0.721694	S.D. dependent var	497.6302
S.E. of regression	262.5236	Akaike info criterion	14.11012
Sum squared resid	827023.4	Schwarz criterion	14.20142
Log likelihood	-96.77086	Hannan-Quinn criter.	14.10167
F-statistic	34.71112	Durbin-Watson stat	0.879538
Prob(F-statistic)	0.000073		

## APPENDIX B: DATA

Year	Sale Budget (SB)	Sales Turnover (ST, in R millions)	Net Profitability (NP, in R millions)	EBITDA (EBT, in R millions)
2008	8.7	11244	441	586
2009	8.7	12175	472	647
2010	8.7	13277	564	771
2011	9.2	14103	651	898
2012	9.2	15437	688	958
2013	9.2	17543	752	1051
2014	9.2	19150	865	1207
2015	9	22070	955	1330
2016	9	24171	1094	1330
2017	9.5	26809	1278	1330
2018	10	29240	1475	1330
2019	11	31352	1703	1330
2020	11	34364	1880	1330
2021	12.8	37339	1838	2642