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# A Study on Assessing Budgetary Control and Its Impact on Profitability at Hindustan Unilever Limited

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**ABSTRACT:**
This study examines the effectiveness of budgetary control and its impact on the profitability of Hindustan Unilever Limited (HUL), a leading FMCG company in India. The main objectives include understanding HUL's budgeting structure, assessing the role of variance analysis in financial monitoring, and evaluating how budget control influences profitability. A descriptive research design was adopted, using secondary data from HUL's financial reports between 2018 and 2023. Tools such as ratio analysis, variance analysis, and trend analysis were applied. The findings revealed a consistent positive variance in most years, indicating better-than-expected performance. Profitability indicators such as Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE) showed strong and stable outcomes. Statistical analysis confirmed a significant relationship between effective budgeting and profitability. The study concludes that effective budgeting helps in managing costs, planning better, and improving overall business performance. These results can help other companies improve their budgeting systems and financial results.

**Keywords:** Budgetary Control, Profitability, Variance Analysis, Trend Analysis.

## 1. INTRODUCTION:

### 1.1 Background of the study:

Budgetary control is a vital financial management tool that helps organizations plan, monitor, and control expenses and revenues. In large and diverse companies like Hindustan Unilever Limited (HUL), managing costs effectively is crucial to ensure profitability and financial stability. With operations across multiple product categories and regions, effective budgeting enables HUL to allocate resources wisely and set performance targets. By comparing budgeted figures to actual performance, the company can take corrective action to stay on track. This study explores how budgetary control practices influence HUL's profitability over recent years.

### 1.2 Statement of the Problem:

Budgeting control helps companies plan income and expenditures. It controls costs, maximizes profits, and facilitates good financial decision-making. Hindustan Unilever, one of India's top FMCG companies, handles loads of products, departments, and financial operations. Even though the company applies a budgeting system, often there exists a deviation between the planned scenarios (budgeting) and what occurs in business. If these variances are improperly managed, they will surely offset the profit of the company.

### 1.3 Research Objectives:

- To understand the structure and implementation of budgetary control at HUL.
- To assess the effectiveness of budget variance analysis for monitoring financial performance.
- To examine the impact of budgetary control on the profitability of HUL.

### 1.4 Significance of the Study:

This study is important for financial managers, analysts, and decision-makers in understanding how effective budgeting can improve profitability. For a company like HUL, which operates on a large scale, learning from its budgeting practices can offer insights for other organizations aiming to strengthen financial discipline. The findings may also benefit academic researchers studying corporate finance and management control systems.

### 1.5 Scope and Limitations:

**Scope:**

The study focuses on the budgetary control system and profitability trends at Hindustan Unilever Limited from the financial years 2018 to 2023. It relies on secondary data such as annual reports and financial statements.

**Limitations:**

- The study is limited to HUL and may not reflect the practices of other FMCG companies.
- It uses only secondary data; no primary data (interviews/surveys) were collected.
- External economic factors affecting performance are not analyzed in depth.

## 2. REVIEW OF LITERATURE:

### 2.1 Theoretical Framework:

This study is based on the idea that budgeting helps companies plan and control their money. Management Control Theory explains how budgets guide employees toward company goals. Goal-Setting Theory says that clear targets (like budgets) improve performance. Variance Analysis helps find differences between planned and actual results to improve decision-making.

### 2.2 Empirical Studies:

Past studies show that budgetary control improves performance. For example:

- Keng'ara & Makina (2020) found that it helps government agencies perform better.
- Ali et al. (2023) showed that good budgeting helps small businesses in Somalia.
- AL Mahroqi (2021) showed it works well in telecom companies.

These studies all support the idea that proper budgeting improves results.

### 2.3 Research Gap:

Many studies have not focused on large companies like HUL or used real company data over time. Few studies have used both variance analysis and ratio analysis together. This study fills that gap by analyzing HUL's actual financial data from 2018 to 2023.

### 2.4 Conceptual Framework:

The conceptual framework of this study is based on the relationship between budgetary control practices and profitability performance. It considers budget planning, variance analysis, and monitoring as key independent variables, while profitability indicators such as Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE) serve as dependent variables. The framework assumes that effective budgeting and timely variance analysis lead to better cost control, informed decision-making, and improved financial outcomes. This model helps evaluate how well budgetary control contributes to enhancing organizational profitability over time.

## 3. RESEARCH METHODOLOGY:

### 3.1 Research Design:

This study employs a quantitative research design, utilizing descriptive analysis. It focuses on numerical data from HUL's financial reports to examine the impact of budgetary control on profitability.

### 3.2 Data Collection:

The study relies entirely on secondary data sourced from:

- HUL's annual reports
- Audited financial statements
- Reputed financial databases and company websites

### 3.3 Research Instruments:

Data was collected and organized using Microsoft Excel. Statistical tests were conducted using basic statistical tools such as t-tests.

### 3.4 Data Analysis Techniques:

The following methods were used:

- Variance analysis to compare budgeted vs actual results
- Ratio analysis (Net Profit Margin, ROA, ROE)
- Trend analysis for performance over time
- T-test for hypothesis testing and relationship validation

### 3.5 Ethical Considerations:

The study utilizes only publicly available data, ensuring transparency and adherence to ethical standards. No confidential or personal information was accessed or disclosed.

## 4. DATA ANALYSIS AND INTERPRETATION:

### 4.1 Demographic Analysis:

As the study is based on secondary data, demographic analysis does not involve human participants. Instead, it focuses on financial data from Hindustan Unilever Limited (2018–2023), covering revenue, budgeted sales, actual sales, net profit, and asset values.

### 4.2 Descriptive Analysis:

**Net Profit Margin:**

Net Profit Margin = (Net Income / Revenue) × 100

| Year | Revenue (₹ Cr) | Net Income (₹ Cr) | Net Profit Margin (%) |
|---|---|---|---|
| 2018 - 2019 | 37,660 | 6,036 | 16.02% |
| 2019 - 2020 | 38,273 | 6,738 | 17.63% |
| 2020 - 2021 | 45,311 | 7,954 | 17.55% |
| 2021 - 2022 | 50,336 | 8,818 | 17.51% |
| 2022 - 2023 | 58,154 | 9,962 | 17.13% |


The net profit margin remained strong, ranging from 16.02% to 17.63%, indicating stable profitability.

**Return on Assets:**

Return on Assets = (Net profit / Total Assets) x 100

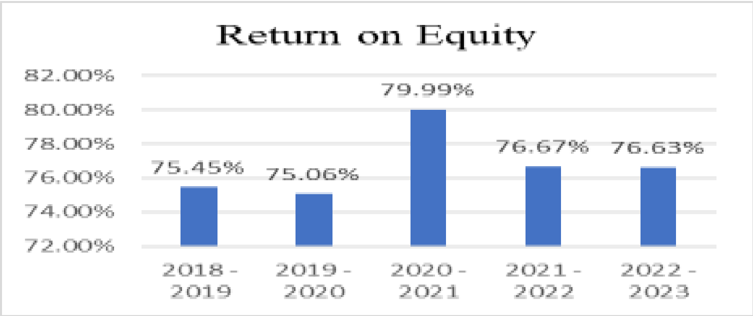
| Year | Net profit | Total Assets | ROA |
|---|---|---|---|
| 2018 - 2019 | 6,036 | 17,149 | 35.19% |
| 2019 - 2020 | 6,738 | 17,865 | 37.81% |
| 2020 - 2021 | 7,954 | 19,602 | 40.80% |
| 2021 - 2022 | 8,818 | 68,116 | 12.9% |
| 2022 - 2023 | 9,962 | 69,737 | 14.28% |


Return on Assets (ROA) ranged from 12.9% to 40.80%, showing how well assets were used.

**Return on Equity:**

Return on Equity = (Net Profit / Shareholder Equity) x 100

| Year | Net profit | Shareholder Equity | ROE |
|---|---|---|---|
| 2018 - 2019 | 6,036 | 7,659 | 75.45% |
| 2019 - 2020 | 6,738 | 8,031 | 75.06% |
| 2020 - 2021 | 7,954 | 47,434 | 79.99% |
| 2021 - 2022 | 8,818 | 48,760 | 76.67% |
| 2022 - 2023 | 9,962 | 50,221 | 76.63% |




Return on Equity (ROE) stayed above 75%, showing good returns to shareholders.

**4.3 Inferential Analysis:**

To assess the relationship between budgetary control and profitability, a paired sample t-test was conducted. Key profitability ratios like Net Profit Margin, ROA, and ROE were compared with average budget variance percentages to identify statistical relationships.

**4.4 Hypothesis Testing:**

A hypothesis test was conducted using a t-test:

- Null Hypothesis ($H_0$): There is no significant difference between average budget variance % and net profit margin %.
- Alternative Hypothesis ($H_1$): There is a significant difference between average budget variance % and net profit margin %.

| | **Variable 1** | **Variable 2** |
|---|---|---|
| **Mean** | 1.578 | 17.168 |
| **Variance** | 5.28452 | 0.44892 |
| **Observations** | 5 | 5 |
| **Pearson Correlation** | -0.2432 | |
| **Hypothesized Mean Difference** | 0 | |
| **df** | 4 | |
| **t Stat** | -13.6917 | |
| **P(T<=t) one-tail** | 8.24E-05 | |
| **t Critical one-tail** | 2.131847 | |
| **P(T<=t) two-tail** | 0.000165 | |
| **t Critical two-tail** | 2.776445 | |

**Result:**

- t-statistic: -13.69
- p-value: 0.000165 (two-tailed)
- Since $p < 0.05$, the null hypothesis is rejected, confirming a statistically significant relationship between budget variance and profitability.

**5. RESULTS AND FINDINGS:**

**5.1 Major Findings:**

- Hindustan Unilever Limited (HUL) maintained effective budgetary control during 2018–2023, as shown by consistent positive sales variances in most years.
- The highest positive variance was in 2020–2021 (5.2%), and the only significant negative variance occurred in 2019–2020 (-2.7%).

- Net Profit Margin steadily remained above 16%, indicating healthy profitability.
- Return on Assets (ROA) peaked in 2020–2021 (40.8%) before declining due to a sharp increase in total assets.
- Return on Equity (ROE) was strong, consistently above 75%, reflecting high returns to shareholders.

**5.2 Statistical Results:**

A t-test was conducted to analyze the relationship between budget variance (%) and net profit margin (%).

- The p-value was 0.000165, which is less than 0.05.
- This means there is a significant relationship between budgetary control and profitability.
- The result supports the idea that better budget management leads to better financial performance.

**5.3 Qualitative Insights:**

- HUL's budgeting system appears well-structured and regularly monitored.
- The company effectively adjusted to changing market conditions.
- Budgeting contributed to better decision-making and long-term growth.

## 6. DISCUSSION:

### 6.1 Interpretation of Results:

The findings indicate that **effective budgetary control** significantly enhances profitability. Positive variances and stable profit margins reflect HUL's ability to plan and manage resources efficiently. The consistent rise in ROE and controlled operating costs confirms that budgeting contributes to financial stability and growth.

### 6.2 Comparison with Previous Studies:

This study aligns with earlier research by Keng'ara & Makina (2020) and AL Mahroqi (2021), who found that budgetary controls improve performance. It also supports Ishimwe & Abuga (2024), who emphasized the role of participative budgeting in enhancing accountability and financial outcomes.

### 6.3 Theoretical Implications:

The study reinforces management accounting theory, particularly the role of budgeting as a control tool. It demonstrates how variance analysis and profitability metrics can be integrated to assess performance effectively, supporting the budget-performance linkage model in organizational theory.

### 6.4 Practical Implications:

For practitioners, the results highlight the need to invest in accurate forecasting, employee training, and continuous variance monitoring. Organizations can replicate HUL's approach to budgetary control to strengthen financial decision-making and profitability.

### 6.5 Limitations of the Study:

- The study is based only on secondary data, limiting deeper operational insights.
- It focuses on a single company (HUL), which may restrict generalizability.

## 7. CONCLUSION:

### 7.1 Findings

The study found that Hindustan Unilever Limited (HUL) maintained effective budgetary control from 2018 to 2023.

- Sales variances were mostly positive, showing improved forecasting.
- Net Profit Margin remained consistently above 16%.

- Return on Assets and Return on Equity reflected efficient financial management.
- A significant relationship was found between budget variance and profitability.

**7.2 Conclusion**

The results confirm that systematic budgetary control positively influences profitability. HUL's strong financial performance over the years demonstrates how variance analysis and disciplined budgeting support cost control and strategic growth. Budgeting acts not just as a planning tool, but also as a driver for sustained performance.

**7.3 Directions for Future Research**

- Conduct comparative studies across other FMCG companies to validate findings.
- Include primary data through interviews or surveys to gain managerial insights.
- Explore the impact of external factors (like inflation, market disruptions) on budgeting and profitability

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