

**THE EFFECT OF BUDGETARY CONTROLS ON FINANCIAL PERFORMANCE OF
MANUFACTURING COMPANIES IN KENYA**

By

GILBERT MUTAI KOECH

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTERS OF BUSINESS
ADMINISTRATION DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

NOVEMBER 2015

DECLARATION

Declaration by the Student

This research project report is my own original work and has not been presented for a degree in any other university.

SIGNATURE:DATE:.....

Gilbert Mutai Koech

D61/65463/2013

Approval by the Supervisor

This report has been submitted for registration with my approval as candidate's supervisor.

Signature.....

Date:.....

Prof. Josiah Aduda

DEDICATION

I dedicate this research work to my family for their moral and financial support throughout my education

ACKNOWLEDGEMENTS

I acknowledge the almighty God who has given me the strength and will to pursue this study.

I thank University of Nairobi for giving me this opportunity to further my studies.

My special appreciation to my supervisor Prof. Josiah Aduda and other Lecturers in the department of finance and accounting who took effort to guide and advise me during the entire period of my project.

I am also indebted to my classmates, colleagues at work and my Lecturers for all there invaluable support and encouragement during my period of study.

Finally I thank all the companies who assisted me in conducting this research, for there time which they spared to enable me get data from the organizations.

ABSTRACT

Budgeting and budgeting Control occupies an important place among techniques used in planning and control functions of an organization. In budgeting, the focus is not only to prepare the budget but more importantly to have a follow-up operation for budgeting and act according to known data. The main objective of this study is to assess the effects of budgetary control on the financial performance of selected manufacturing companies in Kenya. A descriptive research design was used in this study. Stratified sampling technique will be used. In this study, 10 largest companies from each subgroup of the manufacturing companies will be selected. The respondent will be the head of the finance department or an equivalent. Hence the sample size will be 50 respondents. Both primary and secondary data would be used. Descriptive analysis would be used to mainly summarize the data collected. The study concluded that; their budgets have clear goals and objectives, their organization has long term and short term budget plans, all departments prepare budget plans prior to the budget year, when budgeting, outcome goals and objectives are linked to programmes, budgets cover all the aspects of the organization's mission and that managers set priorities for the coming year at budget conference/Committees. The study concludes that; budget deviations are reported to budget committee/executives, the deviations from the budget targets are frequently reported, the costs of activities are always reviewed by the executive committee, managers hold budget conferences/meetings regularly to review performance, managers always take timely corrective actions when adverse variances are reported, control of the budget activities is done by the head of departments, the managers or their equivalent have budget policies to check on spending, comparison is made between plans and actual performance and the difference is reported often, there is a regular follow up on budget plans by the budget committee/departmental heads and that; budget performance evaluation reports are prepared regularly. The study concluded that the financial managers or their equivalent are involved in the budget setting process, the financial manager or the equivalent are sensitized on the budget control process, each department prepares a budget prior to the overall budget, all the stakeholders to the budget are involved, all departments are always involved in the budgeting process, approved budgets are shared with all departments and that, leadership and support is given to all the subordinates throughout the budget by managers. The study concluded that budget committee is effective against risk and are not overloaded, budget committees are expected to focus on the optimization of shareholders' wealth and prevent the maximization of personal interests by the top management, the budgetary control measures put in place in our organization have a great influence on financial performance and that budget committee focus on improving the company performance and competitiveness. The results showed that the value of co-efficient of determination (adjusted R square) is 0.785 for all the variables studied (planning, monitoring and control and participative budgeting). The results showed that there was a significant relationship between financial performance in manufacturing companies and the three variables (planning, monitoring and control and participative budgeting), as shown by the p value; ($p=0.000<0.05$). The equation $Y = 10.64 + 0.416X_1 + 0.413X_2 + 0.042X_3$ was henceforth obtained.

TABLE OF CONTENTS

DECLARATION	II
DEDICATION	I
ACKNOWLEDGEMENTS	II
ABSTRACT	III
TABLE OF CONTENTS	IV
LIST OF FIGURES	VII
LIST OF TABLES	VIII
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Budgetary Control.....	3
1.1.2 Financial Performance	5
1.1.3 Budgetary control and financial performance.....	6
1.1.4 Manufacturing Companies in Kenya	8
1.2 Research Problem	9
1.3 Objective of the Study	11
1.4 Value of the Study	11
CHAPTER TWO	13
LITERATURE REVIEW	13
2.1 Introduction.....	13
2.2 Theoretical Review	13
2.2.1 Agency Theory.....	13
2.2.2 Control and Responsibility Accounting Theory	14
2.2.3 The Theory of Balanced Scorecard.....	15
2.3 Determinants Of Financial Performance Of Manufacturing Firms	16
2.4 Budget Planning.....	17
2.5 Monitoring and Control	18
2.6 Empirical Studies	20
2.7 Summary of Literature Review.....	22
CHAPTER THREE	23

RESEARCH METHODOLOGY	23
3.1 Introduction.....	23
3.2 Research Design.....	23
3.3 Target Population.....	23
3.4 Sampling Design.....	24
3.5 Data Collection	24
3.5.1 Data Validity and Reliability	25
3.6 Data Analysis	25
CHAPTER FOUR.....	27
DATA ANALYSIS, RESULTS AND DISCUSSION.....	27
4.1 Introduction.....	27
4.2 Response Rate.....	27
4.3 General Information Of The Respondents And Organization They Work For	28
4.3.1 Approximate annual budget revenue	28
4.3.2 Duration the respondent have worked for the organization.....	29
4.4 The need for Budgetary Control	30
4.5 Essentials of an effective budgetary control system.....	31
4.6 Budgetary Control (Planning).....	32
4.7 Monitoring and Control	33
4.8 Participative Budgeting.....	34
4.9 Financial Performance	35
4.10 Inferential Statistics	36
4.10.1 Regression Model	36
4.11 Summary and interpretation of Findings	38
4.11.1 The need for Budgetary Control	38
4.11.2 Essentials of an effective budgetary control system	38
4.11.3 Budgetary Control (Planning).....	39
4.11.4 Monitoring and Control	39
4.11.5 Participative Budgeting.....	40
4.11.6 Financial Performance	41
CHAPTER FIVE	42

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	42
5.1 Summary	42
5.2 Conclusions.....	43
5.2.1 The need for Budgetary Control	43
5.2.2 Essentials of an effective budgetary control system	43
5.2.3 Budgetary Control (Planning).....	44
5.2.4 Monitoring and Control	44
5.2.5 Participative Budgeting.....	44
5.2.6 Financial Performance	45
5.3 Recommendations to Policy and Practice.....	45
5.4 Limitations of the study	46
5.5 Recommendations for Further Studies.....	47
REFERENCES.....	48
APPENDIX 1: LETTER OF INTRODUCTION.....	56
APPENDIX 11: QUESTIONNAIRE.....	57
APPENDIX III: WORK SCHEDULE.....	62
APPENDIX IV: RESEARCH BUDGET	63
APPENDIX V: LIST OF SAMPLED MANUFACTURING COMPANIES IN NAIROBI COUNTY.....	64

LIST OF FIGURES

Figure 4.1: Approximate Annual Budget.....	29
Figure 4.2: Duration respondent has worked in the organization.....	30

LIST OF TABLES

Table 4.1: Time dimensions organization budget cover	28
Table 4.2: How often the budget is reviewed	28
Table 4.3: Respondents level of agreement on statements that relate to the importance of budgetary control in organizations.....	30
Table 4.4: Respondents level of agreement on statements that relate to essentials of an effective budgetary control system	31
Table 4.5: Respondents' levels of agreement with statements related to budget planning	32
Table 4.6: Respondents level of agreement with statements that relate to monitoring and control of budgets	33
Table 4.7: Respondents level of agreement with statements relating to Statements on participative budgeting.....	34
Table 4.8: Respondents level of agreement with statements on budgetary control and manufacturing firms' financial performance in Kenya.....	35
Table 4.9: Model Summary	36
Table 4.10: ANOVA- Analysis of Variance.....	36
Table 4.11: Coefficients Results	37

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Many business firms recognize the need to have a developed and comprehensive budgetary control system in order to minimize budget variances, costs and maximize efficiency (Alesina & Perotti, 1996). Budgetary control is as crucial as cash itself and any theft, waste, excessive use or stock out could lead to the business poor performance. The resources of an organization should be managed effectively and efficiently to achieve its purpose. This implies that the organization should be able to achieve its objectives by minimizing cost. Thus managing implies co-ordination and control of the efforts of the organization for achieving organizational objectives. Alesina & Perotti, (1996) state that the process of managing is facilitated when management charts its future course of certain objectives in advance and takes decision in a professional manner, utilizing the individual and group efforts in a coordinated rational manner. One systematic approach for attaining effective management performance is budgeting. Budgets are monetary expressions of target to be accomplished in a given year by an individual, organization or nation. It is a deliberate attempt to achieve superior targets over time with available and expected resources. Such targets are influenced by the experiences of the past and expectation of the future (Atkinson, Banker Kaplan and Young, 2001; Carr, 2000).

Basically, a budget system enables management more effectively to plan, coordinate, control and evaluates its activities. It is a device intended to provide greater effectiveness in achieving organizational efficiency (Chenhall & Langfield, 1998). To be effective, however, the functional aspects must outweigh the dysfunctional aspects. Because a budget plan exists, decisions are not merely spontaneous reactions to stimuli in an environment of unclassified goals. It is pertinent to note that management activities are the driving force behind every organization and of course necessarily unavoidable (Hansen, David, Otley and Van der Stede, 2003). These activities– planning, organizing, directing and controlling of economic resources, are schematized to reflect the nature and objectives of the organization and must be tailored towards the attainment of the overall

organization's predetermined objectives. Consequently, it is important to systematically and objectively assess the relevance, efficiency, effectiveness, impact and sustainability of the activities in the light of the budget. In this context, therefore, the concern is to use the budgetary procedures to evaluate management activities and organizational financial performance (Lazaridis & Try Fonidis, 2006).

Recent developments, such as a global market, technology advances and e-Commerce, shorter product life cycles and intense competition have transformed the business operating environment. As a result various financial management systems, including budgeting, cost allocation methods, financial reporting systems and others have come under greater scrutiny. It is imperative that businesses that want to remain competitive have excellent control over their costs. Otherwise these businesses may cease to operate in the near future, as they may not be able to compete effectively (Banham, 2000), and (Kaplan, 1988). Indeed, failure to draw – up, monitor, and adjust budgets to changing conditions is one of the primary reasons behind the collapse of many businesses (Lazaridis & Try Fonidis, 2006).

Generally an organizations objective is expressed in time frames as informed by its mission and visions. The planning horizon for organizations may vary depending on organization objectives and uncertainties involved. The most forward – looking budget is the strategic plan, which sets the overall goals and objectives of the organization (Kipkemboi, 2013). Budgets come in after the organization's strategic and action planning for organization has been done and organization needs to know how much money will be required to execute those actions. The major value of budgeting lies in aligning the plans and budgets to strategies. The future of budgeting lies in planning for value. The budgeting process in manufacturing companies incorporates a policy in financial welfare. For instance, it indicates how money is distributed by the management to the different departments and key areas to focus on. This helps the management in planning and forecasting in order to reduce costs and unnecessary spending. It also increases profits so that the company may fulfill its corporate vision and mission. This also enables the company to fulfill its debts if any and to ensure the company's long term technical and financial viability (Gachithi, 2010).

Manufacturing firms should develop an approach that consciously attempts to consider the financial and non-financial processes together (Hokal & Shaw, 1999). A key feature is that before any review of the financial variances takes place, the firm asks questions about the expected position, based on the understanding of what has happened, what happened that was unexpected and what planned events did not take place. It needs to structure its responses and planned management actions into those that can be taken in-year and those that require a longer timeframe, with consideration of what specific financial actions may be required as well as substantive operational actions (Drury, 2006; Hokal & Shaw, 1999)). The best management reports detail what has happened and what is expected to happen in the future. The accounts and report provide the information needed to take any corrective action required. Such action needs to take place for the firm as a whole, so it is important that all areas are covered. This implies that the operational data and financial data are presented together in a comparable and consistent form (Kariuki, 2010). It also implies that risk and other aspects of performance are reported along with the financial headlines. The risks are thus quantified financially and uncertainty in the financial forecasts is made explicit. Some firm have found it helpful to present a regularly updated board-level report of risks and opportunities, in which the main possible financial up- and downsides are shown alongside each period's forecasts. This permits focus on a range rather than a spot forecast (Hokal & Shaw, 1999; Kiringai, 2002).

1.1.1 Budgetary Control

Budgetary control is a system of management control in which actual income and spending are compared with planned income and spending, so that you can see if plans are being followed and if those plans need to be changed in order to make a profit. A budget is a statement of financial resources that have been allocated for the conduct of particular activities for a three-, six- or 12-month time frame. Comparing budgets with actual operational results is referred to as budgetary control. Such budgetary control helps planning, coordination between departments, decision-making, monitoring of operating results and motivation of personnel to achieve business objectives. The principle is the same for small businesses as well as large.

Budgeting is a set of procedures by which governments ration resources among claimants and control the amount each claimant spends (Kiringai, 2002). Within this context, the budget can be used for three purposes: as an instrument of economic policy; as a tool for economic management; and as an instrument for accountability. The budget is an allocation mechanism that attempts to maximize the contribution of public expenditure to national welfare (Surajkumar, 2005). This can be achieved by ensuring that the budget process successfully allocates scarce resources so that the marginal unit of expenditure achieves the same marginal benefit in each category of expenditure. In determining resource allocations, the budget should reflect the development agenda of a country through which it influences the attainment of national growth and investment targets (Needles, 2011).

The task of budget preparation is often seen as an accounting activity that concentrates on the annual recurrent budget while planning is seen as a medium-term activity. In this approach, the annual budget ensures control over aggregate expenditure and generates detailed financial statements on resource utilization but is not concerned with broad strategic development over the medium-term (Needles, 2011; Preetabh, 2010). The budget format and classification depends on the system adopted in each country. The IMF Manual of Government Financial Statistics describes both the economic and functional categories of expenditure (Abernethy and Brownell, 1999). Economic classification; distinguishes between two broad categories: recurrent expenditure (including wages and salaries, other goods and services, interest payments, subsidies and transfers), and capital expenditure and net lending. This classification reflects the inherent difference between creation of capital assets and ongoing activities especially as projects give rise to additional recurrent expenditure (both to service and maintain the asset) once they are completed (Kiringai, 2002).

The essentials of budgetary control are many as reported by (Kiringai, 2002) and not limited to ; planning and control of business operations, being widely used as a standard device of planning and control, as a valuable aid to management through planning, coordination and control, as a tool which measures the managerial performance of an organization and promotes good morale and generates harmony in the organization, it

promotes efficiency and facilitates management by exceptions and finally helps in promoting a feeling of cost consciousness among the employees in the organization.

1.1.2 Financial Performance

A well designed and implemented financial management is expected to contribute positively to the creation of a firm's value (Kiringai, 2002). Dilemma in financial management is to achieve desired trade-off between liquidity, solvency and profitability (Lazaridis & Tryfonidis, 2006). The subject of financial performance has received significant attention from scholars in the various areas of business and strategic management. It has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large (Naser and Mokhtar, 2004).

There are various measures of financial performance. For example return on sales reveals how much a company earns in relation to its sales, return on assets determines an organization's ability to make use of its assets and return on equity reveals what return investors take for their investments. The advantages of financial measures are the easiness of calculation and that definitions are agreed worldwide. Traditionally, the success of a manufacturing system or company has been evaluated by the use of financial measures (Hope and Frazer, 2003).

Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. Solvency measures the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business. In other words, solvency measures provide an indication of the business ability to repay all indebtedness if all of the assets were sold. Solvency measures also provide an indication of the business' ability to withstand risks by providing information about the operation's

ability to continue operating after a major financial adversity (Harrington and Wilson, 1989).

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business. Four useful measures of profitability are the rate of return on assets (ROA), the rate of return on equity (ROE), operating profit margin and net income (Hansen and Mowen, 2005). Repayment capacity measures the ability to repay debt from both operation and non-operation income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure. The short-term ability to generate a positive cash flow margin does not guarantee long-term survivability (Jelic and Briston, 2001). Financial efficiency measures the degree of efficiency in using labor, management and capital. Efficiency analysis deals with the relationships between inputs and outputs. Because inputs can be measured in both physical and financial terms, a large number of efficiency measures in addition to financial measures are usually possible (Tangen, 2003).

1.1.3 Budgetary control and financial performance

Budgetary control is the system of controlling costs through budgets. It involves comparison of actual performance with the budgeted with the view of ascertaining whether what was planned agrees with actual performance. If deviations occur reasons for the difference are ascertained and recommendation of remedial action to match actual performance with plans is done. The basic objectives of budgetary control are planning, coordination and control. It's difficult to discuss one without mentioning the other (Arora, 1995).

A budget provides a detailed plan of action for an organization over a specified period of time. By planning, problems are anticipated and solutions thought. This helps to reduce on costs and achievement of goals is enhanced (Mathis, 1996). By budgeting, managers coordinate their efforts so that objectives of the organization match with the objectives of

its parts. In budgeting, the focus is not only to prepare the budget but more importantly to have a follow-up operation for budgeting and act according to known data. In addition, budgets are also known as a financial expression of a country's plan for a period of time (Falk, 1994).

Budgetary control involves the preparation of a budget, recording of actual achievements, ascertaining and investigating the differences between actual and budgeted performance and taking suitable remedial action so that budgeted performance may be achieved (Cook, 2008), (Fang, 2006). Budgetary control is the system of controlling costs through budgets. It involves comparison of actual performance with the budgeted with the view of ascertaining whether what was planned agrees with actual performance. If deviations occur reasons for the difference are ascertained and recommendation of remedial action to match actual performance with plans is done (Arora, 2005). The basic objectives of budgetary control are planning, coordination and control. It's difficult to discuss one without mentioning the other (Arora, 2005).

A budget provides a detailed plan of action for an organization over a specified period of time. By planning, problems are anticipated and solutions thought. This helps to reduce on costs and achievement of goals is enhanced (Mathis, 2009). By budgeting, managers coordinate their efforts so that objectives of the organization harmonize with the objectives of its parts. Control ensures that objectives as laid down in the budgets are achieved Management is able to know about this through information availed to it by subordinates (Millichamp, 2000; Middlemist, 2006). Control ensures that objectives are being achieved. A comparison is therefore made between plans and actual performance, the difference between the two is reported to management for taking corrective action. This control process is not possible without planning (Needles, 2011).

An effective control system helps accomplish the purpose for which it is designed. Effective control systems rely on good information, are well communicated, well coordinated, timely and economical to the organization (Arora, 2005; Mathis, 2006). Budgets reflect estimates of future events, and what is considered acceptable performance. Comparing actual with budgeted results provides meaningful information and indicates the need to analyze and investigate over and under spending. The action

taken on over and under spending is one of the most important aspects of a budgetary control system. Budgetary Control aims to achieve four things. Performance of any institutions is often evaluated by measuring success in meeting the budget. When the budgetary control is successfully implemented, the organizations objectives will be realized and once this has been done the organization is said to have achieved at performance level (Turyakira, 2004). Resbery and Lormorie (2006), stated that in practice, many organizations compare actual performance with the original budget, but if the circumstances expected when the original budget was set differ, there will be a planning and control conflict.

Seldin (2001) argues that for the smooth implementation of an organizations budget, budgetary planning and control must be properly done. Under budgetary control, evaluation which is a process by which an appraisal of performance is systematically conducted with a view to measure individual, department and organizational contribution should be done. It is conducted in order to take appropriate action. In particular, evaluation of budgetary control is a process of assessing performance against budget standards and performance targets with intent to take corrective action (Emmanuel and Otley, 2005). Budgetary standards and targets tend to be the criteria upon which the performance of organizational member, the superiors in particular are evaluated. These standards and targets provide a basis for identifying and appraising selected aspects of organizational performance, since they are the criteria used to guide and motivate it.

1.1.4 Manufacturing Companies in Kenya

The manufacturing sector in Kenya constitutes 70 per cent of the industrial sector contribution to GDP, with building, construction, mining and quarrying cumulatively contributing the remaining 30 per cent. It is the fourth biggest sector after agriculture, transport and communications and whole sale and retail trade. Kenya Vision 2030 identifies the manufacturing sector as one of the key drivers for realizing a sustained annual GDP growth of 10 per cent (Government of Kenya, 2013). The sector employs about 2.3 Million in both Formal and informal sectors. Although initially developed under the import substitution policy, Kenya's manufacturing sector is now export based

in line with the country's policy of emerging as a mid-sized economy in the year 2030. The sector is classified into twelve (12) sub-categories based on the raw materials the companies import and or the products they manufacturer, (Kenya Economic Report, 2013)

The Kenyan manufacturing sector is considered as one of the key segments of the economy. In addition, the Kenyan vision 2030 blue print, one of the key pillars of the attainment of the objectives of the strategy is the need for the manufacturing sector to grow at the rate of 10 per cent over a period of 20 years. This can only be achieved if there is growth in the profits of the sector and this will depend upon identifying all the variables that can influence profit of a firm including the management of working capital. The inability of a firm to meet its obligations will lead to the disruption of its manufacturing process by actions such as labor strikes and blacklisting by suppliers (Kenya's Economic Outlook, 2013).

The main challenges facing the sector includes high cost of production which is ever increasing due to poor infrastructure, regulation, tax administration and high cost of power. There is also shrinking demands for locally manufactured goods due to rising poverty levels and reduced exports from general economic slump after the recent global recession. Other challenges includes security issues with recent cases of terror attacks, arbitrary charges levied by regulatory and local authorities, inadequate government support for local produce, weak linkages with local suppliers for example in agriculture, inadequate/weak negotiation skills in regional trade agreement. However opportunity for growth exists with the roll out of common tariff under the integrated EAC customs union since Kenya's manufacturing sector is the largest in the region (Kenya's Economic Outlook, 2013). Currently, there are a total of eighteen (18) manufacturing firms listed in the Nairobi Securities Exchange with the price movement of 5 of them being used to determine the daily average NSE index.

1.2 Research Problem

As we now launch into the 21st century, organizations worldwide, both private and public, have realized the need to restructure and overhaul their activities for a better quality

service delivery pattern. One of the most radically affected aspects of these organizations is the budget and budgetary control. Recognizing the role of budget and budgetary control, manufacturing organizations leverage so much on it. In the private sector, several departments, whose main business is the implementation and monitoring of budgets, have been established. In the public sector, budget monitoring and project implementation committees have become an integral part of the administrations. For efficiency and effectiveness, manufacturing firms in Kenya need to plan for success. How do they currently go about planning and specifically budgeting?

In recent times, companies have performed poorly due, to the fact that they lack effective and efficient budgets, and budgetary control systems to adequately and judiciously allocate resources to meet organizational goals, and maximize performance. A study conducted by Boquist (2001) observed that companies continue to blunder and fail because they have flawed budgetary planning and control systems, which they apparently fail to recognize. Some firms sense weakness of their budgetary analysis but viewed them as individual problems rather than systematic deficiencies. They misdirect efforts and produce greater frustration. As a result, corporate strategy and capital allocation become misaligned and remain so, despite disapproving financial performance. Some business organizations do not even know the link between budgetary control and performance, and this affects their performances negatively. Various organizations ranging from small scale businesses to large scale businesses, fail to recognize the power of budgets and budgetary control over performance outcomes. These organizations go ahead without paying more attention to improving their performances through their budgets

A report by Neely (2001), drawn primarily from the practitioner literature, cites a dozen weaknesses of budgetary control ranging from time consuming , being barriers to change, budgets concentrate on cost reduction and not value creation, to budgets making staff feeling undervalued. While not all would agree with these criticisms, critiques Hope and Frazer (2003) and Jensen (2001) also support the perception of widespread dissatisfaction with budgeting practices. Zimmerman (2003) observes that budgeting facilitates coordination of sales and production, formulation of a profitable sales and production program, coordination of sales and production with finances and coordination of all

operations within the business. While this is so, the manufacturing sector has failed to enjoy these benefits fully as a result of failure in effective planning and implementation of the budgets. Locally, several studies focusing on budgeting have been carried out. Munene (2010) carried out a survey of the challenges of budget preparation and implementation among manufacturing companies quoted at the Nairobi Stock Exchange. He found out that manufacturing firms listed at the NSE use budget as a tool for forecasting and planning, evaluating performance and judging and controlling performance, co-ordination of the operations and decision making.

Kipkemboi (2013) carried out a study of effect of budgetary control on performance of non-governmental organizations (NGOs) in Kenya. His findings concurred with those of Munene. His study established that budgets are used for planning; monitoring and control. He also concluded that there is a low positive relationship between budgetary controls and performance. He suggests that budgetary controls might not be the only reason for high performance; many other factors may affect the performance of an NGO. Onduso (2013) carried out a research on the effect of budgets on financial performance of manufacturing companies in Nairobi County. His findings differ from that of Kipkemboi. He found out that the financial performance as measured by return on assets is strongly influenced by using of budget and managerial performance respectively. However, he suggested that similar studies need to be conducted in other manufacturing firms in Kenya in order to assess whether the study could yield similar findings regarding effect of budgets on financial performance. This study therefore seeks to bridge this gap in knowledge by examining the impact of budgetary controls on financial performance of manufacturing firms in Kenya.

1.3 Objective of the Study

The main objective of this study was to assess the effects of budgetary control on the financial performance of selected manufacturing companies in Kenya.

1.4 Value of the Study

The study will be important to the management of manufacturing companies as the findings will reveal the importance of effective budgetary control practices.

The regulatory agencies more so the N.S.E. and by extension the government will find this study as useful guide in analyzing the performance of manufacturing sector in Kenya and policy formulation.

The scholars and other researchers interested in carrying out further studies in the same area will find the results of this study a useful reference material.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed previous work in regard to budgeting and budgetary controls. The chapter commenced with theoretical review and move into second section where empirical review is captured. The concept of budgetary controls was discussed in the third section and the chapter concludes with a summary of the literature reviewed.

2.2 Theoretical Review

Budgets were first introduced in the 1920s as a tool to manage costs and cash flows in large industrial organizations. Hope and Frazer (2003) noted that it was during the 1960s when companies began to use budgets to dictate what people needed to do. In the 1970s, performance improvement was based on meeting the financial targets rather than effectiveness. Companies then faced more problems in the 1980s and 1990s when they were not willing to spend money on innovation in order to stay within the rigid budgets. Several theories have been argued to explain why organization adopts budgeting as a management tool.

2.2.1 Agency Theory

An agency relationship is defined as a contract under which one or more people (the principal(s)) engages another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to that agent (Jensen and Meckling, 1976). The cornerstone of agency theory is the assumption that the interest of principles and agents diverge. However, the principal can limit the divergence from his/her interest by establishing appropriate incentives for the agent, and by incurring monitoring costs designed to limit opportunistic actions by the agent. In corporate structure, management and board of directors are agents acting on behalf of firm's stakeholders. Thus managers are expected to attend to those stakeholders having the power to reward and/or punish them (Hill and Jones, 1992).

Legally, public companies are required to hold annual general meetings to provide control mechanism to the shareholders as a way of solving agency problems. This is based on the idea that shareholders are able and willing to monitor board and management. Annual general meetings are held mainly to enable shareholders make decisions thus limiting managerial power. It also provides platform of sharing information necessary for shareholders to make proposals and decision. Review and approval of firm's financial statements, discussion on dividend payments and a review and approval of the company's budget and capital expenditures are some of activities undertaken during annual general meetings (Roberta, 2010).

2.2.2 Control and Responsibility Accounting Theory

Control is a system or process consisting of comparisons between standard and actual performances, with the comparisons serving as a basis for determining the proper responses to actual operating results. If control is viewed from the stand point of its direct relationship to planning, and then it becomes complementary to planning (Simiyu, 1979). Hopwood (1976) has identified three forms of control of work in organizations; administrative controls, social controls and self-controls. Administrative controls include performance measurement systems and the budget monitoring system forms part of this. Social controls are controls that operate through staff sharing common perspectives like quality circles and team working. Self-controls are specific to individual behavior but they can be influenced by a suitable system of rewards, e.g. performance related pay. It is important to note that these forms of control are interrelated.

In a small organization, management can interact with staff on a day to day basis and social controls may predominate. However, in larger and more complex organizations senior management need to delegate decision making and responsibility. Thus, semi-autonomous units may be created. There however remains the need ensure that these divisions/units are operating in accordance with organizational goals and hence a range of controls will need to be created. These controls will include the budget planning and monitoring system (Hopwood, 1976).

One core element of the management control system is responsibility accounting which involves the creation of responsibility centers which enable accountability for financial outcomes and results to be allocated to individuals throughout the organization. Top management sets forth spending guidelines. Individual/group evaluations are based on cost control and adherence with standards. For each centre the process involves setting a performance target, measuring performance, comparing performance against the target, analyzing the variances and taking action where significant variances exist between actual and target performance (Otley, 2007).

2.2.3 The Theory of Balanced Scorecard

The Balanced Scorecard translates a company's vision and strategy into a coherent set of performance measures. The four perspectives of the scorecard are financial measures, customer knowledge, internal business processes, and learning and growth. These offer a balance between short-term and long-term objectives, between outcomes desired and performance drivers of those outcomes, and between hard objective measures and softer, more subjective measures (Kaplan& Norton, 1996). The Balanced Scorecard approach starts with strategy and then identifies the inter-relationships and objectives for various stakeholders.

Core financial measures include return on investment, profitability, revenue growth and cost reduction. Core customer measures include market share, customer acquisition, customer retention, customer profitability and customer satisfaction. Core learning and growth measures include employee satisfaction, employee retention and employee productivity (Kaplan& Norton, 1996).A well designed balanced scorecard describes a firm's strategy through the objectives and measures chosen. The relationship between various measures should be explicit so that they can be monitored, managed and validated. Thus, organizations use budgets to measure financial indicators of their strategies, (Niven, 2006). Performance targets direct organizational participants toward firm strategy; provide guidance for allocating effort and induce effort toward performance goals. Performance targets are communicated to employees in form of financial target (budgets) or set standards in policy manuals (Dekker et al, 2012).

2.3 Determinants Of Financial Performance Of Manufacturing Firms

Performance of firms is of vital importance for investors, stakeholders and economy at large. For investors the return on their investments is highly valuable, and a well performing business can bring high and long-term returns for their investors (Chugh et al., 2009). Furthermore, financial profitability of a firm will boost the income of its employees, bring better quality products for its customers, and have better environment friendly production units. Also, more profits will mean more future investments, which will generate employment opportunities and enhance the income of people. Many studies have been conducted to determine various financial and non-financial factors that can boost or have an adverse effect on the performance of firm. But still no single effective model has been established which captures maximum variation (Javed and Iqbal, 2007).

Economic condition of the country can affect a firm's performance on multiple fronts. Cost of borrowings can negatively influence the firm's capability to generate finances and invest in projects (Ntim, 2009). Prices of utilities, high costs associated with plant and machinery due to either deterioration of currency or import costs, high inflation rate and low income level of people can decrease the demand for industrial goods and hence negatively impact the firm's performance (Carr, 2000). Corporate governance practices are the structures and behaviors that guide how a business entity sets its objectives, develops strategies and plans, monitors and reports its performance, and manage its risk. Researchers are also of the view that good corporate governance practices enhance the performance of the firm (Chugh, et al., 2009). There are two models of corporate structure shareholder model and stakeholder model. Shareholder model focuses on the wealth creation of owners while stakeholder model covers broader aspect and concerns the welfare of all stakeholders and overall firm performance. A study conducted by Javed and Iqbal (2007) explored impact of corporate governance on firm performance by creating indices for board characteristics, transparency and disclosure, and shareholder and ownership characteristics. Results of the study indicate a significant relation between indices and performance except for transparency and disclosure (Carr, 2000).

Division of Ownership into types rests on the dimension that is, separation of ownership and control. Boquist (2001) developed a dichotomy of ownership and identified two types namely, Owner-controlled firms and managerially-controlled firms. Resbery & Lormorie (2006) found it to be insufficient for explanation of ownership structure and its impacts, so he identified three types adding Externally-controlled firms (cited by Ugurlu, 2000). Owner controlled firms are the ones where the managers are the dominant shareholders. Externally controlled firms are the ones where the managers are not dominant shareholders. Managerially controlled firms are the ones in which no dominant shareholder exists. According to agency theory if managers of a firm also have ownership stake they are most likely to maximize shareholder wealth. Managerial risk aversion and constraints on wealth, limit the ownership of managers, and ownership can become costly for more diversified managers (Carr, 2000). Number of tradable shares is inversely related to inside ownership as most of the shares owned by insiders are restricted from trading. Through greater monitoring the negative and positive impacts of ownership concentration can be equated, and some time benefits can over weigh the negativities. Insider ownership is negatively related to foreign institutional ownership (Ugurlu, 2000)

Risk management of a firm may also impact its performance. Risky firms tend to attract only risk taking investors. The relationship of risk and returns has to be managed so that the investors do get the return associated and expected with the risk they are bearing. Another important factor which influences the generation of funds is the financial position of the corporation. Firstly, to invest through retained earnings the corporation must generate enough profit that can satisfy its owners and fulfill the investment demands. Secondly, creditors like to invest in profitable corporations and projects (Amidu and Hinson, 2006); they tend to invest in corporations that can, to some extent, ensure the payment of their liability.

2.4 Budget Planning

Sizer (1989) states that planning as part of the budgeting system involves a long range planning, strategic planning and short term planning .Further, he emphasizes that short term budgeting must accept the environment of today, and the physical human and

financial resources at present available to the organization. Arora (1995) argues that planning as involves selecting objectives and action to achieve them. It is looking ahead and preparing for it, which links it to budgeting. Through planning the organization is able to assess where it is supposed to be in terms of objectives and goals. This comes from the information system.

Sound planning mentions priorities and the planning control cycle. Since there are so many activities to be performed, it's imperative that they are listed in order of preference. Budgets are put in place in advance of the budget periods based on anticipated set of circumstances or environment. The major decisions are made as part of the long term planning process. Benefits of budgeting accrue to the whole organization if both the short and long term consequences of the budgets are considered (Otley, 1987). However, the annual budgeting process leads to the refinement of those plans, since managers must produce detailed plans for the implementation of the long range plans. Without the annual budgeting process, the pressures of day-to-day operating problems may tempt managers not to plan for future operations (Scott, 1987).

2.5 Monitoring and Control

According to Drury (2006) budgetary monitoring and control process is a systematic and continuous one which, is characterized by the following stages: Establishing targeted performance or level of activity for each department of the organization by way of setting targets to be achieved. Communicating details of the budgetary policy to all the stakeholders for easy appreciation of the set targets and objectives enhances ownership of the results achieved at end of the budget period. This is done by way of continuous comparison of actual performance with the budgeted performance and regular reporting of variances to the responsible officers. This helps in asserting the reasons for the differences between actual and budgeted performance and taking the suitable corrective action. Briston (1981) says that financial control and monitoring ensures efficient and cost-effective program implementation within a system of accountability. He however, notes that the existing financial control arrangements must be complemented by further improvements in the overall program monitoring for better budget implementation in accordance with approved work Programmes. According to Drury (2006) budgetary

control is a strong tool of business that always advocate on the proper planning, effective coordination and control in order to maximize profits and competitive organizations nowadays can never avoid.

Comparison is made between plans and actual performance. The difference between the two is reported to management for taking corrective action. This control process is not possible without planning (Arora, 1995). By means of budgetary control that is, comparing actual results with planned results and reporting on the variations, a control model is set for management. It helps expenditure to be kept within the planned limits (Alesina and Perotti, 1996). Carr (2000) argues that in order to achieve the expected output results, monitoring and evaluation is necessary. Hokal and Shaw (1999) notes that monitoring and evaluation requires only raw data to test and examine performance which is time consuming yet contributes little to Performance. An effective control system helps accomplish the purpose for which it is designed. Effective control systems rely on good information, are well communicated, well-coordinated, timely and economical to the organization (Arora, 1995).

Carr (2000) asserts that managers can budgets to control the activities for which they are responsible. Analyses of variances allow managers to identify those costs which do not conform to the long term plan and therefore may require alteration. By investigating the reasons for budget deviations managers may also be able to identify inefficiencies. The budget forms the basis of a controlling mechanism for the various resources of an organisation which is achieved by comparing the resource measured to the end of a given period with that which was expected. This approach can be used for all measurable resources and activities within the organisation – not just those which are directly financial. Budgetary control highlights variations from the expected in order that management can take remedial action to ensure that the policy objectives set in the budget can be met. It is a constant monitoring process and requires continual updating and amendment of the budget through operational feedback. This also allows for performance against objectives or targets to be measured.

2.6 Empirical Studies

The significance of budget has always revealed conflicting findings among scholars. Sterdy (1960) and Cherrington and Herrington (1973) reported negative relationship between participation and performance. On the other hand, Merchant (1978) and Brownell (1982) reported a positive relationship. Furthermore, Cress and Pettijohn (1985) surveyed 219 publicly traded US companies and found that in 79 percent of the companies surveyed, low level managers have a significant role in both the initial and revision stages of budget preparation. Similarly, Shields and Young (1993) found that participative budgeting is used more frequently than central management and also when part of the manager's remuneration package is linked to budget performance. Budgeting increases acceptance and motivation as well as it makes the person preparing the budget to a greater extent feel responsible for the organization goals (Milani, 1975). Rewards are productivity – boosting (behavioral management) techniques that are intended to provide motivation. This is based on the idea that a behavior leading to a positive consequence tends to be repeated. By providing the right rewards one can change a person's behavior. Participation of employees in the process of budget preparation also motivates them to achieve budget goals (Hansen et al, 2003). Hansen et al, (2003) advocates for full participation and asserts that all individuals responsible for achieving results should be consulted in the formulation of budgets. No system of budgetary control can succeed without the mutual understanding of superiors and subordinates. Participation assures full co-operation and commitment for making budgets successful. Participation also makes budgets realistic and workable.

However some studies have been done that state the disadvantage of budgeting processes. According to Hansen et al, (2003), one main concern regarding budgets in practice is the criticisms that by the time budgets are used; their assumptions are typically outdated, reducing the value of the budgeting process. As a result, budgets can never be valid because they cannot capture the uncertainty involved in rapid change. Accordingly, there is an idea calling for abandoning budgets (Hansen et al., 2003). Similarly, Wallander (1999) looked upon budgeting as an “unnecessary evil” and an outmoded way of controlling and steering a company. The author argued that if people believe in the

budget they set it might hinder them from adapting to new situations. On the other hand, if they do not believe in it, there is no point in making a budget.

Most of the local literature available so far has studied budgeting in the private sector and public sector. Gachithi (2010) conducted a case study on the challenges of budget implementation in public institutions. The study revealed that budgets are used to forecast future and therefore good for planning, to act as control measures and to communicate to other levels in the departments. However budget preparation is not the main motivator for employees to do better. On the issue of challenges in budget implementation, the study revealed that insufficient funds allocated to department affect budget implementation in public institutions.

A survey conducted by Ambetsa (1998) of budgeting practices by Commercial airlines operating at Wilson Airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in the preparation of the budget and lack of top management support. He further concludes that airlines operate and use budgets to plan, implement and evaluate their businesses' performance. All enterprises make plans using budgets some in a systematic and formal way, while others in an informal manner, but still have some form of budgeting and budgetary control practice. Therefore, the issue is not whether to prepare a budget, but rather how to do it effectively (Ambetsa, 1998).

Muleri (2001) in his survey of budgeting practices among the major British non-governmental development organizations in Kenya asserts that most organizations have adopted budgeting approaches and philosophies that are modern and can act to reduce financial mismanagement.

Budgets are used to achieve cost effectiveness, in planning, for operations, coordinating activities, motivating performance, communicating plans and operations and in evaluation and audits (Muleri, 2001).

2.7 Summary of Literature Review

Budgeting is one of the fundamental decision-making processes in organizations. Budgeting is practiced in accordance to agency theory, the balanced scorecard theory and the control and responsibility accounting theory. Budgets commonly establish performance goals for the unit in terms of costs, revenues, and/or production (Little, 2000). This is a brief and correct summary of the importance of the budgeting function within the majority of organizations. Budgets are used in differing degrees and for diverse purposes across different industries. Some industries use budgeting as a control of expenditures, where other businesses use budget functions as a tool for planning, a means of communication, or as a goal to measure performance. Although organizations prepares budgets in different formats, all organizations benefit from its use, and budgeting functions perform an important device in a firm's organizational structure and business success. The above literature review sheds light on the use of budgets as a planning, monitoring and control tool. Of great interest is how budgets are used as a control tool by manufacturing companies in Kenya and how this affects their performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlined the methodology that was used in conducting the research. The chapter presented the research design, target population and sampling techniques that were employed. It further identified the data collection instruments that were employed in the research and the procedures for data collection. It concluded by describing how data analysis was conducted and the output.

3.2 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research (Robson, 2002). A descriptive research design was used in this study. The major purpose of descriptive research design is to provide information on characteristics of a population or phenomenon (Mugenda & Mugenda, 2003). Descriptive research is used as a precursor to quantitative research designs as it provides the general overview giving some valuable pointers as to what variables are worth testing quantitatively. A cross-section survey was used for this study because it employs a single point of data collection for each participant, it is cheaper to undertake compared to longitudinal survey and the results from the sample are inferred to the larger population. In addition, some extraneous factors were manifested in the observed change other than the independent variable concerned.

3.3 Target Population

Currently, there are over 750 companies that have their product offerings listed with the Kenya Association of Manufacturers (Kenya Association of manufacturers, 2014). It happens that because there are a large number of companies in Kenya, the researcher decided to concentrate on those in Nairobi County. The target population was the 750 companies.

3.4 Sampling Design

A sample is a set of entities drawn from a population with the aim of estimating characteristic of the population (Yates, Daniel, Moore and Starnes, 2008). Cooper and Schindler (2003) explain that the basic idea of sampling is selecting some of the elements in a population, so that the same conclusions can be drawn about the entire population. This results in reduced cost and greater accuracy of results.

Stratified sampling technique was used. Stratified sampling is a probability sampling technique wherein the researcher subdivides the entire population into different subgroups and then randomly selects the final subjects proportionally from the different strata. This technique ensures that individuals from all the subgroup in the population are selected and increases researcher's statistical precision (Berg, 2004). In this study, 10 largest companies from each subgroup of the manufacturing companies were selected. The respondent was the head of the finance department or an equivalent in each of the companies. Hence the sample size was 50 respondents.

3.5 Data Collection

Both primary and secondary data were used. The primary data was collected by use of a questionnaire. In order to know the relevance of the budgets as a financial management tool among manufacturing firms through the self-administered drop and pick. Questionnaires were distributed or provided to the financial managers of the selected firms. This enabled the researcher to get adequate and accurate information from people who have the main data collection instrument. The questions were closed ended used to get specific unique information. The reason for choosing questionnaires is because it is less costly, convenient and not biased. Secondary data comprised the various manufacturing firm's budgetary records and financial records for the years – to – various data relating to budget vs. actual variances, income vs. costs etc. This was used to complement raw data.

3.5.1 Data Validity and Reliability

The extent to which results are consistent over time and an accurate representation of the total population of the under study is referred to as reliability. The extent to which the results of the study can be reproduced under similar methodology is considered to be reliable (Kirk and Miller, 1986) According to (Kirk and Miller, 1986) there are three types of reliability which relates to the degree to which a measurement given repeatedly remains the same, the stability of a measurement over time and the similarity of a measurement within a given period. The consistence within which a questionnaire is answered remains relatively the same can be determined through test methods at two different times.

Validity determines whether the research truly measures that which it was intended to measure and how truthful the research result is. The construct is the initial concept, notion, question or hypothesis that determines which data is to be gathered and how it is to be gathered. A pilot test was done on a few manufacturing firms in Nairobi, to ensure validity of the data. After the pretest the questionnaire was appropriately amended and revised.

3.6 Data Analysis

The data to be collected is quantitative. This measures quantity or amount it's applicable to phenomena that can be expressed in terms of quantity e.g. mean, age, and population size. Quantitative research entails designs techniques and measures that produce discrete numerical or quantifiable data random sampling is utilized to ensure representativeness of a sample. Some research designs that can be described as quantitative include experimental designs *causo* comparative and correlation research. The method of analyzing the data was descriptive design since this research can be used to describe a phenomenon at one point in time. Descriptive analysis was used to mainly summarize the data collected. The data was then be edited for accuracy, uniformity and completeness and arranged for coding. Analysis of Variation (ANOVA) which is a statistical tool used to test the hypothesis of an experiment was used to analyze the descriptive statistics.

Regression methods and correlation analysis were the major statistical methods. The rationale for using regression methods are: firstly, almost all variables in the present study are measured by interval/ratio scales and secondly, regression is powerful way to test the correlation between two or more variables than other statistical methods. The regression models presented the dependent variable (financial performance) and independent variable (planning, monitoring and control and participative budgeting) as expressed in the equation below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:-

Y = Financial performance as measured by ROA,

X₁ = Planning

X₂ = Monitoring and Control

X₃ = Participative Budgeting

β₀ = Intercept,

β = Coefficient of independent variables, and

ε = error term

The independent variables X_1 , X_2 and X_3 are variables of budget used for this study which were measured using the various questions to be presented to the respondents in the questionnaire. The computer programme SPSS 20.0 version was used to analyze the data. Correlation and regression analysis were utilized to test the effect of budgetary control on financial performance in the manufacturing sector in Kenya.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis and presentation of findings on the objective of this study which was to assess the effects of budgetary control on the financial performance of selected manufacturing companies in Kenya. The analysis has been presented in the order of; general information, the need for budgetary control in organizations, essentials of a good budgetary control system, budgetary control(planning, monitoring and participative budgeting) and financial performance of the sampled manufacturing firms within Nairobi County.

4.2 Response Rate

	Frequency	Response rate (%)
Responded	42	84
Not responded	8	6
Total	50	100

The researcher distributed a total of 50 questionnaires to the financial managers or their equivalent in 50 largest firms located within Nairobi County (Mostly those registered in NSE). Out of these, 42 of the responded filled and returned the questionnaires whereas 8 never returned the questionnaires. This therefore gave the study a response rate of 84% which is adequate according to Mugenda and Mugenda 2003 who advocates for a response rate of 75% and above.

4.3 General Information Of The Respondents And Organization They Work For

The section below presents the general information of the respondents and the organization.

Table 4.1: Time dimensions organization budget cover

Statements	Frequency	Percentage
Less than 1 year	3	7
1-5years	29	69
5 and above years	10	24
Total	42	100

The researcher wanted to find out on time dimensions organization budget cover. According to the findings as displayed in the table above, majority of the financial managers on time dimensions a budget covers, in the sampled manufacturing companies indicated that 1-5 years as shown by 69%, 24% said 5 years and above while only 7% who said less than 1 year respectively.

Table 4.2: How often the budget is reviewed

Period	Frequency	Percentage
Monthly	11	26
Quarterly	19	45
Annually	10	24
None	2	5
Total	42	100

The study wanted to find out on how often the budgets are reviewed in the sampled manufacturing companies in Kenya. According to the results, majority of the respondents indicated that their budget is reviewed quarterly as shown by 45%, monthly as shown by 26%, annually as shown by 24% respectively.

4.3.1 Approximate annual budget revenue

The study was to find out on the approximate annual budget revenue. According to the findings, majority of the respondents indicated that they have an approximate budget of 116000\$ and above as shown by 33%, 19% said an annual budget of 58000-116000\$, 26% said 12000-58000\$ while 21% said 12000\$ or below. This is an implication that

majority of the organizations had an approximate budget of 116000\$ as shown in the figure below;

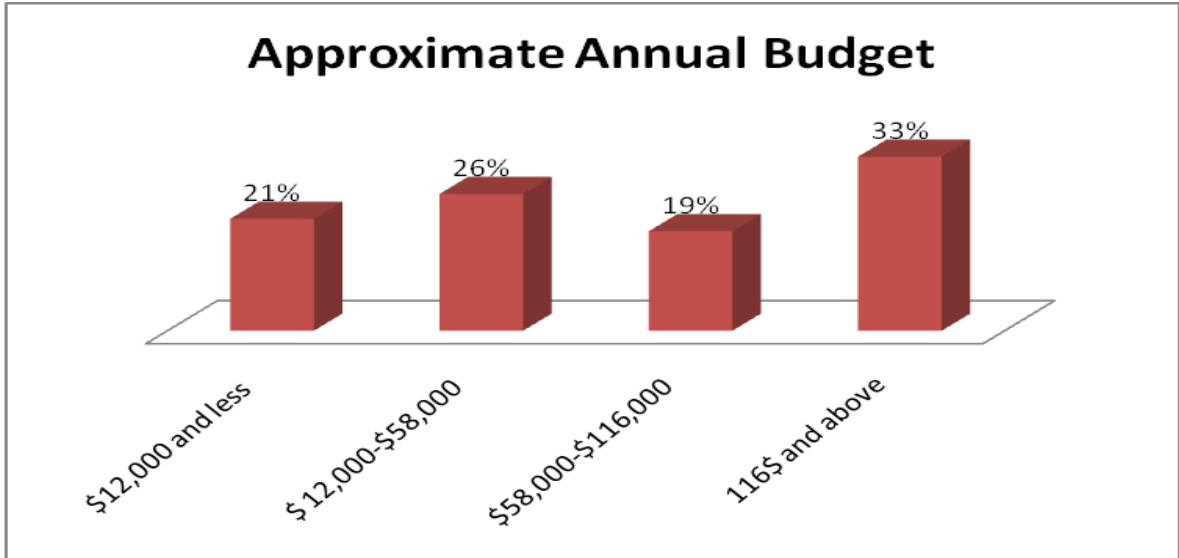


Figure 4.1: Approximate Annual Budget

4.3.2 Duration the respondent have worked for the organization

The study was to find out on the duration the respondents had worked for the organization. According the results displayed in the figure below, majority of the respondents had an experience of between 4-10 years as shown by 62%, 19% had an experience of 1-4 years whereas 17% had an experience of 10 years and above respectively.

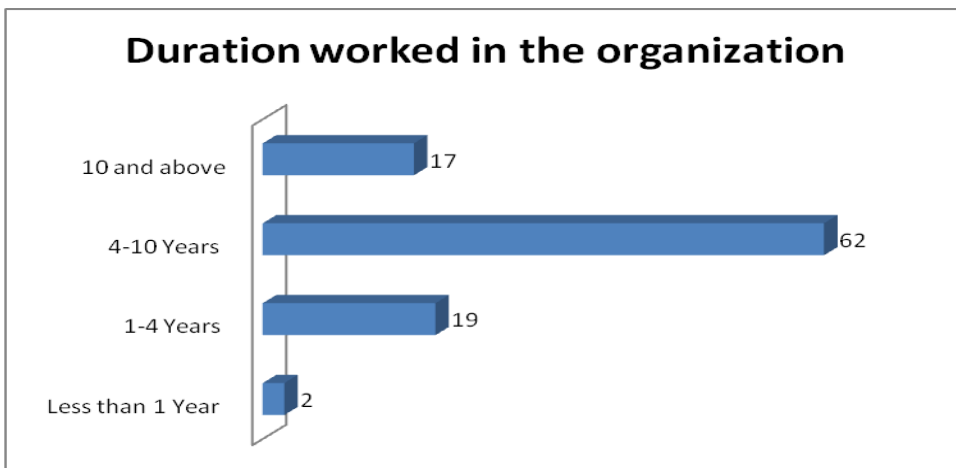


Figure 4.2: Duration respondent has worked in the organization

4.4 The need for Budgetary Control

Table 4.3: Respondents level of agreement on statements that relate to the importance of budgetary control in organizations

Statements	<i>Strongly agree</i>	<i>agree</i>	<i>Moderately agree</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
Budgetary control integrates the organization’s strategic planning with budgets and processes of cost control	15	84	1	0	0
Budgetary control identifies the budgeting / financial skills required for better decision making,	15	79	2	2	0
identify key financial indicators for the business and how and when monitor them	18	70	12	0	0
Budgetary control identifies sources of financial and business data that provide	24	66	4	6	0
insights into business and financial strategies when converted into budgets	32	54	7	6	1
Budgetary control helps interpret budgets and performance measurements as communication tools and finally help to think pro actively beyond budgeting	8	80	12	0	0
Budgetary control also economizes management time by using the management by exceptional principle					

The study was to find out the respondents level of agreement on statements that relate to the importance of budgetary control in organizations. According to the results in the table above, majority of the respondents were in agreement that; budgetary control integrates the organization’s strategic planning with budgets and processes of cost control, budgetary control identifies the budgeting / financial skills required for better decision making, identify key financial indicators for the business and how and when monitor them, budgetary control identifies sources of financial and business data that provide insights into business and financial strategies when converted into budgets, budgetary control helps interpret budgets and performance measurements as communication tools and finally help to think pro actively beyond budgeting and that budgetary control also economizes management time by using the management by exceptional principle as shown by 84%, 79%, 70%, 66%, 54% and 80% respectively.

4.5 Essentials of an effective budgetary control system

Table 4.4: Respondents level of agreement on statements that relate to essentials of an effective budgetary control system

Statements	<i>Strongly agree</i>	<i>Agree</i>	<i>Moderately agree</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
This organization sets budgets that are reasonable and achievable	4	90	2	2	2
Manager's responsibilities in budgeting and budgetary control are well clearly defined	11	89	0	0	0
Effective accounting records and procedures in budgeting and budgetary control are clearly understood and applied	6	88	2	2	2
There is an information system that provides data for managers so that they can make realistic predictions	10	85	4	1	0
Support and commitment of top management for the system of budgetary control is in place	16	74	10	0	0
Revision of budgets where amendments are needed to make them appropriate and useful.	23	66	10	1	0
This organization reorganizes that budgetary control is a management activity and not an accounting exercise	20	60	14	4	2
This organization ensures that there is participation of managers in the budgetary control system	15	55	23	0	7

The table above depicts findings related to the respondents' level of agreement on statements that relate to essentials of an effective budgetary control system. According to the results, majority of the respondents were in agreement that; manufacturing companies sets budgets that are reasonable and achievable, manager's responsibilities in budgeting and budgetary control are well clearly defined, effective accounting records and procedures in budgeting and budgetary control are clearly understood and applied, there is an information system that provides data for managers so that they can make realistic predictions, support and commitment of top management for the system of budgetary control is in place, revision of budgets where amendments are needed to make them appropriate and useful, manufacturing companies sampled recognizes that budgetary control is a management activity and not an accounting exercise and that sampled manufacturing companies ensures that there is participation of managers in the budgetary

control system as shown by 90%, 89%, 88%, 85%, 74%, 66%, 60% and 55% respectively.

4.6 Budgetary Control (Planning)

Table 4.5: Respondents' levels of agreement with statements related to budget planning

Statements on budget planning	<i>Strongly agree</i>	<i>Agree</i>	<i>Moderately agree</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
Our budgets have clear goals and objectives	19	76	5	0	0
Our organization has Long term and short term Budget Plans	20	75	4	1	0
All departments prepare budget plans prior to the budget year	30	70	0	0	0
When budgeting, outcome goals and objectives are linked to programmes	27	69	4	0	0
Our Budgets cover all the aspects of our Mission	25	65	10	0	0
We set priorities for the coming year at budget conference/Committees.	38	56	6	0	0

The research was to establish the respondents' levels of agreement with statements related to budget planning. The results indicated that majority of the respondents were in agreement that; their budgets have clear goals and objectives, their organization has long term and short term budget plans, all departments prepare budget plans prior to the budget year, when budgeting, outcome goals and objectives are linked to programmes, budgets cover all the aspects of the organization's mission and that managers set priorities for the coming year at budget conference/Committees as shown by 76%, 75%, 70%, 69%, 65% and 56% respectively.

4.7 Monitoring and Control

Table 4.6: Respondents level of agreement with statements that relate to monitoring and control of budgets

Statements on monitoring and control	<i>Strongly agree</i>	<i>Agree</i>	<i>Moderately agree</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
Budget deviations are reported to budget committee/Executives	4	94	2	0	0
The deviations from the budget targets are frequently reported	11	78	8	3	0
The costs of activities are always reviewed by the executive committee	25	75	0	0	0
Managers hold budget conferences/meetings regularly to review performance	8	74	12	6	0
Managers always take timely corrective actions when adverse variances are reported.	8	71	17	4	0
Control of the budget activities is done by the head of departments	30	70	0	0	0
We have Budget policies to check on spending	33	67	0	0	0
Comparison is made between plans and actual performance and the difference is reported often	40	60	0	0	0
There is a regular follow up on budget plans by the budget committee/Departmental heads	28	58	8	6	0
Budget performance evaluation reports are prepared regularly	25	45	10	10	10

The table above depicts the findings on respondents' level of agreement with statements that relate to monitoring and control of budgets. According to the findings, majority of the respondents were in agreement that; budget deviations are reported to budget committee/executives, the deviations from the budget targets are frequently reported, the costs of activities are always reviewed by the executive committee, managers hold budget conferences/meetings regularly to review performance, managers always take timely corrective actions when adverse variances are reported, control of the budget activities is done by the head of departments, the managers or their equivalent have budget policies to check on spending, comparison is made between plans and actual performance and the difference is reported often, there is a regular follow up on budget plans by the budget committee/departmental heads and that; budget performance evaluation reports are

prepared regularly as shown by 94%, 78%, 75%, 74%, 71%, 70%, 67%, 60%, 58% and 45% respectively.

4.8 Participative Budgeting

Table 4.7: Respondents level of agreement with statements relating to Statements on participative budgeting

Statements on participative budgeting	<i>Strongly agree</i>	<i>Agree</i>	<i>Moderately agree</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
I'm involved in the budget setting process	8	90	2	0	0
We are sensitized on the budget control process	12	81	4	3	0
Each department prepares a budget prior to the Overall budget	8	74	12	6	0
All the stakeholders to the budget are involved	8	71	17	4	0
All departments are always involved in the budgeting process	28	58	8	6	0
Approved Budgets are shared with all Departments	30	54	7	8	1
Leadership and support is given to all the Subordinates Throughout the budget by managers	30	54	7	8	1

The study was to find out the respondents level of agreement with statements relating to Statements on participative budgeting. According to the findings the financial manager or the equivalent is involved in the budget setting process, the financial manager or the equivalent are sensitized on the budget control process, each department prepares a budget prior to the overall budget, all the stakeholders to the budget are involved, all departments are always involved in the budgeting process, approved budgets are shared with all departments and that, leadership and support is given to all the subordinates throughout the budget by managers as shown by 90%, 81%, 74%, 71%, 58%, 54% and 54% respectively.

4.9 Financial Performance

Table 4.8: Respondents level of agreement with statements on budgetary control and manufacturing firms' financial performance in Kenya

Statements on financial performance	<i>Strongly agree</i>	<i>Agree</i>	<i>Moderately agree</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
Budget committee is effective against risk and are not overloaded	10	72	18	0	0
Budget Committee is expected to focus on the optimization of shareholders' wealth and prevent the maximization of personal interests by the top management	7	70	23	0	0
The budgetary control measures put in place in our organization have a great influence on financial performance	19	66	15	0	0
Budget committee would focus on improving the company performance and competitiveness	33	57	10	0	0

The researcher wanted to know the respondents level of agreement with statements on budgetary control and manufacturing firms' financial performance in Kenya. According to the findings displayed in the table above, majority of the respondents were in agreement that; budget committee is effective against risk and are not overloaded, budget Committee is expected to focus on the optimization of shareholders' wealth and prevent the maximization of personal interests by the top management, the budgetary control measures put in place in our organization have a great influence on financial performance and that Budget committee focus on improving the company performance and competitiveness as shown by 72%, 70%, 66% and 57% respectively.

4.10 Inferential Statistics

The following section presents the inferential statistics for the study (regression model and correlation analysis).

4.10.1 Regression Model

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.889(a)	0.790	0.785	1.14624

a Predictors: (Constant),

Table 4.6 above shows that the value of co-efficient of determination (adjusted R square) is 0.785 for all the variables studied (planning, monitoring and control and participative budgeting). This therefore implies that there was a variation of 78.5% between the independent (planning, monitoring and control and participative budgeting) and dependent variable (financial performance in manufacturing companies). Thus it means that (planning, monitoring and control and participative budgeting) explained 78.5% of the financial performance in manufacturing companies.

Table 4.10: ANOVA- Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	202.537	1	202.537	154.154	.000(a)
	Residual	53.868	41	1.314		
	Total	256.406	42			

a Predictors: (Constant), (planning, monitoring and control and participative budgeting)

b Dependent Variable: Financial Performance in Manufacturing Companies

The study used F-statistics to establish the appropriateness of the regression model to give reliable results. An F-significance value of $p=0.000$ was established. This shows that the regression model has a less than 0.001 likelihood (probability) of giving a wrong prediction.

Table 4.11: Coefficients Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant	10.654	1.734	-	6.143	0.000
Planning	0.416	.036	.614	11.626	0.010
Monitoring and Control	0.413	.000	.678	7.012	0.032
Participative Budgeting	0.042	.015	.006	0.109	0.021

a) *Dependent Variable: Financial Performance in Manufacturing Companies*

The study results show that there was a positive relationship between lending rates and the predictors (planning, monitoring and control and participative budgeting), and financial performance in manufacturing companies. The un-standardized regression coefficients show how every metric unit change in the independent variable, the dependent variable changes by x units. This implies that a unit increase in budget planning would lead to a unit increase in financial performance in manufacturing companies at a factor of 0.416. A unit increase in Participative Budgeting would influence financial performance in manufacturing companies by a unit of 0.042. A unit increase in monitoring and control would also lead to an increase in financial performance in manufacturing companies by a factor of 0.413 and vice versa. The standardized regression coefficients are based on changes in standard deviation units. This is the slope coefficient that results when x and y are both standardized (i.e., transformed into z-scores) before the analysis is run. The coefficient value of (planning, monitoring and control and participative budgeting), is 0.614 which implies that one-standard deviation increase in (planning, monitoring and control and participative budgeting), financial performance in manufacturing companies would increase by 0.614, 0.678 and 0.006 respectively. The results further shows that there is a significant relationship between financial performance in manufacturing companies and the three variables (planning, monitoring and control and participative budgeting), as shown by the p value; ($p=0.000<0.05$). The equation $Y = 10.64 + 0.416X_1 + 0.413X_2 + 0.042X_3$

4.11 Summary and interpretation of Findings

4.11.1 The need for Budgetary Control

The study found out that majority of the respondents were in agreement that; budgetary control integrates the organization's strategic planning with budgets and processes of cost control, budgetary control identifies the budgeting / financial skills required for better decision making, identify key financial indicators for the business and how and when monitor them, budgetary control identifies sources of financial and business data that provide insights into business and financial strategies when converted into budgets, budgetary control helps interpret budgets and performance measurements as communication tools and finally help to think pro actively beyond budgeting and that budgetary control also economizes management time by using the management by exceptional principle as shown by 84%, 79%, 70%, 66%, 54% and 80% respectively. These findings on the need for budgetary control in manufacturing companies have been supported in the literature review by Drury (2006) who argued on its importance by stating that "budgetary control is a strong tool of business that always advocate on the proper planning, effective coordination and control in order to maximize profits and competitive organizations nowadays can never avoid". The essentials of budgetary control are many as reported by (Kiringai, 2002) and not limited to; planning and control of business operations, being widely used as a standard device of planning and control, as a valuable aid to management through planning, coordination and control, as a tool which measures the managerial performance of an organization and promotes good morale and generates harmony in the organization, it promotes efficiency and facilities management by exceptions and finally helps in promoting a feeling of cost consciousness among the employees in the organization.

4.11.2 Essentials of an effective budgetary control system

The study established that majority of the respondents were in agreement that; manufacturing companies sets budgets that are reasonable and achievable, manager's responsibilities in budgeting and budgetary control are well clearly defined, effective accounting records and procedures in budgeting and budgetary control are clearly

understood and applied, there is an information system that provides data for managers so that they can make realistic predictions, support and commitment of top management for the system of budgetary control is in place, revision of budgets where amendments are needed to make them appropriate and useful, manufacturing companies sampled recognizes that budgetary control is a management activity and not an accounting exercise and that sampled manufacturing companies ensures that there is participation of managers in the budgetary control system as shown by 90%, 89%, 88%, 85%, 74%, 66%, 60% and 55% respectively. Seldin (2001) argues that for the smooth implementation of an organizations budget, all the essentials of a good budget must be considered for they ensure that budgetary planning and control is properly done.

4.11.3 Budgetary Control (Planning)

The results indicated that majority of the respondents were in agreement that; their budgets have clear goals and objectives, their organization has long term and short term budget plans, all departments prepare budget plans prior to the budget year, when budgeting, outcome goals and objectives are linked to programmes, budgets cover all the aspects of the organization's mission and that managers set priorities for the coming year at budget conference/Committees as shown by 76%, 75%, 70%, 69%, 65% and 56% respectively. The results agree with Mathis (2009) who explains on the importance of drawing an effective budget that provides a detailed plan of action for an organization over a specified period of time. By planning, problems are anticipated and solutions thought. This helps to reduce on costs and achievement of goals is enhanced.

4.11.4 Monitoring and Control

The study found out that majority of the respondents were in agreement that; budget deviations are reported to budget committee/executives, the deviations from the budget targets are frequently reported, the costs of activities are always reviewed by the executive committee, managers hold budget conferences/meetings regularly to review performance, managers always take timely corrective actions when adverse variances are reported, control of the budget activities is done by the head of departments, the managers or their equivalent have budget policies to check on spending, comparison is made between plans and actual performance and the difference is reported often, there is

a regular follow up on budget plans by the budget committee/departmental heads and that; budget performance evaluation reports are prepared regularly as shown by 94%, 78%, 75%, 74%, 71%, 70%, 67%, 60%, 58% and 45% respectively. Sizer (1989) states that planning as part of the budgeting system involves a long range planning, strategic planning and short term planning. Briston (1981) says that financial control and monitoring ensures efficient and cost-effective program implementation within a system of accountability. The results on agreement levels in this study confirms with Carr (2000) arguments that managers can use budgets to control the activities for which they are responsible. Analyses of variances allow managers to identify those costs which do not conform to the long term plan and therefore may require alteration. By investigating the reasons for budget deviations managers may also be able to identify inefficiencies. The budget forms the basis of a controlling mechanism for the various resources of an organisation which is achieved by comparing the resource measured to the end of a given period with that which was expected. This approach can be used for all measurable resources and activities within the organisation – not just those which are directly financial. Budgetary control highlights variations from the expected in order that management can take remedial action to ensure that the policy objectives set in the budget can be met. It is a constant monitoring process and requires continual updating and amendment of the budget through operational feedback. This also allows for performance against objectives or targets to be measured.

4.11.5 Participative Budgeting

The study found out that the financial manager or the equivalent is involved in the budget setting process, the financial manager or the equivalent are sensitized on the budget control process, each department prepares a budget prior to the overall budget, all the stakeholders to the budget are involved, all departments are always involved in the budgeting process, approved budgets are shared with all departments and that, leadership and support is given to all the subordinates throughout the budget by managers as shown by 90%, 81%, 74%, 71%, 58%, 54% and 54% respectively. Participation of employees in the process of budget preparation also motivates them to achieve budget goals (Hansen et al, 2003). In fact, Hansen et al, (2003) advocates for full participation and asserts that all

individuals responsible for achieving results should be consulted in the formulation of budgets. No system of budgetary control can succeed without the mutual understanding of superiors and subordinates. Participation assures full co-operation and commitment for making budgets successful. Participation also makes budgets realistic and workable.

4.11.6 Financial Performance

The study found out that majority of the respondents were in agreement that; budget committee is effective against risk and are not overloaded, budget committee is expected to focus on the optimization of shareholders' wealth and prevent the maximization of personal interests by the top management, the budgetary control measures put in place in our organization have a great influence on financial performance and that budget committee focus on improving the company performance and competitiveness as shown by 72%, 70%, 66% and 57% respectively. A well designed and implemented financial budget is expected to contribute positively to the creation of a firm's value (Kiringai, 2002).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This chapter presents the summary, conclusions and recommendations based on the study objective which was to assess the effects of budgetary control on the financial performance of selected manufacturing companies in Kenya. Majority of the financial managers indicated a period of 1-5 years in responding to time dimensions a budget covers, that the that their budget is reviewed quarterly and that they have an approximate budget of 116000\$ and above. The results showed and stressed the importance budgetary control. The findings also reveal as argued that budgetary control is the process of determining various budgeted figures for the enterprise and then comparing the actual performance with the budgeted figures for calculating the variances, if any. In this process, first budgets are to be prepared. Second, actual results are to be recorded. Third, comparison is to be made between the actual with the planned action for calculating the variances. It can be summarized from results that with an effective budget control in place, discrepancies are known and remedial measures are to be taken, at proper time. Then only, planned results can be achieved. A budget is a means and budgetary control is the end result.

Because of effective use of budget and budget plans, it can be summarized that the sampled manufacturing companies' budgets have clear goals and objectives, their organization has long term and short term budget plans, all departments prepare budget plans prior to the budget year, when budgeting, outcome goals and objectives are linked to programmes, budgets cover all the aspects of the organization's mission and that managers set priorities for the coming year at budget conference/Committees.

Due to effective budgetary control in the manufacturing companies sampled, budget deviations are reported to budget committee/executives, the deviations from the budget targets are frequently reported, the costs of activities are always reviewed by the executive committee, managers hold budget conferences/meetings regularly to review performance, managers always take timely corrective actions when adverse variances are

reported, control of the budget activities is done by the head of departments, the managers or their equivalent have budget policies to check on spending, comparison is made between plans and actual performance and the difference is reported often, there is a regular follow up on budget plans by the budget committee/departmental heads and that; budget performance evaluation reports are prepared regularly.

In summary, the study established that the value of co-efficient of determination (adjusted R square) was 0.785 for all the variables studied (planning, monitoring and control and participative budgeting). This therefore implies that there was a variation of 78.5% between the independent (planning, monitoring and control and participative budgeting) and dependent variable (financial performance in manufacturing companies). Thus it means that (planning, monitoring and control and participative budgeting) explained 78.5% of the financial performance in manufacturing companies. The regression model at p value; ($p=0.000<0.05$) was found to be in the form; $Y = 10.64 + 0.416X_1 + 0.413X_2 + 0.042X_3$.

5.2 Conclusions

5.2.1 The need for Budgetary Control

The study concludes that; budgetary control integrates the organization's strategic planning with budgets and processes of cost control, budgetary control identifies the budgeting / financial skills required for better decision making, identify key financial indicators for the business and how and when monitor them, budgetary control identifies sources of financial and business data that provide insights into business and financial strategies when converted into budgets, budgetary control helps interpret budgets and performance measurements as communication tools and finally help to think pro actively beyond budgeting and that budgetary control also economizes management time by using the management by exceptional principle.

5.2.2 Essentials of an effective budgetary control system

The study concluded that; manufacturing companies sets budgets that are reasonable and achievable, manager's responsibilities in budgeting and budgetary control are well clearly

defined, effective accounting records and procedures in budgeting and budgetary control are clearly understood and applied, there is an information system that provides data for managers so that they can make realistic predictions, support and commitment of top management for the system of budgetary control is in place, revision of budgets where amendments are needed to make them appropriate and useful, manufacturing companies sampled recognizes that budgetary control is a management activity and not an accounting exercise and that sampled manufacturing companies ensures that there is participation of managers in the budgetary control system.

5.2.3 Budgetary Control (Planning)

The study concluded that; their budgets have clear goals and objectives, their organization has long term and short term budget plans, all departments prepare budget plans prior to the budget year, when budgeting, outcome goals and objectives are linked to programmes, budgets cover all the aspects of the organization's mission and that managers set priorities for the coming year at budget conference/Committees.

5.2.4 Monitoring and Control

The study concludes that; budget deviations are reported to budget committee/executives, the deviations from the budget targets are frequently reported, the costs of activities are always reviewed by the executive committee, managers hold budget conferences/meetings regularly to review performance, managers always take timely corrective actions when adverse variances are reported, control of the budget activities is done by the head of departments, the managers or their equivalent have budget policies to check on spending, comparison is made between plans and actual performance and the difference is reported often, there is a regular follow up on budget plans by the budget committee/departmental heads and that; budget performance evaluation reports are prepared regularly.

5.2.5 Participative Budgeting

The study concluded that the financial managers or their equivalent are involved in the budget setting process, the financial manager or the equivalent are sensitized on the

budget control process, each department prepares a budget prior to the overall budget, all the stakeholders to the budget are involved, all departments are always involved in the budgeting process, approved budgets are shared with all departments and that, leadership and support is given to all the subordinates throughout the budget by managers.

5.2.6 Financial Performance

The study concluded that budget committee is effective against risk and are not overloaded, budget committees are expected to focus on the optimization of shareholders' wealth and prevent the maximization of personal interests by the top management, the budgetary control measures put in place in our organization have a great influence on financial performance and that budget committee focus on improving the company performance and competitiveness.

The results showed that the value of co-efficient of determination (adjusted R square) is 0.785 for all the variables studied (planning, monitoring and control and participative budgeting). This therefore implies that there was a variation of 78.5% between the independent (planning, monitoring and control and participative budgeting) and dependent variable (financial performance in manufacturing companies). Thus it means that (planning, monitoring and control and participative budgeting) explained 78.5% of the financial performance in manufacturing companies. The results showed that there was a significant relationship between financial performance in manufacturing companies and the three variables (planning, monitoring and control and participative budgeting), as shown by the p value; ($p=0.000<0.05$). The equation $Y = 10.64 + 0.416X_1 + 0.413X_2 + 0.042X_3$ was henceforth obtained.

5.3 Recommendations to Policy and Practice

This study recommends that managers in the manufacturing companies continue with the motive of valuing budgetary control in their polices (planning, monitoring and control as well as advocating for participatory budgeting for these has been found to influence their financial performance to a great extent.

The study also recommends that managers produce detailed budgetary plans to enable the implementation of the long term or strategic plan. The annual budgeting process must be

embraced always as found out in this study encourages managers to plan for future operations, refine existing strategic plans and considers how they can respond to changing circumstances. This encourages managers to anticipate problems before they arise and ensures reasoned decision making.

This study also recommends that managers within the organisation must have a clear understanding of the role which they are required to play in ensuring budgetary compliance. This ensures that the most appropriate individuals are made accountable for budget implementation. Senior management can also use budgets to communicate corporate objectives downwards and ensure that other employees understand them and co-ordinate their activities to attain them. The act of preparation as well as the budget itself will also improve communication.

Participation in budget setting relates to the extent that subordinates are able to influence the figures incorporated in their targets. This study recommends that participation always be embraced to allow the influence of the employees to the budget if performance increments are to be realized in the manufacturing companies.

5.4 Limitations of the study

The researcher experienced various limitations in the course of the study; financial constraints, one of the major problems that the researcher encountered is inadequate financial support which consequently slowed down the process of data collection and production of the final report of the study in time.

Time constraints was a limitation as the research involved distributing questionnaires to different organizations most of whom were busy to spare enough time to respond. The duration within which the research was undertaken was also short leading to so much strain in time management and that is why the research focus on major manufacturing companies in Nairobi area only.

Lack cooperation; the researcher experienced a lot of unwillingness to cooperate among most of the respondent organization, some never even responded and others even delayed in responding to the questionnaires. It was difficult to have face to face communication as most of the respondents preferred use of emails and this was the main challenge during

the whole research period. The likert scale that was used might have produced some bias as it is possible that the respondents provided non-committal answers by responding to neutral range of scale. Some respondents were biased while giving information due to reasons such as privacy and busy Schedules at their work place.

5.5 Recommendations for Further Studies

The sample size used may have been quite small to enable get an overall picture of the total manufacturing companies in Kenya. Therefore more research in this area should focus on increasing the sample size and cover a larger number of organizations both in Nairobi and outside so as to enhance better generalization of the results.

REFERENCES

- Abernethy, M. and Brownell P. (1999). The role of budgets in organizations facing strategic change: An exploratory study. *Accounting, Organizations and Society*. 24(3): 189-204.
- African Development Bank Group (2013). *Kenya Economic Outlook*. <http://www.afdb.org/en/countries/east-africa/kenya/kenya-economic-outlook>. Last accessed on 17th February 2015.
- Alesina, A. & Perotti, R. (1996). *Reducing Budget Deficits*. Swedish Economic Policy Review, 3(1), 56-63
- Amaratunga, D. (2001). Theory Building in Facilities Management Performance Measurement: Application of Some Core Performance Measurement and Management Principles. *Unpublished PhD Thesis*. The University of Salford: UK.
- Ambetsa, W. O. (1998). *A Survey of the Challenges in Budgeting by Commercial Airlines Unpublished PhD Thesis*, University of Nairobi
- Amidu M, Hinson R (2006). Credit risk, Capital Structure and lending decisions of banks in Ghana. *Banks and Bank Systems*, Volume 1.
- Anthony, R. N. (1988). *The Management Control Function*. Harvard Business School Press, Business and Economics, Boston.
- Arora, M. N. (2005). *Cost Accounting, Principles and Practice*. (4th ed.). Vikas 65 Publishing.
- Arora, M.N. (1995). *Cost Accounting, Principles and Practice (4th Ed.)*. Vikas Publishing
- Atkinson, A., Banker R., Kaplan R. and Young S., (2001). *Management Accounting*, 3rd edition. Upper Saddle River: NJ: Prentice Hall.
- Banham, R. (2000). Better Budgets. *Journal of Accountancy*, February, 37-40.
- Berg B.L., (2004). *Qualitative Research Methods for the Social Sciences. Seventh Edition*. California State University, USA.

- Boquist, H. (2001). The Impact of Human Resource Management Practices on Turnover, productivity and Corporate financial performance. *Academy of Management Journal*, 635-672.
- Briston, R.J. (1981). *Introduction to Accounting and Finance*. London, Macmillan Publishers.
- Brownell, P. (1982). a field study examination of budgetary participation and locus of control. *The Accounting Review*, pp.766-77.
- Bruns, W. J. and Waterhouse, J.H. (1995). Budgetary Control and Organizational Structure, *Journal of Accounting Research*, 13, 177-202.
- Carr, J. (2000). *Requirements Engineering and Management: The Key to Designing Quality Complex Systems: The TQM Magazine* Volume 12 No. 6 PP.400-407.
- Chenhall, R.H. & Langfield, S. K. (1998). Adoption and Benefits of Management Accounting Practices: An Australian Perspective. *Management Accounting Research*, 9 (1), 120.
- Cherrington.D.J and Cherrington J.O. (1973). Appropriate Reinforcement Contingencies in the Budgeting Process; *Journal of Accounting and Research*, Supplement, PP 225-53.
- Chugh, L. C, Meador JW, Kumar AS (2009). Corporate governance and firm performance: evidence from India. *Journal of finance and accountancy*.
- Cook (2008). "The Effects of Frequency of Feedback on Attitudes and Performance: Empirical Research in Accounting, Selected Studies". *Journal of Accounting Research Supplement*. 6, 213-24.
- Cress, W. P. Pettijohn, J.B. (1985). A Survey of Budget- Related Planning and Control Policies and Procedures, *Journal of Accounting Education*, 3, 51-78.
- Dekker, H., Groot, T. and M. Schoute. (2012). *Determining performance targets. Behavioral Research in Accounting* 24(2): 21-46
- Drury, C. (2000). *Management and Accounting*, 5th Edition. Thomson: Business Press.
- Drury, C. (2006). *Cost and Management accounting* (6thed).Boston Irwin. McGraw-Hill.

- Emmanuel, B. & Otley, W. (2005). Accounting, Budgeting and Control Systems in Their Organizational Context: Theoretical and Empirical Perspectives. *Accounting, Organizations & Society*, 8 (2/3), 153–169.
- Falk, S. (1994). When Budgeting, Focus on Value: Nine Strategies for Value Basing. Public Management. *Journal of Management Accounting Research*. Research American Accounting Association.
- Fang, (2008). *Elements of Accounting and Finance*. (3rded.).
- Gachithi E., (2010). The Challenges of Budget Implementation in Public Institutions: a case study of University of Nairobi. Un-published MBA Project, University of Nairobi.
- Government of Kenya (2013). *Kenya Vision 2030 Progress Report*. accessed from [http://www. Vision 2030.go.ke/cms/vds/Vision_2030-_score_booklet.pdf](http://www.Vision2030.go.ke/cms/vds/Vision_2030-_score_booklet.pdf) on 16th February 2015.
- Hansen D. and Mowen M. (2005). *Management Accounting*, 7th Edition Thomson Wadsworth Publishers, UK.
- Hansen S., David T. Otley D. and Van der Stede W. (2003). Practice Developments in Budgeting: An Overview and Research Perspective. *Journal of Management Accounting Research*: December 2003, Vol. 15, No. 1, pp. 95-116.
- Harrington, G., & Wilson, R. (1989).Governance and Banks' Valuations. *Journal of Financial Intermediation*, 16, 584-617
- Hill, C. W. L., & Jones, T. M. (1992). Stakeholder-agency theory. *Journal of Management Studies*, 29(2): 131-154.
- Hilton, R. and Platt D. (2005), *Managerial Accounting: Creating Value in a Dynamic Business Environment*. McGraw-Hill.
- Hokal, A. & Shaw K.E. (1999) .Managing progress monitoring in United Arab Emirate schools. *International Journal of Educational Management*, 13 (4), 173 –179
- Hope, J. and Frazer R., (2003). Who needs budgets? Harvard Business Review (February): 108-115.
- Hopwood A.G, (1976). *Accounting and Human Behavior*. Prentice-Hall

- Hopwood, A. (1972). An Empirical Study of the Role of Accounting Data in Performance Evaluation. . *Journal of Accounting Research*, 10:156-182.
- Hornigren C., Datar and Foster, (2003). *Flexible budgets, variances and management control*, Prentice- Hall Business Publishing, Canada.
- Hornigren, C. (1983). *Introduction to Management Accounting*. Prentice- Hall, Englewood Cliffs, NJ.
- Hornigren, C. (2000). *Cost Accounting: A Managerial Emphasis*. 2nd Canadian ed. Toronto: Prentice Hall Canada.
- Horvath, P. & Seiter M. (2009). Performance Measurement. *Die Betriebswirtschaft*, 69 (3), 393-413.
- Javed AY, Iqbal R (2007). *The relationship between corporate governance indicators and firm value: A case study of Karachi stock exchange*. MRPA Paper No.225.
- Jelic, E., & Briston, M. (2001). The separation of ownership and control. *Journal of Law and Economics*, 26, 301 – 325.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3: 305-360.
- Jones R. and Pendlebury M., (2000) *Public Sector Accounting*. Financial Times Prentice Hall, UK.
- Kaplan R. and Norton D., (1996). *The Balanced Scorecard: Translating Strategy into Action*. Harvard Business School Press, Boston, Massachusetts.
- Kaplan, R. (1988). *One Cost System Isn't Enough*. Harvard Business Review, January/February, pp. 61-6.
- Kariuki (2010). *Budgeting: A fundamental management tool*. Kasneb Newslines Volume 1, page 4)
- Kenya Associated of Manufacturing (2014). <http://www.manufacturersandexportersdirectory.co.ke/KAM-Focus/Preface>.
- Kenya Economic Report, (2013). *Kenya Institute for Public Policy Research and Analysis (KIPPRA)*, Nairobi.

- Kipkemboi, S. (2013). Effect of Budgetary control on Performance of Non-Governmental Organizations in Kenya. *Unpublished MBA Project*, University of Nairobi
- Kiringai, J. A. (2002). *Budget Reforms and Medium term expenditure framework in Kenya*, KIPPRA, working, Nairobi. Nairobi: Kenya Institute for Public policy, Research and Analysis.
- Kirk J. and Miller M., (1986). Reliability and Validity in Quantitative Research. Sage University Series on *Qualitative Research Methods*. 1, 85.
- Lazaridis I & Try Fonidis, D. (2006). Relationship between working capital management and profitability of listed companies in the Athens stock exchange. *Journal of Financial Management and Analysis*. 19:26-25.
- Little, H. N. (2000). *Fairness of Formal Budgetary Procedures and their Enactment: Relationships with Managers' Behavior*. *Group & Organization Management*, 27(2), 209.
- Lucey, T. (1993). *Costing*, 4th ed. Bray Road: Guernsey co. Ltd.
- Mathis, G. (2006). *Management Concepts and Effective Practice*. (3rd Ed.). Los Angeles: West Publishing Co.
- Merchant, K. (1978). *Budgeting and the Prosperity to Create Budgetary Slack*. *Journal of Accounting Research*, 13, 177-202.
- Milani, K. (1975). *The Relationship of Participation in Budget Setting*. Printice Hall, UK
- Millichamp, A.H. (2000). *Auditing: An Introduction Manual for Accounting Students*, D.P. Publications, Shepherds Bush Green, London.
- Mugenda, A. & Mugenda. (1999). *Research Methods: Qualitative and Quantitative Approaches*. Nairobi: Acts Press.
- Muleri, A. (1999). A Survey of Budgeting Practices among the Major British Non-Governmental Organizations in Kenya. *Unpublished MBA Project*, University of Nairobi.
- Munene, G., (2010). A Survey of the Challenges of Budget Preparation and Implementation among Manufacturing Companies Quoted at the Nairobi Stock Exchange. *Unpublished MBA Project*, University of Nairobi.

- Naser, K. and Mokhtar, M. Z. (2004). Determinants of Corporate Performance of Malaysian Companies, *Paper presented at the Fourth Asia Pacific Interdisciplinary Research in Accounting Conference*, July, Singapore.
- Needles, S. C. (2011). *Managerial Accounting*. Nason , USA: South Western: Cengage Learning.
- Neely, A. S. (2001). *Driving Value through Strategic Planning and Budgeting*. New York,
- Niven P.R, (2006). *Balanced Scorecard Step-by-Step: Maximizing Performance and Maintaining Results*. 2nd Edition. Wileys & Sons Inc., New York.
- Ntim CG (2009). *Internal corporate governance structures and firm financial performance: Evidence from South African listed firms*. Department of accounting and finance, University of Glasgow. NY: Accenture.
- Onduso, E., (2013). The Effect of Budgets on Financial Performance of Manufacturing Companies in Nairobi County. *Unpublished MBA Project*, University of Nairobi.
- Organization for Economic Cooperation and Development-OECD (2002), *Official Development Assistance and Private Finance*.
- Otley, C. (1999). *Practice Development in Budgeting: An Overview and Research Perspectives*.
- Otley, D. (2007). Did Kaplan and Johnson get it right? *Accounting, Auditing & Accountability Journal*, 21(2), 229-239
- Otley, S. (1987). Budget Use and Management Performance. *Journal of Accounting Research*, 16(1)
- Preetabh. (2010, August 27th). *Advantages of Budgetary Control*. Retrieved from <http://expertscolumn.com/content/advantages-budgetary-control>.
- Rasbery, P.W. & Lormnie, L.F. (2006). *Effective Management Communications*, Boston, PWS Publishing Company.

- Resbery, L & Lormorie, S. (2006). Capital Structure in Developing Countries, *Journal of Finance*, 56, 87-130.
- Roberta, M. (2010). *Foundations of Corporate Law*. 2nd Edition, Foundation Press, USA.
- Robson, G. (2000). *Business Ethics and Corporate Governance in Africa*. Johannesburg.
- Scott, W.R. (1987). *Information Processing: Creating Organizations*. Englewood Cliffs, NJ: all
- Seldin, D. (2001). *Mission Impossible; Measuring Success in Non-profit Organizations*. *Non-profit Management & Leadership*, 11(3)384-385.
- Shah, A & Shen, C., (2008). *A Primer on Performance Budgeting*. Washington DC, World Bank, Committee for Program Review and Investigations.
- Shields, J. F., and Gordon, J. (1974). *Budgeting for Accountability in Libraries*. Scarecrow Publishers.
- Simiyu N. T. T. (1979). Participatory Budget Setting and Commitment. Nairobi, *Unpublished Thesis*. University of Nairobi
- Sizer, J. (1989). *An insight into Management accounting* (3rded). Penguin Books Limited.
- Sterdy, A. C. (1960). *Budget Control and Cost Behavior*. Chicago Markham.
- Steven G., (2012). Flexible Budgeting: Can flexible budgeting support Planning and provide better information for measuring managers' performance? *CIMA*. July 2012 issue.
- Tangen, M.S. (2003). An empirical analysis of the relation between the board of director's composition and financial statement fraud. *The Accounting Review*, 71, 443-465
- Turyakira, A. (2004). *Zero Base Budgeting: A Practical Management Tour Tool for Evaluating Expenses*". New York: John Wiley.

- Ugurlu, M (2000). Agency costs and corporate control devices in the Turkish manufacturing industry. *Journal of economic studies*. MCB. University press.
- Wallander, J., (1999). Budgeting - an unnecessary evil, *Scandinavian Journal of Management*, 15, 405-421
- Zimmerman, et al. (2006). The Use of Performance Measurement in South Carolina Non-profits. *Non-profit Management & Leadership*, Issue 16(3), 315-327.
- Zimmerman, J. (2003). *Accounting for Decision Making and Control*, 4th Ed. New York, NY: McGraw-Hill, New York, NY.

APPENDIX 1: LETTER OF INTRODUCTION

GILBERT MUTAI KOECH

Cell; 0724627556

Dear Respondent,

RE: SUPPORT FOR A MASTER'S DEGREE PROJECT

I am a student pursuing a Master's Degree at the University of Nairobi. As part of the requirement for the completion of my studies, I'm undertaking a research to assess the effects of budgetary control on the financial performance of selected manufacturing companies in Kenya. In this regard, I'm kindly requesting for your support in terms of time, and by responding to the attached questionnaire. Your accuracy and candid response will be critical in ensuring objective research. It will not be necessary to write your name on this questionnaire and for your comfort, all information received will be treated in strict confidence.

In addition, the findings of the study will solely be used for academic research purposes and to enhance knowledge in the field of women's roles. If need be the research report may be presented to your institution for information and record.

Thank you for your valuable time.

Yours faithfully

GILBERT MUTAI KOECH

APPENDIX 11: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

1. What time dimensions does your overall organization Budget Cover?
 - (a) Less than 1 year ()
 - (b) 1-5years ()
 - (c) 5 and above years ()
 - (d) None ()
2. How often is it reviewed?
 - (a) Monthly ()
 - (b) Quarterly ()
 - (c) Annually ()
 - (d) None ()
3. What is your approximate annual budget revenue?
 - (a) \$12,000 and less ()
 - (b) \$ 12,000-\$58,000 ()
 - (c) \$58,000-\$116,000 ()
 - (d) \$116,000 and above ()
4. How long have you worked for the organization
 - (a) Less than 1 Year ()
 - (b) 1-4 Years ()
 - (c) 4-10 Years ()
 - (d) 10 and above ()

PART B: THE NEED FOR BUDGETARY CONTROL

1. Kindly rate your level of agreement on the following statements that relate to the importance of budgetary control in your organization. Rate where 1 = strongly agree, 2= agree, 3= moderately agree, 4 disagree and 5= strongly disagree

Statements	1	2	3	4	5
Budgetary control integrates the organization’s strategic planning with budgets and processes of cost control					
Budgetary control identifies the budgeting / financial skills required for better decision making,					
identify key financial indicators for the business and how and when monitor them					
Budgetary control identifies sources of financial and business data that provide insights into business and financial strategies when converted into budgets					
interpret budgets and performance measurements as communication tools and finally help to think pro actively beyond budgeting					
Budgetary control also economizes management time by using the management by exceptional principle.					

PARTY C: ESSENTIALS OF AN EFFECTIVE BUDGETARY CONTROL SYSTEM

2. Kindly rate your level of agreement on the following statements that relate to essentials of an effective budgetary control system. Rate where 1 = strongly agree, 2= agree, 3= moderately agree, 4 disagree and 5= strongly disagree

	1	2	3	4	5
Manager’s responsibilities in budgeting and budgetary control are well clearly defined					
Effective accounting records and procedures in budgeting and budgetary control are clearly understood and applied					
Support and commitment of top management for the system of budgetary control is in place					
Revision of budgets where amendments are needed to make them appropriate and useful.					
This organization reorganizes that budgetary control is a management activity and not an accounting exercise					
This organization ensures that there is participation of managers in the budgetary control system					
There is an information system that provides data for managers so that they can make realistic predictions					
This organization sets budgets that are reasonable and achievable					

Any other {.....}					
-------------------	--	--	--	--	--

PART D: BUDGETARY CONTROL

a) Planning

3. Please respond to the following statements by indicating the extent to which you agree or disagree with the activities. Strongly Disagree (5) Disagree (4) Not sure (3) Agree (2) Strongly Agree (1). Tick your choice

Our organization has Long term and short term Budget Plans	1	2	3	4	5
Our budgets have clear goals and objectives					
Our Budgets cover all the aspects of our Mission					
When budgeting, outcome goals and objectives are linked to programmes					
We set priorities for the coming year at budget conference/Committees.					
All departments prepare budget plans prior to the budget year					

b) Monitoring and Control

4. Please respond to the following statements by indicating the extent to which you agree or disagree with the activities. Strongly Disagree (5) Disagree (4) Not Sure (3) Agree (2) Strongly Agree (1)

Statements	1	2	3	4	5
Managers hold budget conferences/meetings regularly to review performance					
Comparison is made between plans and actual performance and the difference is reported often					
We have Budget policies to check on spending					
Control of the budget activities is done by the head of departments					
The costs of activities are always reviewed by the executive committee					

Budget performance evaluation reports are prepared regularly					
Budget deviations are reported to budget committee/Executives					
The deviations from the budget targets are frequently reported					
Managers always take timely corrective actions when adverse variances are reported.					
There is a regular follow up on budget plans by the budget committee/Departmental heads					

PART D: PARTICIPATIVE BUDGETING

5. Please respond to the following statements by indicating the extent to which you agree or disagree with the activities. Strongly disagree (5) Disagree (4) Not Sure (3) Agree (2) Strongly Agree (1)

Statements	1	2	3	4	5
I'm involved in the budget setting process					
We are sensitized on the budget control process					
All the stakeholders to the budget are involved					
All departments are always involved in the budgeting process					
Approved Budgets are shared with all Departments					
Leadership and support is given to all the Subordinates Throughout the budget by managers					
Each department prepares a budget prior to the Overall budget					

PART E: FINANCIAL PERFORMANCE

6. To what extent do you agree with the following statements on budgetary control and manufacturing firms' financial performance in Kenya? Key: 1 strongly agrees, 2 agree, 3 undecided, 4 disagree, 5 strongly disagree (please put an X as appropriate)

	1	2	3	4	5
Budget committee would focus on improving the company performance and competitiveness					
Budget Committee is expected to focus on the optimization of shareholders' wealth and prevent the maximization of personal interests by the top management					
Budget committee is effective against risk and are not overloaded					
The budgetary control measures put in place in our organization have a great influence on financial performance					

THANK YOU FOR YOUR COOPERATION

APPENDIX III: WORK SCHEDULE

	June	July	August	September	October
Proposal Writing					
Proposal Defense					
Data collection and data analysis					
Writing and Submitting the research project report					

APPENDIX IV: RESEARCH BUDGET

ITEM	QUANTITY
Stationary	5000
Reading in other libraries	1000
Typing of research work	20000
Data collection	30000
Research Assistance	20000
Printing	7000
Travelling	11000
<u>Grand Total</u>	<u>94,000</u>

**APPENDIX V: LIST OF SAMPLED MANUFACTURING COMPANIES IN
NAIROBI COUNTY**

1. Adhesive Solutions Africa Ltd
2. Africa Kaluworks (Aluware) Division K
3. African Cotton Industries Ltd
4. Africa Oil Kenya B.V
5. Alpha Dairy Products Ltd
6. Alpha Fine Foods Ltd
7. Apex Steel Ltd
8. Aquva Agencies Ltd -Nairobi
9. Athi River Mining Ltd
10. Atlas Copco Eastern Africa Ltd
11. Beta HealthCare
12. BIDCO Oil Refineries Limited
13. Biodeal laboratories ltd
14. Blue Ring Products Ltd
15. Blue Triangle Cement
16. Bobmil Industries Limited
17. British American Tobacco Kenya Ltd
18. C. Dormans Ltd
19. Chandaria Industries Limited
20. Chloride Exide Kenya Limited
21. Colgate-Palmolive(East Africa) Ltd
22. Commercial Motor Spares Ltd
23. Cosmos Limited
24. Unilever Kenya Limited
25. Crown-Berger (K) Ltd.
26. Doshi Group of Companies
27. East Africa Glassware Mart Ltd
28. East African Breweries Limited
29. East African Cables Ltd.
30. East African Portland cement
31. Eastern Chemical Industries Ltd
32. Ecolab East Africa (K) Ltd
33. Energy Pak (K) Ltd
34. Equatorial Tea Ltd
35. Eveready East Africa Limited
36. Excel Chemical Ltd.
37. Fairdeal Upvc, Aluminium and Glass Ltd
38. Farmers Choice Ltd

39. Flexoworld Ltd
40. Foam Mattress Ltd.
41. Forbes Media Electronic
42. Goods Chemistry Practice
43. Hydraulic Hose & Pipe Manufacturers Ltd
44. JET Chemicals (Kenya) Ltd
45. Kapa Oil Refineries Limited
46. Kenya Petroleum Refineries Ltd
47. Manzil Glass & Hardware Ltd
48. Rhino Special Products Ltd
49. Sameer Group
50. Tripac Chemical Industries Ltd