THE RELATIONSHIP BETWEEN BUDGETARY PARTICIPATION AND FINANCIAL PERFORMANCE OF COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE

BY:

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A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2010

DECLARATION

STUDENT'S DECLARATION

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

Signed ……………………………………… Date ……………………..

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SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the candidate's University Supervisor.

Supervisor Signed ……………………………… Date………………………….

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ACKNOWLEDGEMENT

First of all, I would wish to thank my dear family for financial support and encouragement and for their understanding when I was not there for them during the project period; I wouldn’t have made it this far without them.

I would wish to express my sincere gratitude to my supervisor N. T. T Simiyu for guidance, selfless dedication and encouragement in making this project a reality. I would also acknowledge the contribution of the rest of University of Nairobi fraternity to the success of this project.

Thank you all.

Most important of all I extend my gratitude to the Almighty God for providing me with strength, knowledge and vitality that helped make this project a reality

DEDICATION

I dedicate this work to my family for their understanding and support during the study period.

ABSTRACT

Most of the research in this area had focused on the USA, the UK and Australia. There was a scarcity in literature on participation and commitment in budget setting in the NSE listed companies. It was in this light that the researcher carries out an investigation into the participatory budget setting and budget commitment as a factor that affects performance of the NSE listed companies. This study used a causal research design to identify cause and effect relationship. The population of interest in this study comprised 55 companies listed where it considered only 53 still operating ones. The targeted respondents were senior, middle and low management staff in the respective firms. Questionnaires were self administered through hand delivery to the respondents. Secondary data on financial data was obtained from annual reports and financial statements of the quoted companies which were obtained from the NSE and from individual listed companies. Data for this study was both quantitative and qualitative hence both descriptive and content analysis techniques will be employed. The descriptive statistical tools helped the researcher to describe the data and determine the extent used. In addition, to quantify the strength of the relationship between the variables, the researcher used a multiple regression.

The study concludes that budgetary participation affects return on capital employed to a great extent, return on assets to a great extent, budgetary participation affects return on investment and budget commitment to moderate extents, performance evaluation affect motivation in the budgetary process to a great extent and budget commitment in budgetary participation affects financial performance of the companies quoted to a moderate extent. The study recommends that, for organizations to realize full benefits of budget performance evaluation there is need to ensure that there is adequate strategic plan, functional co-ordination tool, control of performance and integrated plans and objectives to enhance performance evaluation. The study recommends that the organizations need to establish contingent budgetary targets, processes and accounting information/communication to enhance employee motivation in the budgetary process. This study recommends that the organizations need to enhance performance evaluation strategies as well as by establishing proper guidelines in the changing of offices, funding of budgets, budgeting processes and management. The study further recommends that, since commitment affects financial performance of the companies to a great extent, the organizations need to establish strong strategies with regard to budget inflexibility, pressures, modern performance evaluation, commitment among the budgeted items for scarce funds and political interference.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The budget is a standard against which the actual performance can be compared and measured. Budgets are used to communicate top management's expectations to managers and employees. The budgets process provides for coordinated planning among different functional areas (Bremser, 1998). Budgets are financial blueprints that quantify a firm's plans for a future period. Budgets require management to specify expected sales, cash inflows and outflows, and costs; and they provide a mechanism for effective planning and control in organizations (Flamholtz, 1993).

According to Macintosh (2000), there is considerable dissatisfaction with the setting of top-down budgets. This appeared to be having a negative effect upon motivation. Thus notions of participation in budget target setting were first proposed.

A further study in the USA by Argyris (1993) examined the behavioral dynamics of budgeting in four firms. The study uncovered some very unhelpful attitudes and de-motivating behaviors. For example, budgets were frequently used as an oppressive tool by an authoritarian, autocratic management with a focus on mistakes; an undue attention on their own departments, rather than on the whole organization; the emergence of budget slack and a blame culture". Supervisors, however, were able to see that the budgets included unrealistic targets; were backward looking; rigid and inflexible; and were used to apply pressure to increase production. All in all, the focus was upon outputs, not processes, and the result was de-motivating. Indeed, the supervisors tried to redress what they saw as an imbalance by not referring to budgetary targets and control.

Budgeting process involves planning for budget preparation setting out goals and timelines for it production. This is followed by communicating the same to person preparing the budgets. Information gathering starts after the briefing of staff about the requirements. There after the information is compiled and revised according awaiting the committee review. When passed by the committee, it is ready for implementation which is done and need for feedback to allow no variance checked.

1.1.1 Concept of Budgetary Participation

Participatory budgeting is a process of democratic deliberation and decision-making, in which ordinary residents decide how to allocate part of a municipal or public budget (Fisher et al, 2000). Participatory budgeting allows citizens to identify, discuss, and prioritize public spending projects. It is usually characterized by several basic design features: identification of spending priorities by community members, election of budget delegates to represent different communities, facilitation and technical assistance by public employees, local and higher level assemblies to deliberate and vote on spending priorities, and the implementation of local direct-impact community projects. Various studies have suggested that participatory budgeting results in more equitable public spending, higher quality of life, increased satisfaction of basic needs, greater government transparency and accountability, increased levels of public participation (especially by marginalized or poorer residents), and democratic and citizenship learning.

Frucot and Shearon (2001) states that implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available. This framework, he further states, should include the following; identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate. The budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work namely; an allocation system under which expenditure is controlled by release of funds, supervision of the acquisition of goods and services to ensure value for the money spent, an accounting system that records government transactions and provides a framework for an analysis of their implications, and a reporting system that permits a periodic appraisal of the actual implementation of policies. Effectiveness of budget implementation process will be assessed by addressing the various variances. A comparison between the actual performance and the budgeted performance should be done (Srinivasan, 2000).

The success of the participatory budgeting process is based on the extent of popular participation whether individual participation or community-based participation/ representation. One of the main characteristics of participatory budgets in Brazilian cities is the acknowledgement of one’s right to participate individually and directly, and not necessarily through representatives of communities, unions or other associations. The number of participants in thematic and neighborhood plenary meetings may vary from time to time or from one year to another (Awio and Northcott, 2001).

Participatory budgets constitute an attempt to allow citizens to have a word and aid in deciding and approving how public budgets, mainly in municipalities, are spent, whether (and how much) in transportation, culture, education, urban development, health. They constitute a budget allocation model based on dialogue and citizen participation, which diverges from the current predominant representative model in which citizens choose representatives for four years, with practically no other direct opportunity to influence council policies (Becker and Green, 2000).

In a sense, participatory budgets are transforming the idea of a representative democracy, in which the preferences of the citizens are considered just at the moment of elections, through voting, to move closer to a participatory democracy, based on direct participation and discussion of issues. Participatory budgets constitute a universal, direct and volunteer kind of democracy which gives population the opportunity of discussing about budgets and public policy, making relevant decisions (Borins, 2001).

Participation is the process through which stakeholders' influence and share control over development initiatives, including the decisions and resources which affect them (Lau and Tan, 2000). The involvement of different actors in the budget process is vital in the promotion of budget transparency. This involvement is viewed as a way of improving budget formulation, ensuring efficient resource allocation and better oversight of the budget process (Otley and Pollanen, 2000). The topic of budget participation has always received a considerable interest among researchers. There are conflicting findings on the significance of budgetary participation. Cherrington and Cherrington (1999) reported negative relationship between budget participation and performance. Shields and Young (1998) found that participative budgeting is used more frequently when lower level managers have more knowledge than central management and also when part of the manager’s remuneration package is linked to budget performance. Additionally, Mufti and Lyne (1997) found that the degree of budget participation is more in large size firms than smaller firms. It is evident that participation in budgeting increases acceptance and motivation as well as it makes the budgeter to a greater extent feel responsible for the organization goals.

1.1.2 Nairobi Stock Exchange

The Nairobi Stock Exchange was formed in 1954 as a voluntary organization of stock brokers and is now one of the most active capital markets in Africa. The administration of the Nairobi Stock Exchange Limited is located on the 1st Floor, Nation Centre, Kimathi Street, Nairobi. As a capital market institution, the Stock Exchange plays an important role in the process of economic development. It helps mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents. Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated. The Exchange has also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares. There are as of December 2009, 55 companies listed at the stock exchange (www.nse.co.ke, 2009).

Stock markets promote higher standards of accounting, resource management and transparency in the management of business. This is because financial markets encourage the separation of owners of capital, on the one hand, from managers of capital, on the other. The stock exchange also improves the access to finance of different types of users by providing the flexibility for customization. Lastly the stock exchange provides investors with an efficient mechanism to liquidate their investments in securities. The very fact that investors are certain of the possibility of selling out what they hold, as and when they want, is a major incentive for investment as it guarantees mobility of capital in the purchase of assets (www.nse.co.ke,2009). Currently the Nairobi Stock Exchange market has got forty seven companies listed at the market. The companies are categorized into four different sections; Agriculture, Commercial and Services, Finance and Investment, Industrial and Allied.

The Nairobi Stock Exchange can be categorized as an emerging market within the frame work provided by the International Finance Corporation. Many emerging market economies at various times have undergone rapid growth and because their stock markets are not highly developed and therefore are less efficient, there is considerable opportunity for relatively high returns from emerging market investments. However, there is also a relatively high level of risk involved as witnessed by the melt down of several Asian emerging stock markets in 1997 and 1998 (www.nse.co.ke, 2009).

The dynamics in emerging market therefore present challenges for investors bearing in mind that share prices respond to events. The following are event classes, though not exhaustive, that are anticipated in security prices include: earnings reports, product releases, trade shows presentations, bonus issues, Initial Public Offer and dividend announcements.

Capital market studies are as old as the finance discipline itself. This is because of the role that capital markets play in pricing or valuing the securities traded in the market. Efficient valuation of securities enables optimal investment decisions to be made and efficient allocation of scarce investment resources. In order to make rational investment decisions investors require knowledge about the securities' prices and the factors that affect them. Such knowledge can be obtained from the understanding how capital markets enact to new as well as past information. However a look at the role of capital markets in economic development would be necessary as a first step (www.nse.co.ke, 2009).

All the companies listed in the NSE prepare budgets that cover a range of activities in their own different way. These companies listed in the NSE undergo diverse challenges of budgeting in one way or another. Lack of or inadequate participation and commitment of the concerned stakeholders in the budgetary process is recognised as a major challenge. This leads to lower performance of the companies despite their being rated as major companies as a requirement for their listing in the stock exchange. The extent and effects of budget participation and commitment therefore, need to be investigated.

1.2 Statement of the Problem

Participatory budgeting establishes a process in which the effects of peoples involvement are directly seen in either policy change or spending priorities. The divergent views on budgeting as a management control tool have provided the major motivation for the present study. The topic of budget participation has always received a considerable interest among researchers. There are conflicting findings on the significance of budgetary participation. Stedry (1997) and Cherrington and Cherrington (1999) reported negative relationship between budget participation and performance. On the other hand, Merchant (1997) and Brownell (2001) reported a positive relationship. Furthermore, Cress and Pettijohn (1995) surveyed 219 publicly traded US companies and found that in 79 percent of the companies surveyed, lower level managers have a significant role in both the initial and revision stages of budget preparation.

A dominant streams of budget research is participative budgeting (Shields & Shields, 1998; Shields and Young, 1993), and one of the most investigated antecedent organisational characteristic in management accounting research is environmental uncertainty (Chenhall, 2003; Luft and Shields, 2003). Most participative budgeting studies focus on the positive relation between participation and its effects, such as its impact on better budgets and decision making (Parker and Kyj, 2006; Nouri and Parker, 1998). The few studies that have studied the relationship between causal antecedents such as uncertainty and budget participation have been survey based and find different relationships, depending on the level of uncertainty.

Other studies, however, lead one to conclude that, although participative management is seen as being rather “politically correct” currently, it may be that its value is situation-specific: there may be some organizations in which it is not necessarily a major motivational force. For example, Cherrington and Cherrington’s (1999) study found that the “top down” imposition of budget targets led to higher performance amongst the recipients as opposed to those managers who, more or less, set their own targets. Also, contrary to current popular belief, the setting of budget targets and budgetary control does not always lead to autocratic managerial behaviour DeCoster and Fertakis, (1998). Additionally, existing research acknowledges the difficulty in observing systematic relationships between organisational characteristics and budgetary variables, due to findings of different studies not being consistent (Chenhall, 2003), and therefore unclear.

Locally, studies have also been conducted on budgeting. Specifically, Simiyu (1979) carried out a research on participatory budget setting and budget commitment which was a study of manufacturing personnel. Muleri (2001) carried out a survey of budgeting practices among the major British non governmental organizations in Kenya and found that most organisations 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, co-ordinating activities, motivating performance, communicating plans and operations and in evaluation and audits, while Kadondi (2002) carried out a survey of budgeting techniques used by companies listed at the Nairobi Stock Exchange. The study found that majority of the companies listed in the NSE employ various budget techniques due to their difference in setting and formation. This ensures that they are well oriented to handle their programs and investments efficiently. More recently Ndiritu (2007) conducted a case study on the effectiveness of cash budgeting at Telkom Kenya, which is a public institution. He found that cash budgeting in the organization is a major financial predictor for the success of the organizations performance. The literature on budget practices focuses on the relevance and applications of budgets to large, complex and manufacturing organizations. Furthermore, there is also a dearth of research involving surveys of budgetary practices in developing countries. Most of the research in this area had focused on the USA, the UK and Australia. There was a scarcity in literature on participation and commitment in budget setting in the companies listed in Nairobi Stock Exchange. It was in this light that the researcher carries out an investigation into the participatory budget setting and budget commitment as a factor that affects performance of the companies listed in the Nairobi Stock Exchange.

1.3 Objective of the Study

The main objective of this study was to investigate the relationship between budgetary participation and performance of companies quoted in the Nairobi Stock Exchange.

1.4 Importance of the Study

The study would offer valuable contributions from both a theoretical and practical standpoint. From a theoretical standpoint, it would contribute to the general understanding of how participatory budget setting and budget commitment influences performance of the companies listed in the NSE; more specifically, it would provide one of the few detailed examinations on how companies in listed in the NSE are affected by the challenges of participation and commitment in budget setting influences actual performance in the listed companies.

This study would help to sensitize organizations and the government of Kenya on the importance participatory budget setting and budget commitment in determining the actual performance of the organizations. The government would find this study useful in identifying the processes involved in budgeting in the institutions in Kenya and the participatory and commitment challenges faced. This would enlighten its ministries on the possible approaches towards solving the problems.

Policy makers would benefit from the issues and insights raised in the study that are important in developing the budgeting frameworks where participation and commitment might be enhanced to influence performance of the organizations.

The study would add to the existing body of knowledge on the concept of budgeting to benefit academicians and aid further research on the concept. It would form a fundamental base upon which further researches into the field would be based as it would act as both reading and secondary source material in such cases.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical foundation, empirical review, planning and control, staff motivation, staff participation, technological changes and delays from the treasury.

2.1.1 Budget Planning and Control

Most studies on budget practices have been conducted in the advanced countries. The study by Cheung (1996) into the Hong Kong situation of 35 managers revealed that operating budgets were widely used. Pike's (1999) longitudinal survey of 150 manufacturing companies from UK, reports on broad trends in the use of budgets. Lyne's (1992) surveys of 13 UK companies covered the issues relating to the managerial uses of budgetary information, the extent of participation by managers in setting their budgetary targets, and the sources of pressure to meet these budgetary targets. Chun (1996) replicated Lyne's study, with a larger sample of companies from Malaysia. He reported Malaysian user-groups views on the role of budgets, budget pressure and participation, which were similar to Lyne's findings. Srinivasan's (2000) survey of 402 US companies, which included manufacturing, and service companies revealed multiple roles and uses of budgets, especially in successful firms. Skinner's (1990) telephone survey of 114 Australian and New Zealand companies was concerned with the managerial uses of budgetary information particularly profit data. Drury et al. (1993) studied management accounting practices in UK, and they reported the various uses of budgets by management. Armstrong et al. (1996) conducted a survey of budgetary control used in large manufacturing UK companies, and they concluded that budgetary controls are intimately linked with considerations of labor controls.

There has been some evidence that companies have been showing considerable interest in preparing long-range plans. In another study, Capon et al. (1994) found that a majority of firms employed sophisticated corporate planning and corporate financial plans in their budgeting system. Powell (1992) found that strategic planning was important in the US companies but depended on the type of industry. A study by Wijewardena and Zoysa (1999) found that 95 percent of the Japanese companies and 83 percent of the Australian companies do prepare long-range plans. Furthermore, Chenhall and Smith (1998) found that more than 90 percent of the respondent companies adopted long range planning and long range forecasting in Australia. Joshi (2001) and Anderson and Lanen (1999) found that Indian companies were using strategic formal planning and long range forecasting techniques in budget planning. Other studies in Europe found extensive use of long range planning.

A further review of literature on budgeting (Douglas, 1999) reveals that budgets serve dual purposes of planning and control. Flamholtz (1993) developed a mechanism for effective planning and control aspects of budgets. The study by Ezzamel and Hart (2000) also supported this dual role of budgeting. Moreover, Hopwood (1992) argue that budgets can be used as a control mechanism to regulate the behavior by specifying the means to produce a unit of output.

Budgets are used to communicate top management's expectations to managers and employees. The budgets process provides for coordinated planning among different functional areas. Shields and Young (1995) concluded that when production processes were relatively routine repetitive, budgets could be used effectively to achieve organizational coordination.

2.1.2 Purpose and Importance of Budgeting

The budget is an important instrument that every institution uses to define the direction of its policy, the cost implications of its programs and the possible sources of funds during a fiscal year. A budget is therefore, a basic and powerful tool in management. In this regard it serves as a tool for planning and controlling the use of scarce financial resources in the accomplishment of organizational goals (Frucot and Shearon, 2001). The royal institute of public administration puts it thus budgets occupies a leading place among the special tools of management employed to direct and control the affairs of large and multifarious organizations.

They are used not only by governments, where budgeting had its origins, but in other public bodies, in industry and commer Willslmore (1993) noted that budgets have a very wide potential use". Areas in which budgets can be used to assist in management planning and control, including problem identification, co-ordination of the various parts of the whole, delegated authority to spend, controlling and measuring performance, and motivation have been identified by Atrill and McLaney (1999), to which Berry and Jarvis (1999) have added communication and providing a basis for responsibility accounting.

Tensions, however, between these uses of budgets may exist, for example, in using a budget as a means of control and also as a means of authorization. Authorized managers may be motivated to spend their entire allocated budget if, for example, they believe that the following year’s budget will be reduced if under spending occurs in the current year. Such behaviour, at least in the short term, is unlikely to be congruent with the organizations overall concerns with efficiency (Wildavsky, 1995) and effectiveness, control. Available literature on budgeting suggests that budgets form an important basis for financial control (Chong and Leung, 2003). To achieve organization-wide control, the same requirement can be applied to expenditure on and within services, and to discrete expenditure items. The recognition of risk as an important component in capital budget decision making has long been recognized. The future is uncertain and investment/project appraisal techniques that fail to recognize this fact will almost certainly lead to incorrect conclusions and erroneous recommendations.

The purpose of budgeting is to provide a forecast of revenues and expenditures i.e. construct a model of how our business might perform financially speaking if certain strategies, events and plans are carried out. Enable the actual financial operation of the business to be measured against the forecast. Budgeting lies at the foundation of every financial plan. Unlike what one might believe, budgeting isn’t all about restricting what one spends money on and cutting out all the fun in life. It really about understands how much money one has, where it goes, and then planning how to best allocate those funds, (Burns and Scapens, 2000).

Public sector organizations are concerned with the provision of public goods to members of the society. Their budgets are therefore mainly intended for authorizing actions and providing ceilings for management actions. This is unlike the private sector where organizations are profit motivated. Their budgeting reflects a conscious effort to plan for certain desirable results and controls to maximize the chances of achieving those results. Budgeting in public organizations is normally a hierarchical process which starts at the subunit level and ends at the apex of the hierarchy, which may be outside the organization itself. Often, therefore, there are several tiers between these two levels of the budgetary hierarchy. According to Lewis (2005) the basic reason for requiring estimates from subordinate officials is that higher officials do not have enough detailed information, time or specialized skills to prepare the plans themselves. It is the decision maker at the subunit level who has the relevant facts to effectively classify activities into various categories according to their importance. It is also at this level, that projects and activities requiring attention and hence financial support can be identified and prioritized.

2.1.3 Organizational Commitment

Organizational commitment is a mind set or psychological state involving feelings of beliefs concerning the employees' relationship with an organization. This psychological state reflects a desire, a need or an obligation to maintain membership in an organization. Meyer and Allen, 1991 (1991) refer to these states as affective, continuance and normative commitments respectively. Unlike other concepts, organizational commitment has survived as a viable construct due to focused research carried out in the fields of psychology and organizational behaviour (Meyer and Allen, 1991) hence a viable construct for studying the relationship between participation and firm performance. It is argued that the absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behaviour. As such, budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance (Quirin et al, 2001).

Organizational commitment has been described as an attitude held by employees towards their organization (Luthans, 1998). However, Mooday et al (1982) have given a more comprehensive meaning. They see the concept as having three components: a strong belief in and acceptance of organizational goals and values; a willingness to exert considerable effort on behalf of the organization and a strong desire to maintain membership in the organization. They view commitment as giving all of oneself at work by using time constructively, paying attention to detail, putting extra effort, accepting change, cooperating with others, self-development, respecting, trust, pride in ones abilities, seeking improvements and giving loyal support. These scholars have summarized their meaning of commitment into three pillars of commitment namely: a sense of belonging to the organization, a sense of excitement in the job and confidence in management.

An alternative definition of organizational commitment has been suggested by Meyer and Allen (1991). This viewpoint identifies three distinct components of organizational commitment namely: affective, continuance and normative. Affective commitment refers to the extent to which an individual feels a sense of identification, involvement and emotional attachment to an organization. Continuance commitment concerns an individuals need to continue working for the organization based on the perceived costs associated with leaving the organization. Such costs are those concerned with personal sacrifice such as loss of advancement, promotion, budgetary pressure or limited job opportunities in the labour market. Normative commitment refers to commitment that is influenced by society's norms about the extent to which people ought to be committed to an organization. Put simply therefore, people stay with organizations for three reasons: because they want to (affective commitment); because they need to (continuance commitment) and because they feel they ought to (normative commitment).

Cherrington and Cherrington (1999) highlighted the importance of commitment to organizations. He observed that performance improves if organizations move away from traditional control oriented approach to a commitment-oriented approach to managing people. A control-oriented approach relies on establishing order, exercising control and using efficiency-enhancing methods. On the contrary, a commitment strategy enables workers to respond creatively by giving broader responsibilities, encouraging contribution and helping them achieve satisfaction in their work as opposed to when they are tightly controlled by management, placed in narrowly defined jobs and treated like an unwelcome necessity.

Walton's argument has been supported by several studies, which have shown a positive relationship between organizational commitment and desirable employee outcomes such as low turnover, low absenteeism, low tardiness and enhanced job performance (Chong and Leung, 2003). Armstrong et al (1996) in the prescriptive literature outlines a number of things management can do to develop a commitment strategy in the organization. He proposes that managers can ensure workforce is informed, involved and sharing in the success of the organization thus, creating a feeling of ownership among employees. A feeling of ownership refers to a sense of employees believing that they are genuinely accepted by management as a key part of the organization. This extends to participating in decisions on change, which affect employees. Participation and involvement in making decisions facilitates acceptance of the change as it is owned and not imposed by management.

Management can create a feeling of excitement in the job by appealing to the higher level needs of pride, trust and accountability for results and other intrinsic motivators. Commitment can further be created by defining and disseminating the mission and values of the organization; ensuring that everyone understands and participates in the strategies of the organization and getting people to own changes and solutions. Management can also provide transformational leadership, which can inspire people with a vision for the future and develop processes and an organizational climate that encourages people's growth in terms of skill and higher levels of achievement. The introduction of company wide profit or gain sharing plans encourage people to identify with the organization while the use of induction budgetary pressure programmes ensure new employees form a good impression of the company from the outset. Research into the use of realistic job previews have shown a positive correlation between provision of job information at entry point and reduced turnover. Encouraging teamwork and getting teams to discuss important issues facing the company and acting on any good ideas that emerge encourages commitment to the organization among employees.

2.1.4 Measures of Organizational Commitment

A review of the organizational commitment literature reveals two major models that have been used to operationalize this concept. Mowday, Porter and Steers (1982) developed the Organizational Commitment Questionnaire (OCQ), which has been a popular instrument among scholars for measuring this construct. Nouri and Parker (1998) noted that out of 174 studies they investigated, 103 have used the OCQ. This model tests three components of organizational commitment namely: identification, involvement and loyalty. However, some scholars have argued that the OCQ model is theoretically inadequate as it measures only affective commitment, which is limited to the emotional attachment that employees have for their organization (Becker, 1992). An alternative measure developed by Meyer and Allen (1991) views organizational commitment as having three distinct components namely: affective, continuance and normative commitment. Affective commitment refers to the employees' attachment, identification with and involvement in the organization and its goals. Affective commitment results in the employees wanting to stay with the organization. Continuance commitment is calculative and exchange-based in nature and refers to costs associated with leaving the organization. The result of such commitment is the feeling that one has to stay with the organization because leaving would cost too much in terms of, for example, loss of pension, status, promotion, budgetary pressure or pay. The feeling of having to stay with the organization could also be due to the perception that few employment opportunities exist elsewhere. Finally normative commitment refers to an employees desire to stay with the organization based on a sense of duty, loyalty or obligation. This sense of loyalty makes an individual feel like they ought to stay committed to the relationship simply because it is the right thing to do.

Using Allen and Meyer’s measurement scale, Cheung (1996) studied the relationship between organizational commitment and firm ownership and found that while employees in private corporations reported a high level of affective commitment, those in state corporations reported higher levels of continuance commitment. This is an indication that state employees see themselves as having fewer alternatives for employment and are economically dependent on their organizations, while those in private corporations have more favourable perceptions of their organizations in terms of image and prospects, hence a greater emotional attachment.

2.1.5 Firm Performance

This section of the literature review is concerned with overall performance of organizations rather than that of individuals or groups. The organizational performance construct is probably the most widely used dependent variable in organizational research yet it remains vague and loosely defined (Shields and Shields, 1998). The focus of attention in performance has been mainly on financial measures but some scholars have proposed a broader performance construct of ‘business performance’ to incorporate non-financial measures such as market share, customer satisfaction and new products among others. Fisher et al (2000) proposed four possible types of measurement for organizational performance name1y: outcomes (turnover, absenteeism, job satisfaction); organizational outcomes (productivity, quality, service); financial accounting outcomes (return on assets, profitability) and capital market outcomes (stock price, growth, returns). The idea behind this model is that outcomes are hierarchical in that, outcomes at one level impact on those at the next level. In this particular case, participation and commitment in budget process would have the most direct impact on the performance of the individual, which in turn contribute to organizational performance.

According to Flamholtz (1993), the success of an organization is gauged from several indicators both qualitative and quantitative. These include: financial performance, meeting customer needs, building quality products and services, encouraging innovation and creativity and gaining employee commitment. The extent to which an organization succeeds in these areas determines its performance. Performance measures are cost oriented or non cost oriented and can also be internal or external.

Shields and Shields (1998) recognize the difficulty in obtaining objective measures of performance organizations. They also point out that when dealing with organizations in different sectors, standardization is not possible and asking managers to assess their own firm's performance relative to others in the same industry or sector is an acceptable option. To minimize the effects of random errors, researchers have suggested the use of multiple items and multiple respondents to assess performance.

2.1.6 Measuring Financial Performance

The financial performance of institutions is usually measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Barley, 2000). The common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial institutions; the institution size, its asset management, and the operational efficiency (Bijker, 2007).

2.2 Theories of Budgeting

The difference between normative and descriptive budget theory may be as simple as the difference between what should work and what works. It has been complicated in our field by the difference in perspectives that sometimes characterize academics and practitioners. Normative theory is usually associated with reformers, and reformers usually come from the policy or academic community. It may be built on limited observations and guided by values.

Descriptive theory is typically built on multiple observations, often through surveys, and guided by observation of practitioners as they go about the job of making budget decisions (Cox and Morgan, 1994). There have been times when normative and descriptive theory converged.

The most tenacious reform of all time was line-item budgeting in an executive-controlled system with clear lines of accountability. Stability was a logical by-product of a control based system, yet the next wave of reforms was targeted to address the imperviousness of incrementalism by imposing rational decision systems. Some scholars, most notably Aaron Wildavsky (1964), advanced the idea that incrementalism closed the normative descriptive gap. But the call for a more rational set of decision rules for making allocation decisions persisted, and the gap between normative and descriptive theory varied between wide and wider.

Forrester and Adams (1997) offered a more expansive way to think about budget theory. Normative theory is a theory of budgeting, while descriptive theory is a theory about budgeting. The former asks which budget process is the best or most theoretically correct, and the latter asks whether the budget process employed actually helped the government achieve its goals and objectives. Comparative, normative and descriptive theories of budgeting are more associated with changes in budget process mandated from outside the organization, reflecting the opinion of experts or higher-level decision-makers about what will serve the organization's interest.

2.3 Budget Participation and Motivation

Probably the most obvious starting point for a consideration of concepts of work motivation commences with Maslow’s (1954) “hierarchy of needs”. However, it is somewhat unfortunate that such a widely promulgated hypothesis regarding factors that motivate people, thus far, appears to lack empirical backing (Wahba and Bridwell, 1996) and appears to be peppered with untested assumptions. Nevertheless, it formed the basis of a revised hierarchy produced by Alderfer (1999) identifying the core needs of existence, relatedness and growth. Core learned and culturally sensitive needs of achievement, power and affiliation were proposed by McClelland (1975) as explaining motivation. However, it is fair to say that such needs, and hence their effect on motivation, are different for different people and, indeed, can vary over situations and time.

Herzberg et al. (1959) moved on from hierarchical needs to examine what they termed "motivators" and "hygiene factors" in the workplace, postulating that where job satisfaction was high there would be correspondingly high motivation. Although one can argue that this work constituted an examination of job satisfaction rather than motivation, Robbins (1998) believes that the recent growth of worker participation in planning and controlling their work is due to Herzberg et al.'s (1959) recommendation that those factors which they find intrinsically rewarding (achievement, recognition, the work itself, responsibility and growth) should be emphasized. Nevertheless, if one follows Herzberg et al.'s thinking to its logical conclusion, no matter how much emphasis is placed upon factors that staff find intrinsically rewarding, such as worker empowerment, supportive management, team work, delegated authority and responsibility, if hygiene factors, such as low pay, are not addressed their full effect will not be felt. The interdependence of intrinsic rewards with extrinsic rewards with consequences for motivation has also been postulated. However, it would appear that there is limited applicability of this cognitive evaluation theory in the world of work and that further research is required.

2.4 Budget Participation and Pressure

Pressure is also increasing at the higher levels of audit manager and partner. Miller (1999) noted that pressure on engagement partners to retain clients may result in audit firms suffering agency losses when these partners engage in self-serving behaviour leading to substandard audits which may ultimately damage the firm's reputation. In common with organizations in many other settings, budget difficulties experienced at the lower levels of senior and staff auditor are usually undiscussable. The formal control system seems to combine with a set of informal and subtle signals to ensure that budget problems are transferred down to be confronted at the individual auditor level.

A further important feature of the audit firm setting relates to the background of senior management. It has been pointed out (Roslender, 2000) that whereas qualified accountants are usually proficient in the technical skills of accounting and related areas, a major deficiency in the budgetary pressure of professional accountants exists in the area of social and behavioural skills. These skills are likely to be particularly relevant in the complex control environment of the audit firm.

Audit seniors are thus placed in a position that is becoming increasingly pressured. In order to preserve their own chances of advancement within the firm, they may feel that they have to demonstrate that they can manage the tasks which are assigned to them to time and within budget. If this cannot be achieved in a functional way, then it is likely that they will continue to report that they are meeting their targets by exploiting various types of dysfunctional behaviour. In so doing, they will be behaving in an analogous manner to other employees and managers placed in similar positions, and regardless of their supposedly different professional status. This study seeks to explore the degree to which these extant pressures manifest themselves in such behaviour.

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The pressure created by the perceived rigid application of excessively tight time budgets has consistently been associated with dysfunctional behaviour. Wentzel (2002) identified premature sign-off as the most serious issue uncovered by the study, and there was clear evidence that budget pressure was the primary factor causing such behaviour. Subsequent studies confirmed that auditors generally perceive budget pressure to be a major cause of dysfunctional behaviour, and that this budget pressure is rapidly increasing.

Time budget pressure has therefore been consistently linked with dysfunctional behaviour by auditors, including those types of behaviour which constitute a direct and serious threat to audit quality. In view of this, surprisingly little research has examined the nature of this relationship. An important study was carried out by Kelley and Margheim (1999), however, in which auditor dysfunctional behaviour was measured at different degrees of budget tightness. The findings showed evidence of an inverted U-shaped relationship for both audit quality reduction behaviour and under-reporting of time. This suggests that, as budget pressure is increased, dysfunctional behaviour will tend to increase, but that as soon as a point is reached where the time budget is seen as unattainable, auditors will give up trying to achieve it, and the frequency of dysfunctional behaviour will tend to fall. Dysfunctional behaviour is therefore expected to be at its lowest for very easy and very difficult time budgets.

These findings suggest important implications for the auditing profession. The conclusion that dysfunctional behaviour tends to increase as budget pressure increases is particularly worrying, since budget pressure has been shown to be rapidly increasing. The finding of lower dysfunctional behaviour at very high levels of budget pressure is more likely due to feelings of disillusionment and indifference than to any moral or ethical objection to such behaviour, and suggests that the quality of work carried out in such circumstances may also be suspect.

2.5 Budget Participation and Performance

Part of that exercising of authority includes the use of performance evaluation. In today’s world of Investors in People awards, performance related pay, and suchlike, the use of performance appraisals is widespread. Through marking performance against a set of measures, it is believed that, especially if this is linked to relevant rewards, greater individual and organizational goal congruence will be achieved and workers will engage in behaviour likely to result in greater efficiency and effectiveness in the meeting of organizational goals. Output, especially in the private sector, has, historically, appeared relatively easy to measure (sales; profit; units produced; budget targets met) but some outputs, especially in the public sector, have appeared to pose more of a challenge to quantify (Pendlebury, 2000). However, with the “new way of thinking about the state including the introduction of market forces via a variety of initiatives coming under the catch-all term of “privatisation” and the devolvement of budgets, this challenge is increasingly being met.

But what of those areas of performance that are not subjected to measurement and evaluation? One can argue that worker effort may be concentrated in those areas that are subject to scrutiny, possibly to the detriment of others. Effort may also include the use of behaviors incompatible with organizational values. Drury et al (1993) has also questioned the lack of evaluation based on longer-term performance factors than against relatively short-term budgetary indicators.

Dysfunctional behaviour associated with performance evaluation against budget targets includes the oft-reported creation of “budgetary slack” (Lowe and Shawe, 1968; Schiff and Lewin, 1968). Essentially, this is where workers endeavor, through the participatory process, to ensure that the budget target is relatively easy to achieve. By so doing, the motivational properties of the budget clearly are reduced. Lyne (1995) has pointed out that the likelihood of slack being manipulated is dependent upon a lack of congruence between the individual’s and the organization’s goals and a lack of open and honest information sharing and communication between worker and manager.

To search for, and identify, management techniques that lead to budget targets being achieved with minimal dysfunctional behaviour has been the quest, therefore, of some academics. Hofstede (1998) advocated the creation by managers of “game spirit” and effective upward communication in order to maximize motivation and acceptance of the targets set. He argued for balance. The manager needs to walk a tightrope in terms of ensuring adequate emphasis is placed upon the demanding, but not unachievable, target and sufficient opportunities for discussion around budgetary matters to increase motivation, whilst ensuring that unhelpful feelings of pressure or negative criticism are not engendered which prove to be de-motivating. The latter may sometimes be expressed in dysfunctional behaviors such as absenteeism, which militate against efficiency and effectiveness.

2.6 Performance Evaluation

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing. According to Cook (1998), feedback is generally positively associated with budget performance. Feedback focuses on the extent to which employees have achieved expected levels of work during a specified time period. Budgets being a standard for performance are also used to evaluate managerial performance (Srinivasan, 2000). Similarly, Douglas (1999) used a case study approach and found that budgeting places a high importance on the budget-to-actual comparison for performance evaluation purposes both at the corporate and the subsidiary levels. Weisenfeld and Tyson (1990), in a sample of 68 US managers from two companies, found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. A total of 90 percent of the respondents indicated that variances were a good way to measure their performance. All of them agreed that variance reports positively influenced them to improve performance and increase their bonuses.

A study by Joye and Blayney (1990) found that budget variances were used by 93 percent of respondents for setting goals and evaluating performance by Australian firms. In a more recent study, Guilding et al. (2000) found that accountants in New Zealand (NZ) and the UK tend to see variances from budget as being important, and performance appraisal was based mainly on budget achievement. In a recent survey of 250 respondents in the US, Bissfield (2002) found that only 14 percent of companies have a fully integrated planning process that combines long term and operational planning, performance measures and reporting. The survey further underscored the fact that financial executives still struggle with the need to synthesize financial and non-financial data and performance measurements in a single system in which they can also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time.

2.7 Participation and Commitment

Organizational commitment is a dimension of a positive employee attitude, which has been linked to performance (Manogran, 1997). It is defined as the extent of employees' feelings and beliefs about the organization which they work for (George and Jones, 1999). The literature describes two types of organizational commitment; affective (or attitudinal) commitment and continuance commitment. Prior work involving organizational commitment has focused on affective commitment (Nouri and Parker, 1998; Quirin et al., 2001). Thus, following the literature, the present study also examines affective commitment. Affective (or attitudinal) commitment is defined as the willingness to execute continuous effort for the success of the organization. It is characterized by a strong belief in, and acceptance of, the organization's goals and values.

Nouri and Parker (1998) proposed that budgetary participation affects job performance through organizational commitment. The authors reasoned that managers, who are allowed to participate in the budgetary process, will have higher organizational (affective) commitment and this in turn, leads to improved job performance. The authors conducted a study on 135 managers and supervisors in large multi-national corporations involved in chemical production in the USA. The authors used path analysis and found that organizational commitment plays an intervening role in the budget participation and performance relationship. The results reveal a positive relationship between budgetary participation and organizational commitment. The path analysis also showed a direct relationship between budgetary participation and performance. This led the authors to conclude that budgetary participation increases organizational commitment, which could lead to positive work outcomes, such as enhanced job performance. On the contrary, a more recent study by Parker and Kyj (2006), examining vertical information sharing as an intervening variable in understanding the performance effects of the relationship between budgetary participation and organizational commitment found that there is no direct relationship between budgetary participation and organizational commitment Both studies, however, were limited to the private sector.

No work has been done on the role of organizational commitment in the budget participation and performance relationship, within public sector organizations. The present study is an attempt to fill the gap in the public sector literature in this area. The studies above have adopted one of two theoretical models; contingency theory and the intervening variable model view. The present study, therefore, builds upon these prior studies by also using the intervening variable model view as the conceptual framework to explain the mediating effects of organizational commitment and perception of innovation on the budget participation and performance relationship. Moreover, Awio and Northcott's (2001) work suggests that the budgetary process is more effective in a decentralized structure, as it motivates managers, thus enhancing their performance.

2.8 Empirical Studies

Most of the local literature available so far has studied budgeting in the private sector and public sector. Obulemire (2006) conducted a survey of budgeting practices in Secondary schools where he found that budget committees and interdepartmental discussion groups were the most used budgeting tools with less emphasis on brainstorming. He further asserts that top management support, clear and realistic goals, influence of external environment on availability of resources and the strategic plan were key factors to consider. In addition, failure to consider motivation of employees and participation by all staff in the budgeting process was a challenge. Possible consequences of not tying budget targets achievements to rewards include lack of a sense of responsibility, perception that budgets are pressure devices and budget padding among the employees (Obulemire, 2006).

A survey conducted by Ambetsa (2004) 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, 2004).

Muleri (2001) in his survey of budgeting practices among the major British non- governmental development organisations in Kenya, asserts that most organisations 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, co-ordinating activities, motivating performance, communicating plans and operations and in evaluation and audits (Muleri, 2001). One early study had tackled problems associated with budgeting in manufacturing firms (Simiyu, 1977). This study investigated the relationship between budgetary participation in the companies listed in the NSE in particular as no previous study has dwelt on them.

2.9 Conclusion

Budgeting is one of the fundamental decision-making processes in organizations. During budget formulation and implementation, officials determine the portion of the organization's resources that the manager of each unit will be authorized to spend. Budgets often establish performance goals for the unit in terms of costs, revenues, and/or production (Little et al., 2002). This is a succinct and accurate summation of the importance of the budgeting function within the majority of organizations. Budgets are used in differing degrees and for different 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. The benefits of budgeting were not minimised despite the source of initial funding (public funds, taxpayer funds, shareholder investments or privately acquired monies). Although organizations institute budgeting formats in different ways, all organizations benefit from its use, and budgeting functions perform an important mechanism in a firm's organizational architecture-corporate and business success depends on it.

The above literature review sheds light on the use of budgets as a planning, monitoring and control tool. However, these studies were mainly confined to advanced countries, and very limited evidence is available on budgetary practices in developing countries. Ambetsa (2004) recommends that further research be done on budgeting in Kenya. The researcher intended to investigate the relationship between budgetary participation and performance of the companies quoted in the NSE and therefore, contribute to filling that gap in knowledge.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. This section was an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question. In this stage, most decisions about how research was executed and how respondents will be approached, as well as when, where and how the research will be completed. Therefore in this section the research identified the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This study used a causal research design. A research design is a non-experimental investigation in which researchers seek to identify cause and effect relationship by forming groups of individuals/objects in whom the independent variable is present or present at several levels and then determining whether the groups differ in the dependent variable (Cooper and Schindler, 2003). In this case, the research problem was participation in budget setting and the actual performance of the quoted companies in their budgeting processes. The research aimed at understanding the variables of budgetary participation in the companies quoted in the NSE.

3.3 Population of Study

The population of interest in this study comprised 55 companies listed at the Nairobi Stock Exchange. Following the suspension of 2 companies (Uchumi Holdings and Hutchings Biemer) the study considered only 53 still operating in the Nairobi Stock Exchange (NSE, 2009). Thus the study conducted a census survey owing to the small number of NSE listed companies.

3.4 Data Collection

Both primary and secondary data was collected. Primary data was collected using a questionnaire with close ended and open ended questions administered to the management staff of the target companies. The questionnaire was divided into two parts. The first part was mainly on the company background which was the name, years in operation, sector and size of the company.

This was to enable the researcher to know the nature of the company, while the second part was on participation in budget setting and commitment in budgeting. It enabled the researcher identify any other aspect of the relationship between budget participation and commitment and firm performance which might have not been mentioned in this study.

The targeted respondents were senior, middle and low management staff in the respective firms, who are involved in budgeting processes. The population under study was the best because it represented several categories in the market and in different sizes and situated in different areas of the country thus more representative. Some are local while others were multinational companies. The difference in size, location, ownership and industry will respond to the research question in their own way. Companies listed in the NSE are public owned and the information are easily disseminated unlike private and government owned companies.

The questionnaires were self administered. The researcher sent them through hand delivery to the respondents and asked them to complete the questionnaires themselves. The researcher gave respondents a period of two weeks and follow up on the respondents to pick up the questionnaires. For the respondents who had not responded, the researcher gave them a further one week and followed up on their response. For those who had not responded within this time frame, the researcher considered them as no response.

Secondary data on financial data was obtained from annual reports and financial statements of the quoted companies which were obtained from the NSE and from individual listed companies.

3.5 Data Reliability and Validity

The researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire. According to Berg and Gall (1989) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study was a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field.

According to Shanghverzy (2003), reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures (ibid).

The researcher selected a pilot group of 5 individuals from the target population of the staff working in the NSE listed companies in Nairobi to test the reliability of the research instrument. The pilot data was not included in the actual study. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents necessary so as to enhance the instrument's validity and reliability. The aim was to correct inconsistencies arising from the instruments, which ensured that they measured what was intended.

3.6 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Data for this study was both quantitative and qualitative hence both descriptive and content analysis techniques will be employed. Content analysis was used to analyse the qualitative data collected while descriptive methods were used to analyse quantitative data.

The descriptive statistical tools helped the researcher to describe the data and determine the extent used. The findings were presented using tables and charts. The Likert scale were used to analyze the mean score and standard deviation, this helped in determining the extent to which budgetary participation affect financial performance of the companies listed in the NSE. Data analysis used SPSS (version 17) and Microsoft excel, percentages, tabulations, means and other central tendencies. Tables were used to summarize responses for further analysis and facilitated comparison. In addition, to quantify the strength of the relationship between the variables, the researcher used a multiple regression analysis. This was used to measure, quantify and operationalize budgetary participation and the financial performance of the companies listed in the NSE. The regression equation was:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon)}:$$

Whereby Y = Financial performance

X_1 = Budgetary pressure

X_2 = Budget motivation

X_3 = Performance evaluation

X_4 = Commitment

ε = error term

The regression equation was analyzed using SPSS (Version 17). This generated quantitative reports through tabulations, percentages, and measure of central tendency.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The chapter presents the data analysis, interpretation and presentation there-to on the study to evaluate the relationship between budgetary participation and performance of companies quoted in the Nairobi Stock Exchange. The data was gathered exclusively from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. To enhance quality of data obtained, Likert type questions were included whereby respondents indicated the extent to which the variables were practiced in a five point Likerts scale. The data has been presented in form of quantitative, qualitative followed by discussions of the data results.

4.1.1 Response Rate

The study targeted 53 respondents in collecting data with regard to the relationship between budgetary participation and performance of companies quoted in the Nairobi Stock Exchange.

Table 4.1: Response Rate

Response	Frequency	Percentage
Responded	45	84.9
Not responded	8	15.1
Total	**53**	**100.0**

Source: Author, 2010

From the findings, 45 out of 53 target respondents filled in and returned the questionnaire contributing to 84.9%. This commendable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

4.2 General Findings

4.2.1 Category/Sector of the Listed Companies

The study sought to establish the firm category/sector to which the respondents' firms belonged to.

Table 4.2: Category/Sector of the Listed Companies

Category	Frequency	Percentage
Agricultural	1	2.2
Commerce and Services	10	22.2
Finance and Investment	14	31.1
Industrial and Allied	15	33.3
Alternative Investment Market Segment	5	11.1
Total	**45**	**100.0**

Source: Author, 2010

From the findings, 33.3% of the respondents indicated that their companies belonged to the industrial and allied sector, 31.1% of the respondents were in the finance and investment category, 22.2% of the listed companies are in commerce and services sector, 11.1% of the listed companies that participated in the study were from the alternative investment market segment, while 2.2% of the companies were in the agricultural sector.

4.2.2 Duration the Company had been Quoted in the NSE

The study sought to investigate the length of time that the companies had been quoted in the NSE.

Table 4.3: Length of Time the Companies have been Quoted in the NSE

Duration	Frequency	Percentage
Less than 2 years	1	2.2
3-5 years	7	15.6
6-10 years	20	44.4
Over 10 years	15	33.3
Total	**45**	**95.6**

Source: Author, 2010

The table above shows that majority of the companies (44.4%) had been quoted in the Nairobi Stock Exchange for a period between 6-10 years, 33.3% of the companies have been quoted for a period of more than 10 years, 15.6% of the companies have been listed for 3-5 years, while 2.2% of the companies have been in the stock exchange for a period less than 2 years.

4.3 Budgetary Participation and Financial Performance

The respondents were required to indicate the extent to which budgetary participation affects the various aspects performance of their companies.

Table 4.4: Extent to which Budgetary Participation Affects the Various Aspects Performance

Measures of profitability	A very great	A Great Extent	Moderate Extent	A Low extent	Very low extent	Mean	Std Dev.
Return on Assets	29.2	43.8	8.3	8.3	10.4	3.5417	1.51529
Return on Investment	18.8	10.4	2.1	35.4	33.3	3.2917	1.61058
Return on Capital Employed	4.2	4.2	6.3	35.4	50	4.2292	1.0365
Budget commitment	6.3	33.3	6.3	33.3	20.8	3.2917	1.3039

Source: Author, 2010

Majority of the respondents indicated that budgetary participation affects return on capital employed to a great extent as shown by a mean score of 4.2292 and return on assets to a great extent as shown by a mean score of 3.5417. They also indicated that budgetary participation affects return on investment and budget commitment to moderate extents as shown by a mean score of 3.2917 in each case.

The study further sought to establish the extent to which the various factors of budgetary participation affect financial performance of the companies quoted in the Nairobi Stock Exchange.

Table 4.5: Extent to which the Factors of Budgetary Participation Affect Financial Performance

Factor	A very great extent	A Great Extent	Moderate Extent	A Low extent	Very low extent	Mean	Std Dev.
Motivation in the budgetary process	2.1	5.2	2.1	70.8	20.8	4.242	.7707
Budget pressures	10.4	29.2	6.3	39.6	14.6	3.1875	1.2990
Performance evaluation	2.1	16.7	14.6	47.9	18.8	3.6458	1.0414
Budget commitment	39.6	27.1	25	8.3	0	3.0208	.99978

Source: Author, 2010

On the extent to which the various factors of budgetary participation affect financial performance of the companies quoted in the Nairobi Stock Exchange, majority of the respondents indicated that budgetary participation affect motivation in the budgetary process to a great extent as shown by a mean score of 4.242 as well as performance evaluation as shown by a mean score of 3.6458. They also indicated that budget pressures in budgetary participation affects financial performance of the companies quoted in the Nairobi Stock Exchange to a moderate extent as shown by a mean score of 3.1875, while budget commitment in budgetary participation affects financial performance of the companies quoted to a moderate extent as shown by a mean score of 3.0208.

4.3.1 Purposes of Budgets in the Institutions

The study posed a statement that budgets have a number of purposes and requested the respondents to rate the level of how important they thought that each of the following purpose is relevant in the financial performance of the companies and required the respondents to indicate their level of agreement.

Table 4.6: Purposes of Budgets in the Institutions

Importance of budgets	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Dev
To forecast the future	29.2	39.6	14.6	14.6	2.1	2.5083	1.09074
As a functional co-ordination tool	37.5	58.3	2.1	2.1	0	3.6875	.62420
As a communication tool to all the levels of department	29.2	43.8	8.3	8.3	10.4	2.2708	1.26726
As a means of performance evaluation	43.8	27.1	6.3	12.5	10.4	4.1875	1.39385
To motivate employees	35.4	33.3	16.7	10.4	4.2	3.1458	1.14835
Budgets are used to fine tune the strategic plan	2.1	4.2	2.1	70.8	20.8	4.2421	.7707
Budgets are used to help co-ordinate the activities of the several parts of the organization	10.4	29.2	6.3	39.6	14.6	3.1875	1.29904
They are used to assign responsibilities to managers	27.1	37.5	6.3	14.6	14.6	3.2083	27.1
To control performance by calculating and investigating	2.1	16.7	10.4	60.4	8.3	3.6250	2.1
Budgets overcome potential bottlenecks before they occur	25	25	12.5	29.2	8.3	2.7083	25
They co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts	27.1	37.5	6.3	14.6	14.6	3.2083	27.1

Source: Author, 2010

Majority of the respondents agreed that budgets were used to fine tune the strategic plan as shown by a mean of 4.2421, they are used as a means of performance evaluation as shown by a mean score of 4.1875, they are used as functional co-ordination tool as shown by a mean score of 3.6875 and that they are used to control performance by calculating and investigating as shown by a mean score of 3.6250. The majority also remained neutral that budgets co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts as shown by a mean score of 3.2083, they are used to assign responsibilities to managers as shown by a mean score of 3.2083, budgets are used to help co-ordinate the activities of the several parts of the organization as shown by a mean score of 3.1875, budgets motivate employees as shown by a mean score of 3.1458, they overcome potential bottlenecks before they occur as shown by a mean score of 2.7083 and they forecast the future as shown by a mean score of 2.5083. The respondents disagreed that budgets are used as communication tools to all the levels of department as shown by a mean score of 2.2708.

4.3.2 Budgeting Process in the Listed Companies

The study also sought to investigate the extent of respondents' agreement with the various statements that relate to budgeting in their companies. A scale of 1 to 5 where 1 is strongly agree and 5 is strongly disagree was provided.

Table 4.7: Agreement with Various Statements that Relate to Budgeting

Statements about budgeting process	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Dev
When processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination	4.2	6.3	2.1	3.3	52.1	3.3125	7.4085
Budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately	35.4	25	4.2	16.7	18.8	2.5833	1.5686
Achieving maximum motivational benefits from budgetary targets is contingent on the use of tight, yet attainable	4.2	4.2	6.3	35.4	50	4.2292	1.0365

Source: Author, 2010

Majority of the respondents indicated agreement that achieving maximum motivational benefits from budgetary targets is contingent on the use of tight, yet attainable as shown by a mean score of 4.2292, while they remained neutral that when processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination as shown by a mean score of 3.3125 and budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately as shown by a mean score of 2.5833.

4.3.3 Effects of Employee Motivation on Budgetary Process

The respondents were required to indicate the extent to which the budgeting process was affected by the following aspects of motivation in their institutions.

Table 4.8: Effects of Employee Motivation on Budgetary Process

Effects of employee motivation on budgeting process	A very great extent	A Great Extent	Moderate Extent	A Low extent	Very low extent	Mean	Std Dev.
Employee commitment	2.1	27.1	16.7	10.4	43.8	3.6667	1.3422
Employee performance	45.8	22.9	12.5	12.5	6.3	2.1042	1.2922
Employee participation	10.4	41.7	10.4	16.7	20.8	2.9583	1.3677

Source: Author, 2010

On the effects of employee motivation on budgetary process, majority of the respondents indicated that employee commitment affects budgeting process in the quoted companies to a great extent as shown by a mean score of 3.6667 as well as employee participation as shown by a mean score of 2.9583, while employee performance affects budgeting process in the quoted companies to a little extent as shown by a mean score of 2.1042.

4.3.4 Effects of Performance Evaluation on Overall Financial Performance

The study sought to establish the extent to which performance evaluation affected the overall financial performance of the companies quoted in the Nairobi Stock Exchange.

Table 4.9: Effects of Performance Evaluation on Overall Financial Performance

Extent of agreement	Frequency	Percent
To a very great extent	2	4.9
To a great extent	13	29.4
To a moderate extent	26	56.9
To a little extent	4	8.8
Total	**45**	**100.0**

Source: Author, 2010

Majority of the respondents (56.9%) indicated that performance evaluation affected the overall financial performance of the companies quoted in the Nairobi Stock Exchange to a moderate extent, 29.4% of the respondents indicated that performance evaluation affected the overall financial performance of the companies quoted in the Nairobi Stock Exchange to a great extent, 8.8% of the respondents indicated that performance evaluation affected the overall financial performance of the companies quoted in the Nairobi Stock Exchange to a little extent while 4.9% of them indicated that performance evaluation affected the overall financial performance of the companies quoted in the Nairobi Stock Exchange to a very great extent.

4.3.5 Budgeting Systems Applied in the Quoted Companies

With reference to the various budgeting systems applied in the quoted companies, the respondents were required to rate the extent of their agreement to the various statements about the performance evaluation and financial performance of their companies.

Table 4.10: Agreement with Statements on Budgeting Systems Applied in the Quoted Companies

Budgetary participation and performance evaluation	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Dev
Sound cost management practices focuses on process management	27.1	37.5	7.5	14.6	14.6	3.3083	27.1
Budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes	2.1	16.7	10.4	60.4	8.3	3.6250	2.1
Budgets control the activities but not the costs	25	25	12.5	29.2	8.3	2.7083	25
Budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit	27.1	37.5	6.3	14.6	14.6	3.2083	27.1
Different cost allocation methods result in different estimates of a product's cost	2.1	16.7	10.4	60.4	8.3	3.6250	1.00

Source: Author, 2010

Majority of the respondents indicated agreement that budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes as shown by a mean score of 3.6250 and that different cost allocation methods result in different estimates of a product's cost as shown by a mean score of 3.6250. They were neutral that sound cost management practices focuses on process management as shown by a mean score of 3.3083, budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit as shown by a mean score of 3.2083 and budgets control the activities but not the costs as shown by a mean score of 2.7083.

4.3.6 Factors Contributing to Challenges of Budget Control

The respondents were required to indicate the extent to which various factors contribute to challenges of budget control within the quoted companies.

Table 4.11: Factors Contributing to Challenges of Budget Control

Cause of budgeting challenges	A very great extent	A Great Extent	Moderate Extent	A Low extent	Very low extent	Mean	Std Dev.
Budget constraints	37.5	58.3	2.1	2.1	0	3.6875	.6242
Commitment	29.2	43.8	8.3	8.3	10.4	2.2708	1.267
Change of office holders	43.8	27.1	6.3	12.5	10.4	4.1875	1.393
Budget funding	35.4	33.3	16.7	10.4	4.2	3.1458	1.148

Source: Author, 2010

The respondents indicated that change of office holders contributes to challenges of budget control within the quoted companies to a great extent as shown by a mean score of 4.1875 as well as budget constraints as shown by a mean score of 3.6875. They also indicated that budget funding contributes to challenges of budget control within the quoted companies to a moderate extent as shown by a mean score of 3.1458 while commitment contributes to challenges of budget control within the quoted companies to a little extent as shown by a mean score of 2.2708.

4.3.7 Effects of Commitment on Financial Performance

The study required the respondents to indicate the extent to which commitment affect financial performance of the companies.

Table 4.12: Extent to which Commitment Affects Financial Performance

Extent	Frequency	Percent
To a very great extent	1	1.0
To a great extent	27	60.8
To a moderate extent	8	17.6
To a little extent	9	20.6
Total	**45**	**100.0**

Source: Author, 2010

From the findings, 60.8% of the respondents indicated that commitment affects financial performance of the companies to a great extent, 20.6% of the respondents indicated that commitment affects financial performance of the companies to a little extent, 17.6% of the respondents indicated that commitment affects financial performance of the companies to a moderate extent, while 1.0% of the respondents indicated that commitment affects financial performance of the companies to a very great extent.

4.3.8 Pressures of Budgetary Participation Experienced in the Budgeting Process

The study further sought to investigate the main pressures of budgetary participation experienced in the budgeting process that affect financial performance of the quoted companies.

Table 4.13: Pressures of Budgetary Participation Experienced in the Budgeting Process

Budgeting challenges	A very great	A Great Extent	Moderate Extent	A Low extent	Very low extent	Mean	Std Dev.
Poor or lack of modern performance evaluation	17.4	16.2	27.8	19.0	19.0	2.94	1.516
Commitment among the budgeted items for scarce funds	13.6	15.0	30.9	22.9	17.6	2.47	1.486
Budget inflexibility	9.5	9.3	34.5	21.2	25.5	3.24	1.517
Political interference	32.6	16.7	25.5	15.0	10.2	2.38	1.461

Source: Author, 2010

Majority of the respondents indicated that budget inflexibility pressures affects budgeting process that affect financial performance of the quoted companies to a moderate extent as shown by as shown by a mean score of 3.24, poor or lack of modern performance evaluation affects budgeting process that affect financial performance of the quoted companies to a moderate extent as shown by a moderate extent as shown by a mean score of 2.94, commitment among the budgeted items for scarce funds affects budgeting process that affect financial performance of the quoted companies to a little extent as shown by a moderate extent as shown by a mean score of 2.47, while political interference affects budgeting process that affect financial performance of the quoted companies to a little extent as shown by a moderate extent as shown by a mean score of 2.38.

4.4 Regression Analysis

4.4.1 Correlation and the Coefficient of Determination

Table 4.14: Correlation and the coefficient of determination

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
Budgetary pressure	0.428	0.183	0.149	0.0125
Commitment	0.430	0.185	0.151	0.0025
Budget motivation	0.326	0.106	0.069	0.0045
Performance evaluation	0.475	0.226	0.194	0.0021

Source: Author, 2010

The table above presents the correlation (R) and the coefficient of determination between financial performance (dependent variable) and the independent variables (budgetary pressure, commitment, budget motivation and performance evaluation). From the findings, the study found that there was a positive relationship between the dependent variable and the independent variables (budgetary pressure, commitment, performance evaluation and budget motivation).

Of all the four independent variables, performance evaluation had the highest relationship with the financial performance of 0.475 followed by commitment with 0.430. Budgetary pressure came third with a correlation value of 0.428 while budget motivation had the weakest relationship with the financial performance of 0.326.

As aforementioned, of all four predictors to financial performance, performance evaluation had the highest coefficient of determination (strength of relationship between performance evaluation and the financial performance) of 0.226 while commitment, budgetary pressure and budget motivation had the values of 0.185, 0.183 and 0.106 respectively.

4.4.2 Coefficient of Determination (R2)

Table 4.15: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.7481(a)	0.563	0.361	0.752

Source: Author, 2010

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance) that is explained by all the four independent variables (budgetary pressure , commitment, budget motivation and performance evaluation).

The correlation and the coefficient of determination of the dependent variables when all independent variables are combined can also be measured and tested as in the table below. From the findings 56.3% of financial performance is attributed to combination of the four independent factors (performance evaluation, commitment, budgetary pressure and budget motivation) investigated in this survey. A further 43.7% of financial performance is attributed to other factors not investigated in this survey.

4.4.3 Multiple Regression Analysis

Table 4.16: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.853	1.068		0.799	0.033
	Budgetary pressure	0.156	0.203	0.135	0.619	0.043
	Commitment	0.169	0.193	-0.08	-0.358	0.024
	Budget motivation	0.128	0.250	-0.242	-0.891	0.083
	Performance evaluation	0.205	0.16	0.346	1.284	0.013

Source: Author, 2010

Dependent Variable: financial performance

The researcher conducted a multiple regression analysis so as to determine the relationship between the financial performance and the attributes investigated in this survey. The regression equation ($Y = \beta0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \alpha$) was:

$Y = 0.853 + 0.156X_1 + 0.128X_2 + 0.205X_3 + 0.169\beta_4X_4 + 0$

Whereby Y = financial performance

X_1 = Budgetary pressure

X_2 = budget motivation

X_3 = Performance evaluation

X_4 = Commitment

According to the regression equation established, taking all factors (budgetary pressure, commitment, budget motivation and performance evaluation) constant at zero, the financial performance as a result of these independent factors will be 0.853. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in performance evaluation will lead to a 0.205 increase in financial performance. A unit increase in commitment will lead to a 0.169 increase in financial performance; a unit increase in budgetary pressure will lead to a 0.156 increase in financial performance while a unit increase in budget motivation will lead to a 0.128 increase in financial performance. This therefore implies that all the four variables have a positive relationship with performance evaluation contributing more to the financial performance, while budget motivation contributes the least to the financial performance.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to investigate the relationship between budgetary participation and performance of companies quoted in the Nairobi Stock Exchange.

5.2 Summary of the Findings

The study found that budgetary participation affects return on capital employed to a great extent, return on assets to a great extent, while budgetary participation affects return on investment and budget commitment to moderate extents. Majority of the respondents indicated that budgetary participation and performance evaluation affect motivation in the budgetary process to a great extent, budget pressures in budgetary participation affects financial performance of the companies quoted in the Nairobi Stock Exchange to a moderate extent and budget commitment in budgetary participation affects financial performance of the companies quoted to a moderate extent. The study found that budgets were used to fine tune the strategic plan, they are used as a means of performance evaluation, they are used as functional co-ordination tool, they are used to control performance by calculating and investigating, budgets co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts, they are used to assign responsibilities to managers, budgets are used to help co-ordinate the activities of the several parts of the organization, budgets motivate employees, and they forecast the future. The respondents disagreed that budgets are used as communication tools to all the levels of department.

The study also found that achieving maximum motivational benefits from budgetary targets is contingent on the use of tight, that when processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination and budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. Majority of the respondents indicated that employee commitment affects budgeting process and employee participation in the quoted companies to a great extent, while employee performance affects budgeting process in the quoted companies to a little extent.

The respondents also indicated that that performance evaluation affected the overall financial performance of the companies quoted in the Nairobi Stock Exchange to a moderate extent, budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes, different cost allocation methods result in different estimates of a product's cost, sound cost management practices focuses on process management, budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit and budgets control the activities but not the costs.

On the various factors contribute to challenges of budget control within the quoted companies, the study found that change of office holders contributes to challenges of budget control within the quoted companies to a great extent, budget funding contributes to challenges of budget control within the quoted companies to a moderate extent, while commitment contributes to challenges of budget control within the quoted companies to a little extent.

Commitment was found to affect financial performance of the companies to a great extent. Budget inflexibility pressures affects budgeting process that affect financial performance of the quoted companies to a moderate extent, poor or lack of modern performance evaluation affects budgeting process that affect financial performance of the quoted companies to a moderate extent, commitment among the budgeted items for scarce funds affects budgeting process that affect financial performance of the quoted companies to a little extent, while political interference affects budgeting process that affect financial performance of the quoted companies to a little extent as shown by a moderate extent.

5.3 Conclusions

The study concludes that budgetary participation affects return on capital employed to a great extent, return on assets to a great extent, while budgetary participation affects return on investment and budget commitment to moderate extents. Budgetary participation and performance evaluation affect motivation in the budgetary process to a great extent, budget pressures in budgetary participation affects financial performance of the companies quoted in the Nairobi Stock Exchange to a moderate extent and budget commitment in budgetary participation affects financial performance of the companies quoted to a moderate extent. Budgets are used to fine tune the strategic plan, they are used as a means of performance evaluation, they are used as functional co-ordination tool, they are used to control performance by calculating and investigating, budgets co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts, they are used to assign responsibilities to managers, budgets are used to help co-ordinate the activities of the several parts of the organization, budgets motivate employees, and they forecast the future.

The study also concludes that achieving maximum motivational benefits from budgetary targets is contingent on the use of tight, that when processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination and budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. Majority of the respondents indicated that employee performance affects budgeting process in the quoted companies to a little extent.

It was also clear that performance evaluation affected the overall financial performance of the companies quoted in the Nairobi Stock Exchange to a moderate extent, budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes, different cost allocation methods result in different estimates of a product's cost, sound cost management practices focuses on process management, budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit and budgets control the activities but not the costs. It can also be deduced that change of office holders contributes to challenges of budget control within the quoted companies to a great extent, while budget funding contributes to challenges of budget control within the quoted companies to a moderate extent.

The study further concludes that commitment affects financial performance of the companies to a great extent. Budget inflexibility pressures affects budgeting process that affect financial performance of the quoted companies to a moderate extent, poor or lack of modern performance evaluation affects budgeting process that affect financial performance of the quoted companies to a moderate extent, commitment among the budgeted items for scarce funds affects budgeting process that affect financial performance of the quoted companies to a little extent, while political interference affects budgeting process that affect financial performance of the quoted companies to a little extent.

5.4 Recommendations

From the findings and conclusions, budgetary participation and performance evaluation affect motivation in the budgetary process to a great extent, budget pressures in budgetary participation affects financial performance of the companies quoted in the Nairobi Stock Exchange to a moderate extent and budget commitment in budgetary participation affects financial performance of the companies quoted to a moderate extent. The study therefore recommends that, for organizations to realize full benefits of budget performance evaluation there is need to ensure that there is adequate strategic plan, functional co-ordination tool, control of performance and integrated plans and objectives to enhance performance evaluation. This would generally enable co-ordination of activities in the organizations and hence participation in financial activities.

The study also found that motivation affects budgetary participation in the organizations to a moderate extent which in turn affects their financial performance. The study thus recommends that the organizations need to establish contingent budgetary targets, processes and accounting information/communication to enhance employee motivation in the budgetary process. This will mainly affect employee performance and hence financial performance.

It was established that performance evaluation affected the overall financial performance of the companies quoted in the Nairobi Stock Exchange to a moderate extent through providing organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes, cost allocation methods resulting in different estimates of a product's cost, providing sound cost management practices that focuses on process management, lead to a deeper knowledge of the cost and the profitability of products. This study therefore recommends that the organizations need to enhance strong performance evaluation strategies as well as by establishing proper guidelines in the changing of offices, funding of budgets, budgeting processes and management. These would enhance budgetary participation and hence financial performance of the organizations.

The study further recommends that, since commitment affects financial performance of the companies to a great extent, the organizations need to establish strong strategies with regard to budget inflexibility, pressures, modern performance evaluation, commitment among the budgeted items for scarce funds and political interference.

5.5 Limitations of the Study

The researcher encountered various limitations that tended to hinder access to information sought by the study. These included:

The researcher encountered problems of time as the research was being undertaken in a short period which limited time for doing a wider research. However the researcher countered the limitation by carrying out the research across all the companies listed in the Nairobi Stock Exchange in Kenya which enabled generalization of the study findings.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about their companies. The researcher handled the problem by carrying with her an introduction letter from the University and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes.

Lack of sufficient funds limited the researcher from accessing all the companies in Kenya to collect data for study. The researcher however limited herself to the companies listed in the Nairobi Stock Exchange in Kenya due to inadequacy of funds.

5.6 Areas of Further Study

The study has explored the relationship between budgetary participation and financial performance of companies quoted in the Nairobi Stock Exchange and established that budgetary pressures, commitment, budget motivation and performance evaluation affect financial performance of the listed companies. The study found that the factors studied in this research contribute only 56.3% of financial performance of companies quoted in the Nairobi Stock Exchange. The study therefore, recommends that another comprehensive study should be done to explore the other factors which contribute to 43.7% of financial performance of companies quoted in the Nairobi Stock Exchange.

The study also recommends that another study should be done to investigate the relationship between budgetary participation and financial performance in the public and private sectors to ascertain the relationship between the variables and the financial performance.

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APPENDICES

Appendix I: Letter of Introduction to Respondents

SEPTEMBER, 2010

THE HUMAN RESOURCE MANAGER,

………………..……Ltd,

P.O Box…………….

Nairobi.

Dear Sir,

RE: REQUEST TO COLLECT DATA FOR MBA RESEARCH PROJECT

I am a student at the University of Nairobi pursuing a Masters of Business Administration program.

Pursuant to the pre-requisite course work, I would like to conduct a research project on **THE RELATIONSHIP BETWEEN BUDGETARY PARTIPATION AND FINANCIAL PERFORMANCE OF COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE.** The focus of my research will be the companies listed in the Nairobi Stock Exchange in Kenya and this will involve use of questionnaires administered to members of the management team.

I kindly seek your authority to conduct the research in this company through questionnaires and use of relevant documents. I have enclosed an introductory letter from the University. Your assistance is highly valued. Thank you in advance.

Yours faithfully,

Appendix II: Questionnaire

Kindly answer the following questions by filling the spaces provided.

SECTION A: GENERAL INFORMATION

1. Name of the Company

....

2. Firm Category/Sector (Please tick the Nairobi Stock Exchange sector to which this company belongs to).

   Agricultural [ ]

   Commerce and Services [ ]

   Finance and Investment [ ]

   Industrial and Allied [ ]

   Alternative Investment Market Segment [ ]

3. How long has this company been quoted in the NSE? (Tick as applicable)

   Less than 2 years [ ] 6-10 years [ ]

   3-5 years [ ] Over 10 years [ ]

SECTION B: BUDGETARY PARTICIPATION AND FINANCIAL PERFORMANCE

1. To what extent does budgetary participation affect the following aspects performance of this company? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent.

Measures of profitability	**1**	**2**	**3**	**4**	**5**
Return on Assets					
Return on Investment					
Return on Capital Employed					
Budget commitment					
Others (Specify)					

2. Rate the extent to which the following factors of budgetary participation affect financial performance of this company. Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent.

Factor	**1**	**2**	**3**	**4**	**5**
Motivation in the budgetary process					
Budget pressures					
Performance evaluation					
Budget commitment					
Others (Specify)					

3. Budgets have a number of purposes; rate the level of how important you think that each of the following purpose is relevant in the financial performance of the company. Use a scale of 1 to 5 where 1 is strongly agree and 5 is strongly disagree.

Importance of budgets	**1**	**2**	**3**	**4**	**5**
To forecast the future					
As a functional co-ordination tool					
As a communication tool to all the levels of department					
As a means of performance evaluation					
To motivate employees					
Budgets are used to fine tune the strategic plan					
Budgets are used to help co-ordinate the activities of the several parts of the organization					
They are used to assign responsibilities to managers					
To control performance by calculating and investigating					
Budgets overcome potential bottlenecks before they occur					
They co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts					

4. To what extent do you agree with the following statements that relate to budgeting in this company? Use a scale of 1 to 5 where 1 is strongly agree and 5 is strongly disagree.

Statements about budgeting process	**1**	**2**	**3**	**4**	**5**
When processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination					
Budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately					
Achieving maximum motivational benefits from budgetary targets is contingent on the use of tight, yet attainable					

5. To what extent is the budgeting process is affected by the following aspects of motivation in this institution? (Use a scale of 1 to 5 where 5 is to a very great extent and 1 is to no extent)

Effects of employee motivation on budgeting process	**1**	**2**	**3**	**4**	**5**
Employee commitment					
Employee performance					
Employee participation					
Other (specify…………………………………………………..)					

1. To what extent does performance evaluation affect the overall financial performance of the company?

   To a very great extent [ ]

   To a great extent [ ]

   To a moderate extent [ ]

   To a little extent [ ]

   To no extent [ ]

2. With reference to the various budgeting systems applied in your company, rate the extent of your agreement to the following statements about the performance evaluation and financial performance of the company. Use a scale of 1 to 5 where 1 is strongly agree and 5 is strongly disagree.

Budgetary participation and performance evaluation	**1**	**2**	**3**	**4**	**5**
Sound cost management practices focuses on process management					
Budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes					
Budgets control the activities but not the costs					
Budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit					

Different cost allocation methods result in different estimates of a product's cost					
Others (Specify)					

3. To what extent do the following factors contribute to challenges of budget control within the Company? (Use a scale of 1 to 5 where 5 is to a very great extent and 1 is to no extent)

Cause of budgeting challenges	**1**	**2**	**3**	**4**	**5**
Budget constraints					
Commitment					
Change of office holders					
Budget funding					
Other (specify…………………………………………..)					

1. To what extent does commitment affect financial performance of this company?

   To a very extent [ ]

   To a great extent [ ]

   To a moderate extent [ ]

   To a little extent [ ]

   To no extent [ ]

2. Which are the main pressures of budgetary participation experienced in the budgeting process that affect financial participation of the company? Rate the extent of the budget pressure using a scale of 1 to 5 where 1 is to a very great extent and 5 is to extent.

Budgeting challenges	**1**	**2**	**3**	**4**	**5**
Poor or lack of modern performance evaluation					
Commitment among the budgeted items for scarce funds					
Budget inflexibility					
Political interference					

Other (specify……………………………………………………..)					

FINANCIAL PERFORMANCE DATA

PERFORMANCE MEASURE	**YEAR 2009**	**YEAR 2008**	**YEAR 2007**	**YEAR 2006**	**YEAR 2005**
TURNOVER OR DISBURSEMENT					
SURPLUS OR NET PROFIT					
MARKET SHARE PRICE					
PORTFOLIO AT RISK RATIO					

THANK YOU!!

Appendix III: List of Companies Listed in the Nairobi Stock Exchange

Agricultural

1. Kakuzi Limited
2. Rea Vipingo Limited
3. Sasini Tea & Coffee Limited

Commercial & Services

4. Access Kenya
5. Car & General Kenya Limited
6. CMC Holdings
7. Hutchings Biemer Limited
8. Kenya Airways
9. Marshalls EA
10. Nation Media Group
11. Safaricom limited
12. Scangroup (K)
13. Standard Group
14. TPS Serena
15. Uchumi Supermarkets Ltd (suspended)

Industrial & Allied

16. Athi River Mining
17. Bamburi Cement
18. BOC Kenya Limited
19. British American Tobacco Kenya
20. Carbacid Investments
21. Crown-Berger (K)
22. E.A Cables
23. E.A. Portland Cement
24. East African Breweries

25. Eveready East Africa Ltd
26. Kengen
27. Kenya Oil
28. Kenya Power & Lighting
29. Mumias Sugar Company
30. Sameer Group
31. Total Kenya
32. Unga Group

Finance & Investment

33. Barclays Bank of Kenya
34. Centum Investment
35. CFC Bank
36. Cooperative Bank of Kenya
37. Diamond Trust Bank of Kenya
38. Equity Bank
39. Housing Finance
40. Jubilee Insurance
41. Kenya Commercial Bank
42. Kenya Re
43. National Bank of Kenya
44. National Industrial Credit Bank
45. Olympia Capital Holdings
46. Pan Africa Insurance Holdings
47. Standard Chartered Bank

Alternative Investment Market

48. A Baumann and Company
49. City Trust
50. Eaagads

51. Express (K)
52. Kenya Orchards
53. Limuru Tea
54. Kapchorua Tea Company
55. Williamson Tea Kenya