# A SURVEY OF THE BUDGETING PRACTICES BY COMMERCIAL AIRLINES OPERATING AT WILSON AIRPORT, NAIROBI.

BY

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# DECLARATION

This project is my original work and has not been submitted for a degree in any other University

Signed........................................................................ Date 3 September 2004
Wycliffe O. Ambetsa

This project has been submitted for examination with my approval as the University Supervisor

Signed........................................................................ Date 8/9/2004
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# DEDICATION

To my entire family for the encouragement to continue with this course. My mother and father, whose wise guidance and good upbringing inspired me a lot.

To all those who contributed and supported this project in one-way or another.

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## ABSTRACT

The airline industry is a major player in the Kenyan economy. The industry provides transport, which is a major factor for the country's economic development. It contributes 10% to GDP of the Kenyan economy (Kenya Economic Survey 2003). To be able to operate profitably, airlines need to engage in budgeting and budgetary control practices. In this regard effective budgeting practices are essential for the success of the airlines operations. (Horngren, et al (1997) )

The three objectives of the study were, to determine budgeting practices among the airlines operating at Wilson airport, Nairobi, to determine the factors that the airlines operating at Wilson Airport consider when undertaking a budgetary process and to establish the perceived benefits of budgeting by the airlines. To satisfy the objectives of the study, a research survey was designed and data was collected, using a structured questionnaire, administered by a drop and pick method. A database was created using SPSS package and the conclusions were drawn using descriptive statistics, including frequency tables, percentages, means and standard deviations.

The study established that a majority of the airlines have a corporate vision, mission, goals and objectives to guide them in the pursuit of their strategic intent. The study further established that 95.5% of the airlines prepare budgets and 68.2% of airlines use budgets to plan ahead and co-ordinate, measure and evaluate their performance. They mainly prepare annual operating budgets, mostly using priority incremental budgeting method and that they consider past data concerning income and expenditure, market study results and their flight schedules when preparing their budgets.

These findings are in agreement with the assertions of Horngren, et al (1997), that budgets are one of the most widely used tools for annual formal planning and co-ordinating the various activities of a business. The budgets are prepared after considering past data concerning income and expenditure and results of market analysis.

The budgets also involve taking the actual performance and comparing it with the targets set out in the budgets. This includes, analyzing, by gauging the differences between the actual results and the budgeted figures and taking appropriate action in order to improve actual performance in the future and/or to revise the planned figures if this is deemed necessary.

The study also indicates that the most perceived benefits of budgeting practices are proper planning for the future, giving direction in the company, making greater profits and improving cash flow. This finding is in agreement with Noll, et al (1998), who asserts that budgeting is a feed forward process, which makes an evaluation of the variables that are likely to affect future operations of the enterprise. It predicts the future with reasonable precision and removes uncertainty to a greater extent.

Further, the study established through the analysis of research data, that budgeting affects the profitability of the airlines and consequently their financial performance. This finding is in agreement with Welsch (1976), who asserts that budgeting is the only comprehensive approach to managing an organization in terms of planning, implementation and evaluation of plans as a means of improving financial performance of the company.

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# CHAPTER 1

# INTRODUCTION

## 1.1 Background

### 1.1.1 Transport Industry

Transport is the key to productivity and economic development of any nation. Poor transport does not only cause congestion, delays and waste of time to individuals, but it also burdens businesses and the entire economy with inefficiencies and higher operating costs, leading to ineffectiveness in the economy.

Martin (2001) asserts that the bottom line is that, transportation is key to generating and enabling economic development, in determining the patterns of that growth, and in determining the competitiveness of businesses in the world economy. Transport is, thus, key to both economic and business success and quality of life of the people.

The vital role air transport industry plays in this regard is that it is the primary transport mode over long distance within and between nations. Thus, air transport has become a crucial facilitator of economic activity worldwide. "*Liberalization, technological changes, and falling trade barriers are some of the trends that have ensured that we increasingly live in a global society*" (Gail 2001).

By facilitating the movement of people and goods, air transport acts as a catalyst in this process of globalization and hence contributes greatly, to the sustainable growth of the world economy and, in particular, the third world countries, like Kenya.

Access to air transport therefore is critical to the economic progress and well being of entire regions, as it provides speedy and efficient access to today's market places (Martin 2001). The airlines operating in Kenya and particularly from Wilson Airport, Nairobi, greatly contribute to the economic development of Kenya through the transportation of people and goods from one part of the country to the other, thus promoting commerce and business generally.

### 1.1.2 Air carriers of third world countries

Most of the third world countries' carriers have been national airlines, with both domestic and international operations. There has been a trend, in the last ten years or so, to private these airlines. For example, Kenya Airways, the national carrier of Kenya, was privatized in 1995 and Tanzania airways is currently looking for a strategic partner, Uganda Airways collapsed in 1999.

For many of the third world countries air carriers, the goal of economic development is an important component of the airline's reasons for being. However, from experience and anecdotal data most of these national carriers are seldom profitable, for many reasons that include: First, they are mismanaged. Secondly, they are unable to take advantage of the economies of scale that the larger and major USA and European carriers can achieve.

Thirdly, they do not vigorously and effectively apply modern business management systems, such as budgeting in both their short term and long term planning strategy (Abayomi 2000). Most of the third world countries' airlines also do not pursue market segmentation marketing approach and carry out analysis of the business environmental factors both internal and external that affect them in order to formulate correct business strategies. It is as a result of this that they need to establish the kind of budgeting system that is in important for their survival (Abayomi 2000).

The Chief Executive Officer of Nigerian Airways, Abayomi Jones, has succinctly described the inefficiencies that are typical and representative of the third world airlines, particularly the African airlines, both government owned and private airlines, when discussing the management situation he found at the Nigerian airlines when he took over the management of Nigerian Airways, in June 2000. Abayomi asserts that before his management came on Board Nigeria Airways was experiencing decadence and utter decline in its operations. Staff morale was very low as a result of poor management of human resources. Highly trained and qualified pilots had been rendered redundant for months. Compensation packages were inadequate and a pervasive fear of privatization was in the air. Employees believed that privatization would lead to large-scale staff rationalization and downsizing.

The airline offered a lousy product with a very unreliable flight schedule, which was not operated as published. It had a manual flight reservations system – in the 21st century – and outdated operations and handling manuals. The airline's buildings were dilapidated and staff was made to work in a poor environment, which affected their productivity. They had inadequate working tools and most functions were performed manually. The staff salaries were delayed as a result of the airline's heavy financial indebtedness (Abayomi 2000).

Budgeting systems were non-existent. There was poor spare part support for the aircraft flying, coupled with poor management of the available spares. Inventory control were still manual, which left room for corrupt practices. This resulted in a situation where an aircraft could hardly fly for five days before being grounded. This aircraft – on-the ground (AOG) syndrome meant panic sourcing of rotable spares at very high cost, eventually making the entire airline operations unprofitable. (Abayomi 2000)

The foregoing phenomenon has become more severe in the last several years and continues today, as the airline industry undergoes consolidation, both through mergers, and more important, through the formation of strategic global alliances, that are offering near unhindered travel, and a great deal of marketing integration and cost management synergies. Even in the face of these trends of globalization, alliances and cartels, it is possible for third world air carriers to be profitable and prosper through creative and proactive leadership and management. For competitiveness and profitable operations and proactive management practices, airlines had to take some of the following actions:

i. Expansion of the ethnic markets, which involve a concentration of potential passengers, in certain regions of the world, that travel to and from one region to the other, to visit friends and relatives. The carrier must understand the characteristics and needs of these markets and efficiently cater for them. Air India, for example, has successfully done this in its operations to East and Central African countries. There is a large number of residents of Indian origin, that travel often between India and the East and Central African countries. The British Airways has achieved the same in its flights to many of the African English speaking countries where there are a large number of residents of British origin.

ii. Attracting non-ethnic passengers by understanding and catering for their needs through creative, proactive and positive product differentiation. In this regard, the airlines need to focus on safety, effective cost management, quality of service and on time reliability.

iii. Achieving economies of scale through regional capture to reduce cost per unit. In addition to achieving the economies of scale, the carriers should ensure effective cost management through the application of cost management techniques like efficient supply chain management and proper budgeting practices.

iv. Negotiating and/or exercise favourable traffic and route rights, through their governments, in order to improve passenger numbers and revenue earning base.

v. Protecting market position through alliances, like the one between Kenya Airways and KLM. Kenya Airways entered into an alliance with KLM in 1997, in which they share codes, passenger handling facilities, joint bookings, insurance contracts, office accommodation and marketing activities. The alliance has improved Kenya Airways overall performance in terms of network efficiency, passenger capture, cost management, efficient and effective hub management and eventual profitability (Kenya Airways annual report 2000).

### 1.1.3 Air transport scene in Kenya

As it is for all developing countries, air transport is essential to the economic development and social progress of Kenya. According to the Kenya Economic Survey of 2003, the airline industry contributes over 10% to GDP. The alternative modes to air transportation in Kenya have deteriorated over the years making air transport an indispensable tool for fostering economic development of the country. The air transport is a major foreign exchange earner, needed for accelerated economic growth through the transportation of tourists to the country, within the country and from the country and horticulture export to major markets in Europe.

Kenya has six commercial airports, in which air transport operations are based, namely, Jomo Kenyatta International Airport (JKIA), Nairobi; Moi International Airport (MIA), Mombasa; Eldoret International Airport (EIA), Kisumu Airport, Wilson Airport and Malindi Airport. The largest of these airports, in terms of throughput, is JKIA, which handles over 2 million passengers a year. MIA handles about 1 million passengers and Wilson Airport handle 0.5 million passengers a year. Kisumu and Malindi airports handle less than 0.5 million passengers a year. EIA is a relatively new airport, built in 1997. It has not yet developed a major traffic profile (Kenya Economic Survey 2001).

Wilson Airport, which is the focus of this study, handles domestic and regional traffic mainly to major tourist destinations scattered throughout Kenya. It is therefore, a major domestic and regional hub and link to the country's main air transportation system. The airport makes immense contribution to the development of the Kenyan economy.

There are 174 airlines that operate at Wilson Airport, as at March 2003, out of which 36 percent of the airlines undertook commercial operations. Commercial airlines are those that operate for a profit. These are the airlines on which the study will be based. The remaining 64 percent of the airlines are either individual's airlines for personal use and/or corporate jets for executive use that have low research value and therefore will not be included in the study.

## 1.2 Statement of the problem

Companies that do not use budgeting techniques, in their business planning and management, perform poorly, financially. Copeland (2000) asserts that when executives want to boost profitability, their first target is often head count, but a better way to find and create value is to bring increased discipline to the budgeting and budgetary control process to company operations.

Poor financial performance, in business, is attributed to poor business planning, unrealistic and conflicting goals and targets, absence of monitoring and evaluation of operational activities. However, through effective budgeting practices, these activities can be efficiently and effectively managed (Copeland 2000). It is important that managers and employees of organizations appreciate the necessity of effective budgeting practices in the implementation of their strategic intentions.

The airline industry is critical in the development of Kenyan economy since it generates much needed foreign exchange and transport critical supplies to and from Kenya. It should, therefore, be efficiently and effectively managed. Hence the application of effective management systems, such as budgets, in their operations is essential.

The Kenyan airline industry currently faces serious operational problems arising from stiffer competition and terrorist threats. The industry therefore operates in very uncertain environment. It is anticipated that an effective budgeting system is required to take care of the turbulent environment.

Due to the competitive and turbulent environment there have been quite a number of airline failures in Kenya. For example Eagle Aviation went under receivership in 2003 and its local market taken over by East African Air Charters. Air Kenya had to sell 70% of its shares to a foreign company when it was experiencing liquidity problems. In 2002 British Airways took over Regional Air in order to benefit from the British Airways technology and management. All these strategies were meant to enable the local airlines to survive.

The Kenyan airline failures have also been associated with shrinking traffic and ever increasing operating cost. The airlines therefore need more effective management systems such as good budgeting practices to improve their performance.

There is not much known about the Kenyan budgeting practices, as this area has not attracted much research. Few studies, however, have been done on capital budgeting and general use of budgets for planning. Simiyu (1979), focuses on the participatory budgeting in Kenyan manufacturing companies and Aosa (1992), discusses the use of the budget in implementing strategy in manufacturing companies in Kenya. The two studies did not address the budgeting process in the aviation industry. Since Simiyu's (1979) study, many changes in the theory and practice of budgeting worldwide have taken place. Aosa (1992) was more concerned with broader strategic plan issues rather than the budgeting practices in Kenya specifically and the aviation industry in particular. This study therefore surveyed the budgeting practices and the perceived benefits by commercial airlines operating at Wilson Airport, Nairobi.

## 1.3 Objectives of the study

The objectives of this study were to determine:

(i) The budgeting practices used by commercial airlines operating at Wilson Airport, Nairobi.

(ii) The factors that the airlines operating at Wilson Airport consider when undertaking a budgetary process.

(iii) The perceived benefits of budgeting to commercial airlines operating at Wilson Airport, Nairobi.

## 1.4 Importance of the study

This study, on budgeting practices is important to commercial airlines' management in that it aims at providing empirical information on applicable budgeting practices by the airlines operating at Wilson Airport Nairobi. The findings of the study provide empirical data on the airlines operating at Wilson Airport Nairobi. The empirical data enhance the management ability to communicate the company's plans and standards of performance expected from employees through the knowledge gained from the empirical data.

The findings of the study further provide information that will increase top management's ability to co-ordinate and control each department of the organisation to ensure efficiency through effective budgeting and budgetary control. Through the study too and by becoming aware of the benefits of budgeting practices for their organizations, the management would endeavour to implement budgeting practices that will improve their financial performance of creating value for their stakeholders.

The results of the study shall encourage good budgetary practices in the industry by providing a tested model through the study, of good budgeting practices. The study also fills the gap between the theory behind budgeting and the actual budgeting practices as applied by commercial airlines at Wilson Airport. The study further forms a basis for academics that may wish to study the subject of budgeting further in the airline industry or in other industries.

# CHAPTER 2

# LITERATURE REVIEW

## 2.1 Challenges facing the management of the world aviation industry

With diminishing national identify of airlines and increasing globalization, airline leaders, particularly those of third world airlines, face the following serious challenges that need effective management techniques to deal with them (Bell 2001):

Consolidation, both real and virtual, which makes airlines to trade off distinctiveness for scale. The process of consolidation produces large carriers that change the competitive climate for small carriers.

The homogenization of airline products and services, which has led to the emergence of an airline commodity, and loss of truly distinctive customer-oriented service offerings that serve as the rallying cry for airline employees at the more innovative carriers. Homogenization also makes the airline industry more competitive, due to the similarities of the product offerings.

There is increasing selfishness of employees, which makes employee loyalty difficult to achieve and maintain in any airline. Without doubt, the task of securing strong employee loyalty and following has become almost unrealizable in the airline industry. Employees on a global basis are shifting their focus to their number one agenda: themselves. This is evidenced by:

Mounting tension between labour and management due to differences in their expectations from their organizations, despite the increasing presence of employee ownership and profit sharing schemes in organizations today and an increasing trend on the part of the individuals to manage their careers more aggressively, seeking better pay, working conditions and a conducive work place, with little regard for corporate loyalty.

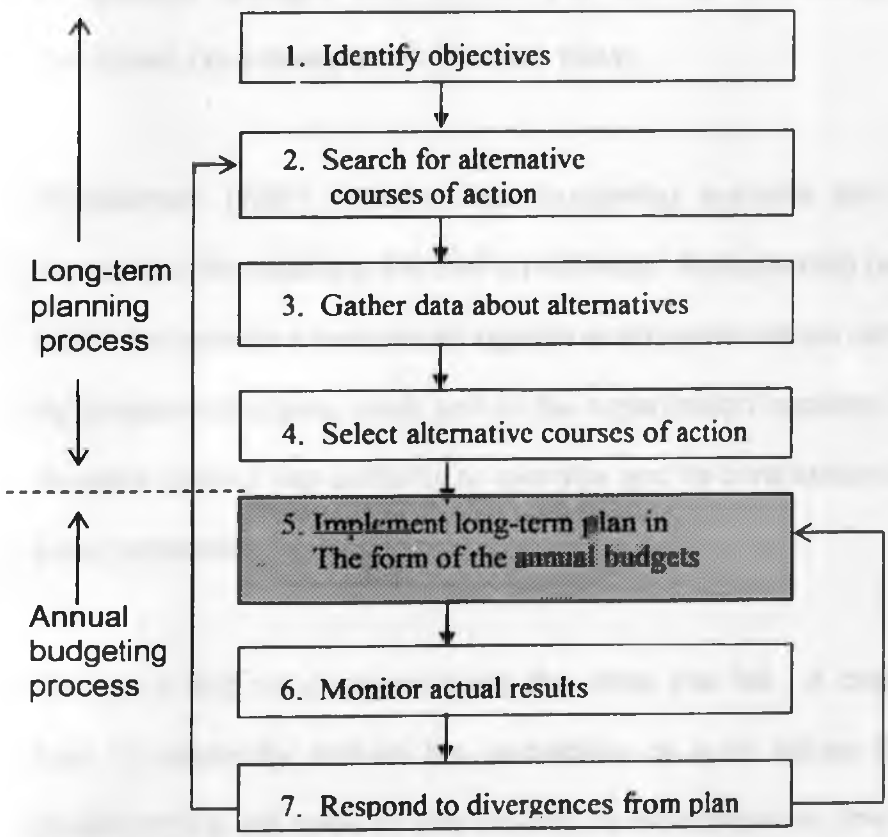
Diminishing romanticization associated with working for an airline as air travel becomes accessible to the masses, while other sectors, including high technology, provide more attractive economic profiles through equity plans and profit sharing schemes.

From the above it is necessary to note that adoption of effective management systems, such as good budgeting practices to enhance performance, productivity and profitability is therefore important for the survival for the airlines.

## 2.2 Long Range and Short Term Planning

Ackoff (1981) states that planning is the desired future state and effective ways of bringing it about. The long range planning is alternatively known as strategic or corporate planning.

Long-range planning extends beyond one year while short term planning or budgeting on the other hand is for a period of one year or less considering the current competitive and environmental conditions and the physical human and financial resources at present available to the firm (Sizer 1982). These are to a considerable extent determined by the quality of the firm's long range planning efforts.To help understand the budgetary process we look at how it fits into the overall framework for planning, decision-making and control.




**Source: Drury (1989)**

## 2.3 Budgeting

Airlines like any other organization today are operating in dynamic, and ever changing business environments, which are throwing up new opportunities and challenges to organizational members. Managers use a budgeting process as one of practice tool for survival in these circumstances. A budgetary process enables the manager to think about the future while still carrying out present operations. It also enables the management to respond to external changes and adjusts the internal operations, with external conditions, on a timely basis (Drucker 1994).

Zimmerman (1997) asserts that budgeting systems are an important mechanism for resolving the firm' s problems. Budgets help partition decision rights and provide a benchmark against which performance can be measured. By preparing budgets, each unit in the organization implicitly recognizes the decision rights it has authority to exercise and its contribution to the health of the organization.

Managers and not companies are the ones that fail. A budgeting process tries to drastically reduce the probability of such failure (Drucker 1994). Organizations still need to stay attuned to environmental changes by relying at least at minimal budgeting practices (Veliyath 1992). A budget plan assists managers to be strategic thinkers. It puts pressures on managers to achieve targets (Bemick 2001). Every manager knows that business runs better when people within an organization know what they are doing and trust one another and budgeting assists organizations to achieve this. They help deals move faster and more productive people learn more quickly and perform with more creativity (Prusak 2001).

Budgeting involves the preparation of a financial and/or quantitative statement, of the policy to be pursued during that period for the purpose of attaining a given objective. It has to be approved in advance. While budgetary control is the establishment of budgets relating to responsibility ties of executives to the requirements of a policy, and the continuous comparison of budgeted with actual results, either to secure, through individual action, the attainment of that policy or to provide a basis for its revision (ICMA, 1981). It is through the budgeting process that the strategy of a firm is implemented and its effectiveness measured through specific budget programmes.

Bell (2001) asserts that budgeting is an important management accounting technique, which is essential in all organizations. He further asserts that a budget is a summary statement of the financial plans expressed in both quantitative and financial terms. It is a comprehensive financial plan; a kind of 'compass' designed to guide management through the turbulent waters of the business activities in a competitive environment. Budgetary control on the other hand is a means by which management ensures that the objectives in the budget are carried out. The budget and budgetary control processes are thus systems designed to help the management of an organization answer the following questions: Where are we going? How shall we know that we have arrived where we are going?

Meigs (1999) asserts that budget is a comprehensive *financial plan* setting forth the expected route for achieving the financial and operational goals of an organization. Budgeting is an essential step in effective financial planning. Even the smallest business will benefit from preparing a formal written plan for its future operations, including the expected levels of sales, expenses, net income, cash receipts and cash outlays.

The use of a budget is a key element of financial planning and it assists managers in controlling costs. Managers compare actual costs with the budgeted amounts and take corrective action as necessary. Thus controlling costs means keeping actual costs in line with the financial plan.

Virtually all economic entities – businesses, governmental agencies, universities, churches, and individuals engage in some form of budgeting. (Meigs 1999).

Nearly everyone budgets to some extent, even though many of the people who prepare and use budgets do not recognize what they are doing as budgeting. All enterprises make plans, some in a systematic and formal way, while others in an informal manner, but still have some form of budgeting and budgetary control practice (Meigs 1999). Merchant (1998) asserts, "*The issue is not whether to prepare a budget, but rather how to do it.*" A Research, by Clarke and Toal (1999), shows that a budget is an essential part of most businesses that enables them to position themselves in the external environment. A good budget can enable a firm gain sustainable competitive advantage in the market place and in its industry.

Budgets are one of the most widely used tools for planning and controlling organizations, Horngren, et all (1997). Budgeting as management tool assists management in planning and controlling operations. Budget preparation should involve everyone in the firm; it should be a line process and it should require all individuals to participate in its organization, administration and implementation.

Budgetary control practices involve planning and co-ordinating the various activities of a business, measure actual performance and compare it with the targets set out in the budgets; analyze, by causes, the difference between the actual results and the budgeted figures; and take appropriate action in order to improve actual performance in the future and/or to revise the planned/budgeted figures if this is deemed necessary. Budgetary control practices aim at achieving high performance by a firm in terms of maximum productivity and profitability (Copeland 2000).

Prendergast (2000) asserts that:

Budgeting involves the preparation of expenses, revenue and a profit plan. Budgeting is a comprehensive and co-ordinated action plan expressed in financial terms, or other terms for the operations and economic allocation of resources of an enterprise for some specific period in the future.

A budget is the plan of the firm's financial expectations in the future. It involves control and manipulation of relevant variables – controllable and non-controllable - and reduces the impact of uncertainty. It makes management active to influence the business environment in the interest of the enterprise. It is comprehensive in the sense that all activity and operations are considered when it is prepared and its preparation involves co-ordinating budgets for various segments of the enterprise.

Budgets are quantified in financial terms for operational purposes. Initially, budgets may be developed in terms of varieties of quantities; for example, purchase and labour budgets will involve units of raw materials and men-labour hours respectively; but finally they must be expressed in the money unit, which serves as the common denominator and makes it possible and easier to measure.

A budget is meaningful and relevant only when it is relates to a specified period of time in the future: To achieve quantitative expectations of a firm, the short-term goal and objectives, expressed in financial and quantitative terms, must be related to the time period within which they have to be achieved and measured.

In this research, the focus will be on surveying usage of budgets by commercial airlines operating at Wilson Airport in terms of:

a) controlling the firm's activities in planning and management,

b) the perceived benefits derived from budgeting practices,

c) the budgeting approaches and the types of budgets prepared,

d) the problems and limitations of budgeting and whether budgeting programmes are actually in use in the airlines.

## 2.4 Objectives and advantages of budgeting

A comprehensive profit planning and controlling process of budgeting is a systematic and formalized way for stating and communicating the firm's expectations and accomplishing the planning, coordination and control of responsibilities of management in such a way as to economize and maximize the use of given resources. It is a way of managing and implementing a strategic choice (Welsch 1976). He further asserts that budgeting is the only comprehensive approach to managing an organisation that, if utilized with sophistication and good judgment, fully recognizes the dominant role of the manager and provides a framework for implementing such fundamental aspects of scientific management by objectives, effective communication, participative management, dynamic control, continuous feedback, responsibility accounting, management by exception, and managerial flexibility. Meigs, et al (1999), Decoster, et al (1976), and Noll et al (1988) assert that the benefits derived from budgeting are:

To aid the planning of annual operations: The budgeting process ensures that managers do plan for future operations and that they consider how conditions in the next year might change and what steps they should take to respond to these changed conditions. This process encourages managers to anticipate problems before they arise and hasty decisions that are made on the spur of the moment based on expediency rather than reasoned judgment.

To co-ordinate the activities of the various parts of the organization: The budgeting process ensures that the parts of an organization can be brought together and reconciled into a common plan. A sound budgeting system therefore helps to co-ordinate the separate organizational activities and ensures that all parts of the organization are in harmony with each.

To communicate plans to the various responsibility center managers: Through budgets top management communicates its expectations to lower level management so that all members of the organization may understand these expectations. It is not just the budget itself, which facilities communication, much vital information is communicated in the actual act of preparing it.

To motivate managers to strive to achieve the organisational goals: A budget provides a standard, which, under certain circumstances, a manager may be motivated to strive to achieve especially if the managers have actively participated in preparing the budget.

To control activities: A budget assists managers in managing and controlling activities for which they are responsible. By comparing the actual results with the budgeted amounts for different categories of expenses, managers can ascertain which costs do not conform to the original plan and thus require attention. In the process inefficiencies are identified and appropriate control action should be taken to remedy the situation.

To evaluate the performance of managers: The manager's success of meeting budgets is important. The budget thus provides a useful means of informing managers of how well they are performing in meeting targets, which they previously helped to set.

Decoster et al (1976) further assert that the major purposes of budgeting and budgetary control are:

To state the firms expectations (goals) in clear and formal terms to avoid confusion and to facilitate their attainability.

To communicate the expectations to all concerned with the management of the firm so that they are understood, supported and implemented.

To provide a detailed plan of action for reducing uncertainty and for the proper direction of individual and group efforts to achieve goals and objectives.

To implement a business strategy

To provide a means of measuring and controlling the performance of individuals business units and to supply information on the basis of which the necessary corrective action can be taken.

In analyzing the advantages and befits of budgeting Noll, et al, (1998), assert that budgeting is a feed forward process. It makes an evaluation of the variables that are likely to affect future operations of the enterprise. It predicts the future with reasonable precision and removes uncertainty to a greater extent.

Noll, et al, (1998), cite some of the more significant advantages and benefits of budgeting to include, forced planning; co-ordinated operations and goal congruence among employees; performance evaluation and control; effective communication among employees during the budgeting process; optimum utilization of resources and productivity improvement; acquisition of a profitability mind set by employees and implementation of management by exception principles.

Zimmerman (1997) enumerates the advantages of budgeting to include co-ordination of sales and production, formulation of a profitable sales and production program, co-ordination of sales and production with finances, proper control of expenditures, formulation of a financial program including investment and financing and co-ordination of all the activities of the business. The process of building a budget via a bottom-up, top down, iterative procedure involves assembling specialized knowledge in the organization to develop its future plans. Budgeting is a negotiation and consensus-building exercise. Thus, budgeting is part of the decision management process. Budgets are also used in decision control. People are evaluated, in part, on meeting their budgets. However, it too much emphasis is placed on meeting the budget at year-end, individuals with the specialized knowledge will bias their forecasts in preparing the budget.

Hilton, et al, (2003) states that the budget is a key tool for planning, control, and decision making in virtually every organization. Budgeting systems are used to force planning, to facilitate communication and co-ordination, to allocate resources, to control profit and operations, and to evaluate performance and provide incentives. Various budgets are used to accomplish these objectives, which are all summarized in the master budget.

Hilton, et al, (2003) further asserts that since budgets affect almost everyone in an organization, they can have significant behavioural implications. One common problem in budgeting is the tendency of the people to pad budgets. The resulting budgetary slack makes the budget less useful because the padded budget does not represent an accurate picture of expected revenue and expenses. Participative budgeting is the process of allowing employees throughout the organization to have a significant role in developing the budget. Participative budgeting can result in greater commitment to meet the budget by those who participated in the process.

Drury (1989) further asserts that budgeting systems serve several purposes and some of these purposes may well conflict with each other. For instance, the planning and motivation roles may be in conflict. Demanding budgets, which may not be achieved, might be appropriate to motivate maximum performance but they are unsuitable for planning purposes. For planning purposes a budget should be based on easier targets, which are expected to be met.

There is also a conflict between the planning and performance evaluation roles. For planning purposes budgets are set in advance of the budget period on an anticipated set of circumstances or environment. Performance evaluation should be based on a comparison of actual performance with an adjusted budget to reflect the circumstances or environment under which managers actually operate. In practice many firms compare actual performance with the original budget but if the circumstances envisaged when the original budget was set have changed then there will be a planning and evaluation conflict (Drury 1989).

## 2.5 Administration of the Annual Budget

It is important that suitable administration procedures are introduced to ensure that the budget process works effectively. In practice, the procedure should be tailor-made to the requirements of the organization, but as a general rule a firm should ensure that procedures are established for approving the budgets and that the appropriate staff support is available for assisting managers in preparing their budgets.

When preparing budgets, structurally, there should be a budget committee consisting of high-level executives who represent the major segments of the business, (Clark 1999). Its major task is to ensure that the budgets are realistically established and they are co-coordinated satisfactorily. The functional managers present their budget to the committee for approval. The budget committee should appoint a budget officer who will normally be the Accountant. The officer's role is to co-ordinate the individual budgets into a budget for the whole organization. The accounting staff will normally assist managers in preparing their budgets. They provide a valuable advisory and clerical service for the line managers. The accountant should prepare a budget manual which describes the objectives and procedures involved in the budgeting process and acts as useful reference source for managers responsible for budget preparation.

Meigs et al (1999) assert that two basic philosophies prevail today that dictate the levels at which budgeted amounts should be set as:

i. **The Behavioral Approach** The assumption underlying the behavioral approach is that managers will be most highly motivated if they view the budget as a *fair* basis for evaluating a responsibility center's performance. Therefore, budgeted amounts are set at *reasonable and* *achievable levels;* that is, at levels that *can be achieved* through reasonably efficient operations. A department that operates in a highly efficient manner should be able to *exceed* the budgeted level of performance. Failure to stay within the budget, in contrast, is viewed as an unacceptable level of performance.

ii. **The Total Quality Management Approach** A basic premise of total quality management is that every individual and segment of the organization constantly should strive for improvement. The entire organization is committed to the goal of *completely eliminating perfection* across its entire value chain.

As a step toward achieving this goal, budgeted amounts may be set at levels representing *absolute efficiency.* Departments generally will fall somewhat short of achieving this level of performance. However, even small failures to achieve the budgeted performance serve to direct management's attention toward those areas in which there is room for improvement.

The approach used in setting budget amount reflects the philosophy and goals of top management. (Meigs 1999 and Hilton 2003). Under either approach, however managers should participate actively in the budgeting process (Meigs 1999)

(Drury 1989) asserts that the important stages in the budgeting process are:

Communicating details of the budget policy and guidelines to those people responsible for the preparation of budgets. The long-range plan is therefore the starting point for the presentation of the annual budget. Thus top management must communicate the policy effects of the long term to those who are responsible for preparing the current years budgets. Policy effects might include planned changes in sales mix, expected changes in productivity and profitability levels. The process also indicates to the managers who are responsible for preparing the budgets and how they should respond to any expected environmental changes.

Determining the factors that restrict performance: In every organization there are some factors, for example the sales demand that restricts performance for a given period. Top management must determine the factors, which restrict performance as these factors determine the point at which the annual budgeting process should begin.

Preparation of the Sales Budget: The volume of sales and the sales mix determine the level of the company's operations, when sales demand is the factor, which restricts output. For this reason the sales budget is the most important plan in the annual budgeting process. This budget is also the most difficult plan to produce because sales demand may be influenced by the state of the economy or the actions of competitors, factors that are difficult to estimate and accurately influence.

Initial preparation of various budgets: The managers who are responsible for meeting the budgeted performance should prepare the budget for those areas for which they are responsible. The preparation of the budget should be a "bottom up" process. This means that the budget should originate at the lowest levels of management and be refined and coordinated at higher levels. This approach will enable managers to participate in the preparation of their budgets and increase the probability that they will accept the budgets and strive to achieve the budget targets;

Miller (1966), assets that participation in budgeting by all in the firm is essential for its successful implementation. He further asserts that participation tends to increase commitment because of ownership; commitment tends to increase motivation, which is job oriented, tends to make managers work harder and more productive work by managers tends to enhance the company's prosperity.

Negotiation of budgets with superiors and lower management: To implement a participative approach to budgeting, the budget should be originated at the lowest level of management. The managers at this level should submit their budget to their superiors for approval. The superior should then incorporate this budget with other budgets for which he is responsible and then submit this budget for approval to his superiors. The manager who is the superior then becomes the budgeter at the next higher level. At this stage the budgets will be negotiated between the budgetee and their superiors, and eventually both parties will agree them to. Hence the figures that are included in the final budget are the result of a bargaining process between various budgetees and their superiors. It is important that the budgetee should participate in arriving at the final budget and that the superior does not revise the budget without giving full consideration to the subordinates arguments before making any changes. It is unlikely that the subordinate will be motivated to achieve a budget, which he/she did not accept. Finally, the negotiation process is of vital importance in the budgeting process and can determine whether the budget becomes a really effective management tool or just a clerical device. If managers are successful in establishing a position of trust and confidence with their subordinates, the negotiation process will produce a meaningful improvement in the budgetary process.

Co-ordination and review budgets: As the individual budgets move up in the organization hierarchy in the negotiation process they must be examined in relation to each other. The examination may indicate that some budgets are out of balance with other budgets and need modifying so that they will be compatible with other conditions, constraints and plans which are beyond the budgeting manager's knowledge or control. During the co ordination process a budgeted profit and loss account, a balance sheet and cash budget should be prepared to ensure that all parts combine to produce an acceptable whole.

Final acceptance of the budgets: When all the budgets are in harmony with each other they are summarized into a master budget, which consists of a budgeted profit and loss account, a balance sheet and cash flow statement. After the master budget has been approved the budgets are then passed down through the organization to the appropriate responsibility centers. The approval of the master budget is the authority for each manager of each responsibility center to carry out the plans contained in each budget.

Ongoing budget reviews: The budget process should not stop when the budgets have been agreed. Periodically the actual results should be compared with the budgeted results. These comparisons should be made on a monthly basis and a report sent to the appropriate budgeter, before the middle of the following month, so that it has the maximum motivational impact. This will enable management to identify the items which are not proceeding according to plan and to investigate the reasons for the differences. If these differences are within the control of management corrective action can be taken to avoid similar inefficiencies occuring again in the future. However, the differences may be due to the fact that the budget was unrealistic to begin with, or that the actual conditions during the budget year were different from those, which were anticipated, the budget for the remainder of the year would then be invalid.

During the budget year the budget committee should periodically evaluate the actual performance and reappraise the company's future plans. If there are any changes in the actual conditions from those that were originally expected this would normally mean that the budget plans should be adjusted. This revised budget then represents a revised statement of formal operating plans for the remaining portion of the budget period. The important point to note is that the budgetary process does not end for the current year once the budget period has begun, budgeting should be seen as a continuous and dynamic process.

Hilton, et, al (2003) also succinctly enumerate phases of a budgeting process by stating that the comprehensive set of budgets that cover all phases of an organization's operations is called a "master budget". The first step in preparing a master budget is to forecast sales of the organization's services or goods. Based on the sales forecast, operational budgets are prepared to plan production of services or goods and to outline the acquisition and use of materials, labor and other resources. Finally, a set of budgeted financial statements is prepared to show what the organization's overall financial condition will be if the organization carries out its planned operations successfully.

## 2.6 Essentials of a successful budgeting system

The following are some of the important fundamentals of a successful budgeting process:

**Top management support:** This makes the subordinate more confident and cost conscious. They should not only have a positive attitude towards budgeting, but should also devote necessary time and resources to the preparation and implementation of the budgets. They should coordinate budgets of different departments and approving them finally. It should also follow up to ensure effective implementation of the budgets (Hoftstade 1967).

**Clear and realistic goals**: The firm's objectives and budget goals need to be properly laid down and should be reasonable and realistic; they should be capable of attainment. They should provide a real challenge and be capable of motivating employees. The realistic objectives and goals for a firm depend upon a host of factors such as size of the firm, managerial philosophy, quality of its products and the age of the firm, nature of activities and many psychological factors. Goals set realistically provide better motivation to employees in the long run (Smith Malcolm 2000).

**Assignment of Authority and responsibility:** A sound organizational structure is essential for the success of the budgetary system. Authorities and responsibilities of each manager should be clearly identified and established. This provides an effective means to achieve the firm's objectives and budget goals in a coordinated and efficient manner. Synchronization between the budgeting system and the organization structure of the firm leads to effective planning and control systems in the firm (Welch 1976).

**Creation of responsibility centers:** For effective control of all activities, a large firm is divided into meaningful segments, departments or divisions with certain activities to perform and each manager assigned specific authority and responsibility to carry out those activities of that center. Creation of responsibility centers is essential for successfully implementing budgets, attaining objectives and accomplishing control. A budgetary system should be tailored to the organizational sub units and the responsibility centers. Welsch (1976) asserts that these centers generally include the following, depending on the size and nature of business of the organization.

**Adaptation of the responsibility accounting system**: An accounting system, tailored to the responsibility structure of the enterprise, generates data that are relevant to the planning and control system. Responsibility accounting emphases on planning and control needs of management; accounts are classified on a responsibility basis. Thus, the organization achieves effective and successful budgeting through the assignment of responsibility to specific managers for specific areas of operation (Miller 1966).

**Full participation:** Real and meaningful participation of all managers and their subordinates at all levels should be sought in developing the budgeting system; this ensures the success of the budgeting process. A meaningful participation creates a positive motivation for employees involved in the process. Miller (1966), asserts that participation tends to increase commitment; commitment tends to heighten motivation; motivation, which is job-oriented, tends to make managers work harder; and more productive work by managers tends to enhance the company's prosperity; therefore, participation in budget preparation and implementation is good and necessary for an organization.

**Flexibility in the budgeting process:** Pandey (1999), asserts that the budget system should be flexible enough to take advantage of all opportunities that may arise from time to time, in the external environment. Inflexibility in budgeting impairs the initiative and freedom of managers and their subordinates in making decisions based in current information. A rigidly administered budgeting program causes tension and anxiety among employees. A flexible and comprehensive budgeting permits management to read new plans when a new situation arises, as the organization interacts with its external environment.

Zimmerman (1997) further assets that a flexible budget is stated as a function of some volume measure and is adjusted for change in volume as opposed to static budgets, which do not vary, with volume. In static budgeting each budget line item is a fixed amount during the budget period. The flexible budgets provide different incentives than do static budgets because each line budget item is stated in terms of how it varies with volume. Budgets are then prepared at different volume levels thus capturing the effects in the budget of volume changes. The major reason for using flexible rather than static budgets is to better gauge the actual performance of a person or venture after controlling for volume effects assuming, of course, that the individual being evaluated is not responsible for the volume change. Therefore, if the manager does not have any control over either volume or the consequences of volume, then flexible budgets would be used as the bench mark to gauge performance, otherwise static budgets should be used where volume changes or fluctuations are reflected as budget variances. Flexible budgets reduce the risk of volume changes borne by managers.

Research carried out on US firms established that out of 219 public traded US firms, 48% said they use flexible budgets for manufacturing costs but only 27% use flexible budgets for distribution, marketing, Research and Development, or general and administrative expenses. These data suggest that flexible budgets are widely used in manufacturing, where volume measures are readily available and costs vary with volume. In situations where volumes are not readily available, companies use static budgets in order to hold managers responsible for unknown volume fluctuations (Zimmerman 1997).

## 2.7 Budgeting Approaches:

### 2.7.1 Zero based budgeting:

It is a method of budgeting in which managers are required to start at zero budget levels every time they are budgeting and to justify all costs as if the programs involved were being initiated for the first time. It should be done annually. This approach is used to prepare budget data particularly for use in not for profit, governmental and service type organizations. In this budgeting system, the manager ranks all the activities in the department according to relative importance, going from those considered essential (high priority) to those considered of least importance (lower priority); each program or decision package must be justified on the basis of cost – benefit analysis (Pandey 1999).

Zimmerman (1997) describes Zero-based budgeting succinctly that each line item in total budget must be justified and reviewed annually. Each line item is reset at zero each year and must be justified in total. Departments must defend the entire expenditure or program, each year, not just the changes. In principle, zero-based budgeting causes managers to maximize firm value by identifying and eliminating those expenditures whose total cost exceeds total benefit.

Zimmerman (1997) further asserts that Zero-based budgeting is most useful in organizations in which considerable turnover exists in middle and senior level ranks of employees. Management turnover destroys specialized knowledge that is needed in Zero-based budgeting process. Also Zero-based is useful in cases where there has been substantial strategic change or high uncertainty. In these cases, *justifying each budget line item annually helps to inform managers with decision control rights the total costs and benefits in each department or program. However Zero-based budgeting is significantly more costly to perform than incremental budgeting.*

Under Zero-based budgeting managers must justify the entire budget and therefore it is most useful when those managers with decision ratification and monitoring rights over the budget do not have the specific knowledge of the operations. If the managers with the decision control rights have the knowledge because they have been promoted up the organization Zero-based budgeting usually becomes incremental budgeting (Zimmerman 1997 and Phyrr 1970)

The benefits of the zero-base budgeting over traditional methods of budgeting are as follows (Drury 1989 and Pandey 1999):

Traditional budgeting tends to extrapolate the past by adding a percentage increase to current year costs and revenues. This becomes very much a preservation of the status quo as the relationship between costs and benefits for a particular activity is rarely questioned and consequently resources are not necessarily allocated to uses where they are most required to creating value. Zero-based budgeting represents a move towards allocation of resources by need and benefit. Zero-based budgeting creates a questioning attitude rather than one that assumes that current practice represents value for money. Zero-based budgeting focuses attention on outputs in relation to value for money. Zero-based budgeting leads to increased staff involvement that may lead to improved motivation and greater interest on the job. The zero-based budgeting system is beneficial too in that resources are allocated to high priority activities, decisions are made quickly, close scrutiny is given to activities and lower priority programs are eliminated or reduced.

The major problem with zero-based budgeting is that it is very time consuming. However, it does not have to be applied throughout the organization. It can be applied selectively to those areas about which management is most concerned.

### 2.7.2 Incremental Budgeting:

Incremental budgeting takes the current level of operating activity and the current budgeted allowances for existing activities as the starting point for preparing the next annual budget. The advantage of this type of budget is that it is easy to prepare and its disadvantage is that the approach perpetrates any past inefficiencies (Drury 1989 and Pandey 1999).

Zimmerman (1997) asserts that most budgeting processes, in organizations, are incremental in the sense that managers need only to justify changes from last year's budgets. Most organizations construct next year's budget by starting with the current year's budget or actual figures and adjusting each budget line item for expected price and volume changes in the coming year. Since most budgeting starts at the bottom of the organization, where the detailed specialized knowledge resides, lower-level managers submit a budget for next year by making incremental changes in each line item for inflation and incremental volume changes with detailed explanations justifying the increments submitted as part of the budgeting process.

### 2.7.3 Priority Incremental Budgeting:

These are ordinary incremental budgets that include a description of incremental changes if the budgets were increased or decreased by say, 10%. For example a university sports department may decide that if its budget is cut by 10%, it will drop scholarships for sports that do not attract large numbers of spectators. The budget explicitly forces a manager and his or her superiors to establish priorities (Horngren et al 1997)

### 2.7.4 Activity Based Budgeting:

Activity based budgeting focuses on the cost of activities necessary to produce and sell services. Management uses the cause-and-effect criterion to identify the cost drivers for each of these indirect cost pools. Horngren et el (1997) and Innes (1996) assert the benefits of activity based budgeting as being:

- Ability to set more realistic budgets
- Better identification of resource needs
- Linking of costs to outputs
- Clearer linking of costs with staff responsibilities
- Identification of budgeting slack

The existence of budgeting approaches mentioned above and benefits accrued to them are unknown in the aviation industry especially commercial airlines operating at Wilson Airport.

Periodic budgeting involves the preparation of the budget for the forthcoming year without providing for a comprehensive revision as the budget period progresses. The budget period is generally divided into months; that is, the annual budget consists of the monthly estimates. Incase of stable firms, which can forecast their businesses with reasonable precision, periodic budgeting is appropriate and useful (Antony 1989).

Continuous budgeting provides for a system of revising the budget for the changing conditions in the external environment. It involves the preparation of a tentative annual budget with a provision that the month or quarter just ended is dropped and a month or quarter in the future is added. Continuous budgeting, which is sometimes described as a rolling budget, forces management to constantly think in concrete terms about its short range planning. Continuous budgeting would be desirable for firms operating under uncertainties of consumer demands and are exposed to a greater degree of cyclical fluctuations in their business as a result of discontinuous changes in the external environment. (Antony 1989)

## 2.8 Types of budgets

Generally, firms have a comprehensive budgeting system, which involves the preparation of a master budget, with a complete package of the various component budgets. A master budget is a summary of all phases of a company's plans, goals and objectives for the future. It sets out specific targets for sales, production, distribution and financial activities, and it generally culminates in a projected statement of net income and projected statement of the cash position. It represents a comprehensive expression of management's plans for the future and how these plans are to be accomplished. Antony (1989) and Meigs (1999) assert that there are three important components of the master budget, which include, the operating budget, the financial budget and the capital budget.

### 2.8.1 The operating budget

It relates to the planned activities or operations of the enterprise, such as sales, production, manufacturing cost, cost of goods sold and operating expense budget.

### 2.8.2 The financial budget

Financial budgets are concerned with the financial implications of the operating budgets, the expected cash inflows and cash outflows, financial positions and the operating results. Important components of financial budgets are; cash budgets, proforma balance sheet, income statements and statements of changes in the financial position of an entity.

The cash budget is a detailed plan showing how cash resources will be acquired and used over some specific time period in the future. It is a most important component of a financial budget, for it reveals the expected cash position of a firm in some specified period in the future. A good management would keep cash balances at optimum levels; too little cash endangers the liquidity of a company; and too much cash tends to impair profitability. The major objective of the cash budget is to plan cash in such a way that the company always maintains sufficient cash balances to meet its operational needs and uses any idle cash in profitable manner, including investment in convertible securities.

The proforma financial statements, which include the balance sheet and the income statement, show the end results of the budgeted operations. The proforma financial statements give information as to the future assets, liabilities and revenue and expense items. Analysis of present and past financial statements indicates the direction of change in the financial performance and position of the enterprise. The future can be planned to follow the past direction or to change it.

Preparation of the cash budget and proforma statements compels management to look ahead and balance its policies and activities. The projected statement of change in the financial position can be prepared from the proforma balance sheet and income statements to show the effect of the budgeted operations on the financial resources of the firm and accordingly, the firm can plan its policies to pay dividends, refund debt, acquire fixed assets, borrow loans, or issue new share capital.

### 2.8.3 Capital budget

It is a statement of planned expenditure of funds for facilities and equipment. It is a budget covering the acquisition of land, buildings and other fixed assets. It may have a time horizon extending up to ten years or more into the future. It involves planning to acquire worthwhile projects, together with the timings of the estimated cost and cash flows of each project. Capital budgets are meant to increase the revenue earning capacity of the firm and increased value for the stakeholders.

Capital budgets are difficult to prepare because estimates of the cash flows over a long period have to be made which involves a great degree of uncertainty. In capital budgeting, the profitability of each project has to be carefully evaluated based on critical assumptions and using an objective technique free from personal biases and capable of clearly indicating whether the project should be accepted or not. The commonly used criteria, with varying degrees of sophistication, include the Payback Period, the Accounting Rate of Return, the Net Present Value and the Internal Rate of Return (Birkin 1997).

## 2.9 Limitations of budgeting programmes

Pandey, (1999), asserts that budgeting programmes suffer from certain problems and limitations and he cites the following as some of the problems associated with budgeting and budgetary programs:

Seeking the support and involvement of all levels of management in budget preparation can be involving and time consuming, and if this support is not forth coming it will be difficult to successfully implement the program.

Developing meaningful forecasts and plans, especially the sales plan in times of turbulences in the external environment, as a results of unpredictability of the events in the external environment.

Educating all individuals to be involved in the budgeting process and gaining their full participation is time consuming, and most frustrating to those responsible in budget preparation and coordination.

Establishing realistic objectives, policies, procedures and standards of desired performance that can be used to measure the budgetary performance. In most cases accurate and reliable information is scarce and at times impossible to get without incurring considerable cost.

Applying the budgeting and budgetary control system in a flexible manner to increase flexibility in business management and aligning internal conditions with external factors, in an ever - changing business environment, is difficult because of these continuous changes in the external environment.

Maintaining effective follow up procedures and adapting the budgeting and budgetary control system whenever the circumstances change is also difficult because it requires constant and costly monitoring of the external environment.

The other problem, in budgeting and budgetary control, which appear to have "worsened' over the years is ***"gaming".*** This is where senior management battle to set a challenging budget to get the most out of staff, while junior managers fight back to negotiate an easily achievable target, (Prendergast, 2000). The main reasons of slack budgets (that is obtain targets which can be easily achieved) were identified by Drury (1989) as follows:

The reward system of the company, which involves salary increments, bonuses, and promotions based on sales achievements. Thus managers would be motivated to seek lower rather than higher budgets so that their actual performance would subsequently appear in a more favorable light.

The influence of company practice, which involves an implicit norm, that sales would continue to grow. Managers have a desire to please head office and thus tend to submit optimistic forecasts. This is found particularly at businesses, which are faced with declining sales.

The insecurity of certain managers because their recent past performance had been poor also lead to optimistic forecasts. Managers, whose performance, according to company standards, had been unsatisfactory, may feel that by promising improvement they can continue to obtain the approval of their superiors and thus keep their jobs longer.

Managers may become more short term oriented as a result of a budget. As many budgeting and budgetary control systems are conducted on an annual cycle, and many managers change jobs (internally or externally) every few years, they may yield to short term thinking for their decision making, which may make a firm loose its strategic direction by pursuing short term gains instead of its long term success. The short-term approach may endanger the future competitive success of the firm and hence its long term survival (Hayes and Abernathy 1980). Management must also consider the following limitations in using the budgeting system as a device to solve managerial problems, (Welsch 1976 and Bell 2001).

Budgeting systems success hinges upon the precision of estimates, which are based on facts and managerial judgment; this can suffer from subjectivism and personal biases. Adequacy of budgeting and budgetary control thus depends upon the reasonableness of managerial judgment and ability.

Budgeting is a dynamic process. This is because business conditions change rapidly; therefore, budgeting programmes should be continuously adapted to changing business circumstances. Management should not lose patience, they should go on trying various techniques and procedures in developing and using the budgeting and budgetary control system. Ultimately, they will achieve the success and reap the benefits of budgeting and budgetary control.

For success of the budgetary program, it is essential that the managers and subordinates put concerted effort for accomplishing the budget goals. All persons in the firm must have full involvement in the preparation and execution of budgets, otherwise the budgeting process will not be effective and will add no value to the enterprise's operations.

Budgeting is a management tool, a way of managing. It assists management but does not replace management; hence management should use budgeting programmes with intelligence and foresight, along with other managerial techniques to ensure effective organizational performance.

A budget should be precise in format, simple to understand and sufficiently flexible in application. Complications make it ineffective and expensive to apply.

Budget goals are the definite targets necessary to achieve the overall enterprise objectives; they must be in harmony with the enterprise's strategic aims and objectives and therefore management should always have the propensity to align the budget with the strategic intent of the organization as external conditions change in order to achieve sustainable competitive advantage by the firm.

If a proper evaluation system is lacking, budgeting will hide inefficiencies instead of revealing them; hence, there should be continuous evaluation of the actual performance standards, which should be re-examined regularly to ensure that the budgeting and budgetary control system consistently meets its intended objectives.

Budgeting and budgetary control will lower morale and productivity if set targets are unrealistic and if it is used as a pressure tactic on management and employees to extreme extents.

In discussing problems encountered in budgeting, Bell (2001), cites the following pitfalls in budgeting:

Budgets are not infallible because of the prediction ability of managers is very limited. The more limited management's ability to make accurate forecasts and predictions that are necessary for the budgets, the more limited the usefulness of the budgets resulting there from. Besides, rapidly changing environmental conditions also make budgeting difficult and irrelevant sooner than later

The use of budget to judge and reward performance may cause managers to concentrate more on their particular functions or departments. This leads to sub-optimization where individual or departmental goals are pursued to the detriment of the overall organizational goals.

Since budgets are definite in nature, there is little room for manuoever, manipulation and escape if the results are not going to turn out as expected. Constant pressure leads to gradual erosion of rationality, which is replaced by mistrust, hostility and lower performance level in a lot of cases. However, instituting flexible budgeting may deal with this pitfall. Lastly, too much emphasis is given to activities relating to short-term profitability of the firm over long-term, and more important, prospects of the firm.

In criticizing the budgeting process, Hope (2003), asserts that modern companies reject centralization, inflexible planning and command and control that the budget creates.

So why do they cling to a process that reinforces those things? Hope (2003), further asserts that budgeting as most corporations practice it should be abolished. That they sound like a radical proposition, but it would be merely the long culmination of long running efforts to transform organizations from centralized hierarchies into devolved networks that allow for nimble, flexible adaptive adjustments to changes market conditions. He further asserts that, in short, an ever changing market and not dated plan, dictates behaviour and therefore fixed targets lead to only incremental improvements, fixed incentives instill fears of failure, rigid plans focus people on compliance, present allocation of resources, encourages loading and centralized decision making ignores market feedback.

In conclusion, however, Bell (2001), asserts that budgeting and budgetary control are very important management accounting techniques whose benefits far exceed their pitfalls and hardly any organization can do without them in the final analysis. Accountants must always look for ways to simplify the budgeting process and make it adaptable to changing circumstances otherwise its relevance may disappear.

# CHAPTER 3

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter sets out various steps taken in executing the study, thereby satisfying the study objectives. This chapter consists of the research design, population, sample frame, sample, research instrument, data compilation and data analysis. It also contains the basic data on the respondents, such as year of establishment, number of aircraft owned, the airlines' strategic intent, expressed through their vision/mission/goals/objectives and the number of employees employed by each airline.

## 3.2 Research design

The research design selected for the purpose of the study, was a survey of budgeting practices by commercial airlines operating at Wilson Airport, Nairobi and their perceived benefits derived from budgeting.

## 3.3 Population

The population consists of all 63 commercial airlines operating from Wilson Airport, Nairobi, as at March 2003. Although a total of 174 airlines were registered and operating at Wilson Airport then, 101 of these were individual's airlines or particular company airlines not used for commercial purposes and therefore they were of no significance in this research.

This study is focused on airlines operating at Wilson Airport because most airlines operating at other airports are international airlines having their headquarters outside Kenya and hence their accounting offices in which the budgeting function falls are not situated in Kenya. If the international airlines were included in the study it would have been difficult to collect data for this study.

Wilson airport was chosen for the study because of the centrality of the airport in the aviation industry in Kenya. The airport is also a major domestic airport in Nairobi and in the country.

Further the airport is a key commercial link between Kenya and its neighbours in the region, such as Sudan and Somalia and therefore a major source of business and foreign exchange earnings for the country.

## 3.4 Sampling

No sampling was drawn as a census of all the commercial airlines operating from the Wilson Airport was considered in the study.

## 3.5 Data collection

Primary data was used for this study. The data was collected using a structured questionnaire, developed in line with the objectives of the study. To carry out the survey, the researcher and his assistant administered the questionnaires through the drop and pick method. Follow ups were made by telephone and personal visits by the researcher and the assistants.

During the picking up, the researcher went through the questionnaires, together with the respondents, to check for any inaccuracies and unanswered questions and requested the respondents to complete them appropriately. Unclear questions were also clarified during the process. The questionnaires were also be edited for accuracy and consistence, before picking them.

The questionnaire comprised of two parts, parts A and B (see Appendix 1). Part A had general questions about the respondent and the organization and part B had specific questions on budgeting practices, financial performance of the airlines and perceived benefits of budgeting. The questions asked in the survey included the objectives of budgeting, those in the company that are involved in the budgeting process, budgeting approaches, types of budgets prepared, perceived benefits of budgeting and challenges management faces in the budgeting process and the environmental factors affecting the budgeting process.

A five-point Likert Scale was used to determine the practices that are most used in budgeting among commercial airlines operating at Wilson Airport, Nairobi. The five point Likert Scale was used to determine the importance the respondent attach to a process or approach in budgeting and their view of the most important benefits arising from the process.

The questionnaire was pre-tested, using four airlines and was appropriately adjusted before the study commenced. The pre–testing was meant to improve the effectiveness of the instrument. The pre-testing of the questionnaire therefore enhanced the reliability and effectiveness of the study instrument and improved scope of the instrument and make it user friendly. The financial managers/controllers/directors were the respondents in all cases.

## 3.6 Data Analysis:

The completed questionnaires were edited in the field after completion by each respondent and then coded to facilitate statistical analysis. A database was prepared using the SPSS computer package. The data was analyzed using frequency stables percentages, means and standard deviations.

## 3.7 Methodology of Describing the Findings

Descriptive statistics were used to draw conclusions on the findings. When analyzing and presenting the data two types of tables were prepared describing the information effectively, namely the frequency and percentage tables and the mean and standard deviation tables. The frequency tables have the details of the element or a factor being described, the frequency or the number of respondents in each element and the percentage of the frequency. Therefore the finding in this case are described by first by ascribing the frequency of the element or factor and its percentage. The higher the frequency or percentage in the most important is the element in describing the parameters of the sample. The frequencies are absolute repetition and/or rate of occurrences of the element or factor usually measured over a particular period of time, of the members of a sample. The percentage is the relative description or representation of the frequency of occurrences.

The descriptive statistics tables are more detailed. They involve number of respondents in each element or factor, the minimum and maximum number picked on the five point Lickert Scale, the mean of the respondents in terms of the Lickert Scale points and the standard deviation from the mean. The mean is the average of the occurrences of all the Lickert scale points and the standard deviation is the distance various occurrences are from the mean. Coopers and Emory (1995) assert that descriptive statistics tables describe the parameters of the population or sample better because they express the views and feelings of the respondents in greater details and giving greater effect on the Lickert Scale elements. In all cases, the findings are narratively and statistically described in details and supported by literature where appropriate.

In cases where the respondents did not ascribe a number on the Lickert Scale, or did not answer the question, this is indicated as a non-response in the tables and fully explained if they are significant. The non-response is significant if it represents more than 20% of the respondents. Coopers and Emory (1995), assert that a non-response of more than 20%, in any question of the research instrument, is significant and needs to be explained. In this study, the non-responses were due to a respondent being unwilling to answer a question, for one reason or other, the reasons which they were unwilling to given when probed further, when the questionnaires were being collected, rationalized and edited in the presence of the respondents.

# CHAPTER 4

# DATA ANALYSIS AND FINDINGS

## 4.1 Introduction

This research was a cross sectional survey, which is a suitable method of obtaining answers to the same questions from several firms or individuals in the same industry, or in different industries at once. Coopers and Emory (1995), recommend this type of research design for studies carried out at once and representing one point in time survey. This study fell in the category.

The sample was made up of all 63 commercial airlines operating at Wilson Airport, Nairobi, as at 31 March 2003. 63 questionnaires were sent out and 22 questionnaires were received back, representing 35% response rate of the initial sample. However, if the 22 questionnaires received are expressed as a percentage of 35 airlines that were still in operation throughout the study then the response was 62.9%. The low response rate from the original 63 airlines is as a result of 28 airlines shifting operations elsewhere during the study and 13 target respondents were unwilling to complete the questionnaire or to be subjected to interviews.

The shifting of operation to other countries by many airlines is explained by the seasonality of the tourist industry and the poor performance of the Kenyan economy, particularly in the tourist sector, on which Wilson Airport greatly depends. The survey was carried out between the months of June and

September, which is usually a transition period from high to low season in the tourist industry in Kenya.

The 22 airlines response rate is adequate and the airlines are representative of the airlines operating at Wilson airport Nairobi since they were randomly selected. Cooper and Emory (1995) assert that in assessing the representativeness of the sample, the problem is not the size of the sample but the method of sampling. If a random sample is used to draw the sample or a census is taken as a sample, even a significantly small sample will give a representative set of parameters of the population, such as means, modes and standard deviations, that are used to describe the sample and the total population in general. This is because every member of the population has an equal chance of being representative.

The respondents were mainly Finance Managers/Controllers/Directors of the airlines. The SPSS package was used to capture the data and build a database and analyzed the data to produce descriptive statistics. Frequency tables, means, standard deviations and percentages were used, extensively, to draw conclusions on the findings.

## 4.2 Basic data of the airlines

The respondents were asked to state their year of establishment, their corporate vision, mission, goals and objectives. As indicated in table 4.2.1 below, the majority of the airlines, 63.5%, were established between 1990 and 2000. There was no airline established between 1970 and 1979, which is most likely due to the oil crisis of 1970's. 4.5% of the airlines were established between 1950 and 1959. 9.1% between 1960 and 1969 and 9.1% between 1980 and 1989.

**Table 4.2.1 Year the Company was established**

| Year | Frequency | % |
|---|---|---|
| 1950-1959 | 1 | 4.5 |
| 1960-1969 | 2 | 9.1 |
| 1970-1979 | 0 | 0.0 |
| 1980-1989 | 2 | 9.1 |
| 1990-2000 | 14 | 63.5 |
| Unspecified | 3 | 13.7 |
| Total | 22 | 100.0 |

**Source: Research Data**

As to responding airlines with a vision, mission, goals and objectives, as indicated in table 4.2.2 below, 63.6% of the airlines have a corporate vision, while 68,2% each have a mission and goals only and 59.1% have objectives only. While 36.4% had no vision, 31.8% each had no mission and goals and 40.9 had no objectives.

No company indicated no for all vision, mission, goals and objectives.

**Table 4.2.2 Corporate vision, mission, goals and objectives.**

| | Corporate Vision | | Corporate mission | | Corporate goals | | Corporate objectives | |
|---|---|---|---|---|---|---|---|---|
| Answer | Freq. | % | Freq. | % | Freq. | % | Freq. | % |
| Yes | 14 | 63.6 | 15 | 68.2 | 15 | 68.2 | 13 | 59.1 |
| No | 8 | 36.4 | 7 | 31.8 | 7 | 31.8 | 9 | 40.9 |
| | 22 | 100.0 | 22 | 100.0 | 22 | 100.0 | 22 | 100.0 |

**Source: Research Data**

When asked which business they were operating in and the description of their business environment and reaction to it, as indicated in table 4.2.3 below, 77.3% of the respondents stated that they were in air charter and aircraft hire and aircraft maintenance, followed by sale of spare parts 13.6% and lastly in flight training 9.1%

**Table 4.2.3 Company business**

| Type of Business | Frequency | % |
|---|---|---|
| Air charter, Aircraft hire and Aircraft maintenance | 17 | 77.3 |
| Sale of spare parts | 3 | 13.6 |
| Flight training | 2 | 9.1 |
| Total | 22 | 100.0 |

**Source: Research Data**

As to the description of their business environment, and their reaction to it, as indicated in table 4.2.4 below, 68.2% of the respondents described their business environment as turbulent and 31.8% described their business environment as stable. 50% of the respondents stated that they proactively react to their business environment and 50% are reactive to their business environment.

**Table 4.2.4 Description of the environment and reaction to it**

| Description of business environment | Freq. | % | Reaction to business environment | | |
|---|---|---|---|---|---|
| | | | | Freq. | % |
| Turbulent | 15 | 68.2 | Proactive | 11 | 50 |
| Stable | 7 | 31.8 | Reactive | 11 | 50 |

## 4.3 Number of aircraft owned

The respondents were further asked to state the number of aircraft they owned. As indicated in table 4.3.1 below, a majority of the respondents, 45.3%, owned between 2 and 5 aircraft. 40.8% owned between 6 and 10 aircraft and 9% owning between 11 and 16 aircraft. This finding confirms that the operators, 86.1% at Wilson Airport, Nairobi are small operators owning between 2 and 10 planes. This finding is in conformity with the assertion of anecdotal data and popular press reports that operators in Wilson Airport are small operators operating within the East Africa region, particularly to tourists destination areas like the popular Masai Mara and Serengeti in Tanzania and to Sudan and Somali to deliver relief supplies and miraa respectively.

**Table 4.3.1 Number of aircraft owned**

| Aircraft owned | Frequency | % |
|---|---|---|
| 2-5 | 10 | 45.3 |
| 6-10 | 9 | 40.8 |
| 11-16 | 2 | 9.0 |
| No response | 1 | 4.5 |
| Total | 22 | 100.0 |

**Source: Research Data**

## 4.4 Number of employees

The respondents were further asked to state how many employees they have and as indicated in table 4.4.1 below, 45.45% airlines each have fifty employees and below, another 45.45% have between fifty and one hundred employees and only 9.1% airlines have over one hundred employees. This finding still confirms that a majority of airlines at Wilson Airport are small operators with since they have less than one hundred employees. Therefore they are considered small taking into account the number of employees and aircraft they have. The Ministry of Labour and the International Labour

Organization classify companies with less than 100 employees as small companies

**Table 4.4.1.Number of employees**

| Employees | Frequency | % |
|---|---|---|
| 0–50 | 10 | 45.45 |
| 50–100 | 10 | 45.45 |
| 101–140 | 2 | 9.1 |
| Total | 22 | 100.0 |

**Source: Research Data**

## 4.5 Most Important Destinations

The respondents were asked to state three most important destinations they fly to on a regular basis and the ranking of the destinations in terms of frequency of their flights from Wilson Airport.

As indicated in table 4.5.1 below, the most important destinations of the flights from Wilson Airport, in order of importance, as perceived by the respondents, the most popular was Sudan 27.3%, 18.2%, 9.1%. Then Somalia 13.6%, 13.6% 9.1%, followed by Ethiopia 9.1%, 18.2%, 18.2% and finally Masai Mara at 9.1%, 9.1% and 0%. This finding is contrary to the anecdotal data and popular Kenyan press reports that the most flights from Wilson Airport are to Masai Mara and Somalia.

A majority of the flights are in fact to Sudan delivering relief supplies (Kenya Airports Authority annual report 2002)

**Table 4.5.1 Most important destinations**

| Order of importance | 1 | | 2 | | 3 | |
|---|---|---|---|---|---|---|
| Destinations | Freq. | % | Freq. | % | Freq. | % |
| Sudan | 6 | 27.3 | 4 | 18.2 | 2 | 9.1 |
| Somalia | 3 | 13.6 | 3 | 13.6 | 2 | 9.1 |
| Ethiopia | 2 | 9.1 | 4 | 18.2 | 4 | 18.2 |
| Masai Mara | 2 | 9.1 | 2 | 9.1 | 0 | 0 |

**Source: Research Data**

## 4.6 Financial Performance and contributory factors

The respondents were further asked to state their financial performances between 1996 and 2000 and indicate what helped in that performance. A majority of them did not answer this question. Of the 22 respondents, only 45% of the airlines indicated their financial performance in 1996, 41% in 1997, 13.6% in 1998, 22.7 % in 1999 and 31.8% in 2000 being the highest. The year 2000 was the highest because the information requested was more recent and therefore easily available on the shelves.

However, in response to the question as to what contributed to their improved financial performances, as indicated in table 4.6.1 below, a majority of the airlines, with a mean of 4.46 and standard deviation of 0.519, stated that it was improved marketing effort and that most enhanced their financial performance. This was followed by improved process with a mean of 3.30 and standard deviation of 1.494, followed by good budgeting practices with a mean of 3.26 and standard deviation of 1.414, followed by improved technology with mean of 3.22 and standard deviation of 1.563, followed by improved products with a mean of 3.20 and standard deviation of .837, followed by enlarged market share with a mean of 3.20 and standard deviation of 1.155. This was further followed by increased product range with a mean of 3.20 and standard deviation of 1.304, followed by employee empowerment with a mean of 3.14 and standard deviation of 0.900 and lastly employee training at 2.86 and standard deviation of 1.345.

The finding confirms that marketing efforts better business processes to create customer value and good budgeting practices are important performance drivers for airlines operating at Wilson airport, Nairobi.

**Table 4.6.1 Factors contributing to improved financial performance.**

| Factor | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Increased Market Share | 7 | 1 | 4 | 3.20 | 1.155 |
| Improved Technology | 9 | 1 | 5 | 3.22 | 1.563 |
| Improved Processes | 10 | 1 | 5 | 3.30 | 1.494 |
| Improved Products | 5 | 2 | 4 | 3.20 | 0.837 |
| Enlarged Product Range | 5 | 2 | 5 | 3.20 | 1.304 |
| Training of Employees | 7 | 1 | 4 | 2.86 | 1.345 |
| Budgeting Practices | 8 | 1 | 5 | 3.26 | 1.414 |
| Employee empowerment | 7 | 2 | 5 | 3.14 | 0.900 |
| Improved Marketing Efforts | 13 | 4 | 5 | 4.46 | 0.519 |

**Source: Research Data**

## 4.7 Preparation of Budgets, Importance and Necessity of Budgets

The respondents were asked whether they prepare budgets in their organizations and to state the importance and necessity of budgeting in their organizations. As indicated in table 4.7.1 below, 95.5% of the respondents stated that they prepare budgets, 9.1% stated that the budgets are of limited importance, 40.9% stated that the budgets are important, 4.5% stated that the budgets are very important and 36.4% stated that the budgets are essential. It can be concluded from this finding that airlines at Wilson Airport prepare budgets and they find budget process important and essential to their businesses.

**Table 4.7.1 Preparation of budget and importance of budgeting practices**

| Prepare Budgets | | | Importance of Budgets | | |
|---|---|---|---|---|---|
| Response | Freq. | % | Response | Freq. | % |
| Yes | 21 | 95.5 | Of limited importance | 2 | 9.1 |
| No | 1 | 4.5 | Important | 9 | 40.9 |
| | | | Very Important | 1 | 4.5 |
| | | | Essential | 8 | 36.4 |
| | | | No response | 2 | 9.1 |
| | | | | 22 | 100.0 |

**Source: Research Data**

As to the necessity of the budgets, as indicated in table 4.7.2 below, 90.9% of the respondents strongly agreed that budgets are necessary. Only 9.1% strongly disagreed. As to the reasons why budgets are necessary, a majority of the respondents, 45.4% gave the ability to plan a head. This was followed by the ability to survive in a competitive environment 13.6%, provision of direction 9.1% and good cash flow and identifying weaknesses 4.5% each and finally there was a no-response of 22.8% due to respondents unwillingness to respond to the question.

**Table 4.7.2 Necessity of budgets**

| Necessity | Freq | % | Why Budgets are necessary | Freq | % |
|---|---|---|---|---|---|
| Strongly agree | 20 | 90.9 | For survival in a competitive world | 3 | 13.6 |
| Strongly disagree | 2 | 9.1 | Able to plan ahead | 10 | 45.5 |
| | | | Provide Direction | 2 | 9.1 |
| | | | Good Cash flow | 1 | 4.5 |
| | | | Identify weakness | 1 | 4.5 |
| | | | No response | 5 | 22.8 |
| Total | 22 | 100.0 | Total | 22 | 100.0 |

**Source: Research Data**

## 4.8 Pre-Budget Analysis

The respondents were also asked to state what they initially consider before preparing their budgets. As indicated in table 4.8.1 below, the majority of the airlines, 27.3%, do analysis of information gathered from all departments before doing their budgets. 22.7% use analysis of past recorded events. 13.6% analysis of previous income versus expenditure and 9.1% consider the market study and lastly flight schedules were 4.5%. There was a non-response of 22.8% as a result of the respondents being unwilling to answer the question.

**Table 4.8.1 Consideration before budget preparation**

| Considerations before budget preparations | | |
|---|---|---|
| What is considered | Frequency | % |
| Past records | 5 | 22.7 |
| Current market study | 2 | 9.1 |
| Departmental information | 6 | 27.3 |
| Past income vs expenditure | 3 | 13.6 |
| Current flight schedule | 1 | 4.5 |
| Non-response | 5 | 22.7 |
| Total | 22 | 100.0 |

**Source: Research Data**

**Types of budgets prepared**

As to the types of budgets prepared, and as indicated in table 4.8.2 below, the majority of airlines, with a mean of 4.71 and a standard deviation of 0.644 all prepare operating budgets, followed by capital budgets with a mean of 3.73 and a standard deviation of 1.100, followed by financial statements with a mean of 3.43 and standard deviation of 1.121.

**Table 4.8.2 Types of budgets prepared**

| Budgets prepared | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Operating | 22 | 3 | 5 | 4.71 | 0.644 |
| Financial statement | 21 | 1 | 5 | 3.43 | 1.121 |
| Capital | 15 | 2 | 5 | 3.73 | 1.100 |

**Source: Research Data**

As to the most used budgeting method, the respondents, as indicated in table 4.8.3 below, stated that they mostly use priority incremental budgeting method with a mean of 4.11 and standard deviation of 0.937, followed by incremental budgeting with a mean of 3.95 and standard deviation of 0.970, followed by activity based budgeting with a low mean of 2.00 and standard deviation of 0.970 and lastly zero based budgeting with a very low mean of 1.05 and standard deviation of 0.229.

**Table 4.8.3 The most used budgeting method**

| **Factor** | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Zero-based budgeting | 19 | 1 | 2 | 1.05 | 0.229 |
| Incremental budgeting | 19 | 1 | 5 | 3.95 | 0.970 |
| Priority incremental budgeting | 19 | 3 | 5 | 4.11 | 0.937 |
| Activity based budgeting | 18 | 1 | 5 | 2.00 | 0.970 |

**Source: Research Data**

## 4.9 Formality, forward Budgets and reasons for Budgeting

The respondents were asked to state the formality of their budget practices. As indicted in table 4.9.1 below, the majority of the respondents, 81.8% used to formal budgeting practices and only 18.2% that used informal budgeting practices and therefore budgeting is not part of formal or standard management practice.

**Table 4.9.1 Formality in budget preparation**

| Formality | Frequency | % |
|---|---|---|
| Formal | 18 | 81.8 |
| Informal | 4 | 18.2 |
| Total | 22 | 100.0 |

**Source: Research Data**

The respondents were also asked to state how far forward do they prepare their budgets, and as indicated in table 4.9.2 below, they mostly prepare annual budgets with a mean of 5.00 and standard deviation of 0.00, followed by 6 monthly budget with a mean of 4.73 and standard deviation of 0.647, followed by monthly budget with a mean of 2.00 and standard deviation of 1.816 and lastly weekly with a mean of 2.00 and standard deviation of 1.414. No organization that prepares every 2-3 years budget or every 3-5 years budget and no organization that never prepares budgets.

**Table 4.9.2 How forward budgets are prepared**

| Forward budgeting | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Weekly | 5 | 1 | 4 | 2.00 | 1.414 |
| Monthly | 4 | 1 | 3 | 2.00 | 1.816 |
| Every 6 months | 8 | 3 | 5 | 4.73 | 0.647 |
| Every year | 10 | 5 | 5 | 5.00 | 0.000 |
| Every 2-3 years | - | - | - | - | - |
| Every 3-5 years | - | - | - | - | - |
| Never prepared | - | - | - | - | - |

**Source: Research Data**

The respondents were further asked to state the reasons for preparing budgets and as indicated in table 4.9.3 below from the findings, the budgets are mainly used for planning ahead, cost control, co-ordinating company operations, improving company performance and lastly for motivating employees in that order One organization indicated that it prepares budget for an unspecified reasons with a mean of 5.00 and a standard deviation of 0.00.

It is surprising that motivation of employees is lowly rated in this finding.

**Table 4.9.3 Reasons for budgeting**

| Reasons | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Control costs | 18 | 3 | 5 | 4.28 | 0.895 |
| Planning ahead | 19 | 4 | 5 | 4.79 | 0.419 |
| Motivate employees | 12 | 1 | 5 | 2.67 | 1.557 |
| Co-ordinate company | 19 | 2 | 5 | 4.21 | 0.976 |
| Improve company performance | 15 | 1 | 5 | 3.80 | 1.521 |
| Others – unspecified | 1 | 5 | 5 | 5.00 | 0.00 |

**Source: Research Data**

These findings are in agreement with Buckley, et al (1972), who assert that the process of budgeting consists of planning, controlling, co-ordination and motivating, through money values, members and departments within an organization. In a nutshell, the budget is a plan, usually for one year ahead, in quantitative terms, that guides the implementation of a firm's strategic intent, measures and compares performance of employees for reward and compensation to ensure sustained motivation.

## 4.10 Personnel involved in Budgeting and Factors Considered

The respondents were asked to state who in their company is involved in budget preparations and what factors are considered when preparing the budget. As indicated in table 4.10.1 below, top management were mostly involved in budget preparation, with a mean of 4.62 and standard deviation of 0.806. Middle level management and all employees each with a mean of 4.25 and standard deviation of 1.138 followed this. Consultants with a mean of 3.71 and standard deviation of 1.590 were third. Lastly everybody in the company being involved with a mean of 2.67 and standard deviation of 2.082.

**Table 4.10.1 Involvement in Budget Preparation**

| Involved | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Top management | 16 | 3 | 5 | 4.62 | 0.806 |
| Middle level management | 12 | 3 | 5 | 4.25 | 1.138 |
| All employees | 12 | 2 | 5 | 4.25 | 1.138 |
| Consultants | 14 | 1 | 5 | 3.71 | 1.590 |
| All the above | 3 | 1 | 5 | 2.67 | 2.082 |

**Source: Research Data**

As to the factors considered essential in preparation of the budget, as indicated in table 4.10.2 below, departmental segmentation as a means of measuring departmental performance and effectiveness with a mean of 4.64 and standard deviation of 0.633 was the most essential, secondly clear and realistic goals with a mean of 4.53 and standard deviation of 0.624. Thirdly all employees participation with a mean of 4.50 and standard deviation of 1.000, followed by the external environment (competition, technology and the economy) with a mean of 4.18 and standard deviation of 1.401 followed by top management support with a mean of 4.17 and standard deviation of 1.329 and lastly sound organizational structure with a mean of 3.80 and standard deviation of 1.304.

**Table 4.10.2 Factors considered in budgeting**

| Involved | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Top management support | 6 | 2 | 5 | 4.17 | 1.329 |
| All employees participation | 12 | 2 | 5 | 4.50 | 1.000 |
| Departmental segmentation | 14 | 3 | 5 | 4.64 | 0.633 |
| Sound organizational structure | 5 | 2 | 5 | 3.80 | 1.304 |
| Clear and realistic goals targets | 17 | 3 | 5 | 4.53 | 0.624 |
| External environment | 11 | 1 | 5 | 4.18 | 1.401 |

**Source: Research Data**

## 4.11 Objectives of budgeting and participative tools in budgeting

The respondents were asked to state the objectives of making budgets in their firms and the tools they use in involving others in budget preparation. As indicated in table 4.11.1 below, a majority of airlines with a mean of 4.78 and standard deviation of 0.548 gave efficient operation of the business as a major objective of budgeting, followed by a yardstick for comparison with a mean of 4.43 and standard deviation of 0.852. Thirdly, co-ordinating business activities with a mean of 4.36 and standard deviation of 1.008, followed by central control with a mean of 3.75 and standard deviation of 1.165.

Lastly achieving maximum profitability with a mean of 3.67 and standard deviation of 1.581.

**Table 4.11.1 Objectives of Budgeting**

| Objectives | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Achieve maximum profitability | 9 | 1 | 5 | 3.67 | 1.581 |
| Efficient operation of business | 18 | 3 | 5 | 4.78 | 0.548 |
| Co-ordinate business activities | 14 | 2 | 5 | 4.36 | 1.008 |
| Central control | 8 | 2 | 5 | 3.75 | 1.165 |
| Provide yardstick for comparison | 14 | 3 | 5 | 4.43 | 0.852 |

**Source: Research Data**

**Budgeting participation tools**

As to the tools the airlines use to involve others in the budgeting process, as indicated in table 4.11.2 below, the majority of the airlines indicated that brainstorming was the most used tool with a mean of 4.83 and standard deviation of 0.514. Suggestion systems with a mean of 4.61 and standard deviation of 0.698 was second, followed by interdisciplinary discussion groups with a mean of 3.60 and standard deviation of 1.414. Quality circles with a mean of 3.57 and standard deviation of 1.618 was the least used.

These findings confirm that the airlines budget to achieve standard business objectives and use top-down approach in budgeting and reasonably involve employees during the budgeting process.

**Table 4.11.2 Participation Tools used in Budgeting**

| Participation tools | No | Min | Max | Mean | Standard deviation |
|---|---|---|---|---|---|
| Quality circles | 7 | 1 | 5 | 3.57 | 1.618 |
| Interdisciplinary discussion groups | 6 | 1 | 5 | 3.60 | 1.414 |
| Suggestion systems | 18 | 3 | 5 | 4.61 | 0.698 |
| Brain storming | 18 | 3 | 5 | 4.83 | 0.514 |

**Source: Research Data**

## 4.12 Importance of Educating Employee about Budgeting Practices.

The respondent were asked whether it is important to educate and communicate to employees about the budgeting process and why. They were further asked which methods are most appropriate for doing so. As indicated in table 4.12,1 below, an overwhelming majority, 90.9, of the respondents said it is important to educate and communicate to all employees on the budgeting process.

As to the reason why it is important to educate and communicate to employees on the budgeting process, as indicated in table 4.12.1 below, the majority, 68.1%, of the respondents said it is important in order to ensure success in the budgeting process, followed by a need to facilitate a smooth budgeting process, 54.5%, and because of employees are stakeholders and are important in the budgeting process 45.4% each.

**Table 4.12.1 Importance of educating and communicate to employees**

| Whether it is important to educate employees | | | Why it is important to educate them on budgeting practices | | | | |
|---|---|---|---|---|---|---|---|
| | F | % | Reasons | Least important | | Most important | |
| Important | 20 | 90.9 | | F | % | F | % |
| Non-response | 2 | 9.1 | For acceptance and support | 6 | 27.3 | 4 | 18.2 |
| | | | To ensure success of the budget | 2 | 9.1 | 15 | 68.1 |
| | | | To facilitate smooth budgeting | 4 | 18.2 | 12 | 54.5 |
| | | | Employees are important | 6 | 27.2 | 10 | 45.5 |
| | | | Employees are stakeholders | 6 | 27.2 | 10 | 45.5 |

**Source: Research data**

As to the method for educating and communicating to employees the budgeting practices, as indicated in table 4.12.2 below, group discussions were stated as the most important method, followed by written materials on the budgeting process, 40.9% and conferences 31.8%

**Table 4.12.2 Methods used to educate and communicate to employees**

| Method used | Least used | | Most used | |
|---|---|---|---|---|
| | Freq. | % | Freq. | % |
| Seminars | 1 | 4.5 | 2 | 9.1 |
| Conferences | 1 | 4.5 | 7 | 31.8 |
| Group discussions | 5 | 22.7 | 17 | 77.3 |
| Executive development programs | 1 | 4.5 | 4 | 18.2 |
| Written materials | 1 | 4.5 | 9 | 40.9 |
| All the above | 1 | 4.5 | 3 | 13.6 |

**Source: Research Data**

## 4.13 Influence of budgeting on profitability

The respondents were asked to state how budgeting affects the profitability and hence the financial performance of their airlines. As indicated in table 4.13.1 below, the majority of the respondents, 63.6%, indicated that budgeting greatly influences the profitability of their airlines and hence their financial performance. This finding is in agreement with Welsch (1976)'s position. Welsch (1976) asserts that budgeting is the only comprehensive approach to effectively managing an organization that if utilized properly and with sophistication and judgment can improve the profitability of the firm and its overall long-term financial performance and stability.

**Table 4.13.1 Budgeting Influence on Profitability and financial performance**

| Influence | Frequency | % |
|---|---|---|
| Not much | 8 | 36.4 |
| Very much | 14 | 63.6 |
| Total | 22 | 100.0 |

**Source: Research Data**

## 4.14 Perceived Visible Benefits of the Budgeting Process.

The respondents were asked to state their perceived benefits of the budgeting process. As indicated in table 4.14.1 below, the respondents stated that the most perceived benefit of the budgeting process is being a yardstick for performance measurement, 36.4%. Making greater profits and improving cash flow 18.1%, followed this. This was further followed by to co-ordinate business activities 13.1 followed by efficient operation of the business 4.5%, and setting clear targets 4.5% and non-represent of 23.4%

**Table 4.14.1 Perceived Visible Benefits of the Budgeting process**

| Benefits | Freq. | % |
|---|---|---|
| Planning/predicting the future (focuses Managers) | 8 | 36.4 |
| Improved financial performance (Yard stick) | 4 | 18.1 |
| Co-ordinate business activities | 3 | 13.1 |
| Efficient operation of business (Rationalization of operations) | 1 | 4.5 |
| Setting clear and realistic targets (Business strategy) | 1 | 4.5 |
| Non-response | 5 | 23.4 |
| Total | 22 | 100.0 |

**Source: Research data**

These findings are in agreement with Noll, et al (1998), who assert that budgeting is a feed forward process, it makes possible an evaluation of the variables that are likely to affect the future operations of the enterprise. It predicts the future with reasonable precision and removes uncertainty to a great extent.

## 4.15 Challenges to budgeting practices.

The respondents were further asked to state the challenges they face when preparing budgets. As indicated in table 4.15.1 below, the greatest challenge of budgeting was budget evaluation deficiencies 59.1%, secondly lack of full participation of all individuals to minimize psendo-partipation in the preparation of the budget 54.6%. Thirdly lack of education of all individuals involved that is necessary to ensure full involvement 40.8% and budget implementation problems 40.8%. Lastly lack of top management support 18.2%

**Table 4.15.1 Challenges of budgeting practices**

| Challenge | Least challenge | | Most challenge | |
|---|---|---|---|---|
| Lack of top management support | 4 | 18.2 | 4 | 18.2 |
| Education of all individuals involved | 2 | 9.0 | 9 | 40.8 |
| Lack of full participation | 2 | 9.1 | 12 | 54.6 |
| Lack of full budget implementation | 2 | 9.1 | 9 | 40.8 |
| Budget evaluation deficiencies | 2 | 9.1 | 13 | 59.1 |

**Source: Research Data**

## 4.16 Why budget practices cause conflict

The respondents were asked to state why they think budgets cause conflicts in their organizations. As indicated in table 4.16.1 below, scarcity of resources 90.0% is the greatest cause of conflict in budgeting in organizations. The struggle for resource allocation 50.0%, is the second cause of conflicts, followed by performance measurement 45.5% and performance pressure, 4.5%.

There was a non-response by respondents of 54.5% due to their unwillingness to answer this particular question.

**Table 4.16.1 Causes of conflict in Budgeting**

| Cause | Yes | | No. | | Non-responses | |
|---|---|---|---|---|---|---|
| | Freq. | % | Freq. | % | Freq. | % |
| Struggle for resource | 11 | 50.0 | 1 | 4.5 | 10 | 45.5 |
| Power struggle | 0 | 0.0 | 6 | 27.3 | 16 | 72.7 |
| Scarcity of resource | 20 | 90.0 | 0 | 0.0 | 2 | 10.0 |
| Performance pressure | 1 | 4.5 | 4 | 18.2 | 17 | 77.3 |
| None of the above | 0 | 0.0 | 5 | 22.7 | 17 | 77.3 |
| Control of the above listed issues | 1 | 4.5 | 4 | 18.2 | 17 | 77.3 |
| Performance measurement | 10 | 45.5 | 0 | 0.0 | 12 | 54.5 |

**Source: Resource Data**

Conflict in budgeting in organizations is common and it usually leads to distorting of budgeting data and results by managers, in order to appear more needy of resources and better in performance than other managers. (Birnburg, et al 1983)

Distortions of budget data is done so as to attract more budgetary resource allocation now and in the future. Some of the information distorting behaviours includes smoothing, biasing, gaming, filtering, and illegal acts, by managers during budgeting period and during performance review. This behaviour is more common in organizations where budgeting achievements are tied up with compensation and reward systems for managers and employees (Birnburg, et al 1983).

**Conclusions.**

The research data in this survey indicated that airlines operating at Wilson airport, Nairobi, operate and use budgets to plan, implement, and evaluate their businesses' performance. These findings are in agreement with Merchant (1998), who asserts that 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. He further asserts that the issue is not whether to prepare a budget, but rather how to do it effectively.

In their recent research, Clark and Toal (1999), show that a budget is an essential part of most businesses that enables them to position themselves in the external environment. A good budget can enable a firm gain a sustainable competitive advantage over the competition in its industry. The airlines at Wilson airport are trying to do exactly that in their extremely competitive and turbulent industry.

# CHAPTER 5

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Summary of Findings and Conclusions

The three objectives of this study were to determine budgeting practices applied by the airlines operating at Wilson airport Nairobi, the factors considered in budgeting and the perceived benefits of budgeting by these airlines. To satisfy the objectives of the study, the primary data was collected, using questionnaire from 22 airlines operating at Wilson airport Nairobi. There was no secondary data used in the survey. The primary data was analyzed using descriptive statistics, frequency tables, means, standard deviations and percentages were used to draw conclusions on the findings.

The research findings are as presented in chapter 4 and the following conclusions have been drawn in the light of the objectives of the study.

### Financial performance and contributory factors

As to what contributed to the airlines' improved financial performance, a majority of the airlines stated that it was due to increased marketing efforts, improved processes and effective budgeting practices. This finding indicates that intensified marketing efforts, better business processes and budgeting practices are important in the business operations of airlines operating at Wilson airport, Nairobi

**The budgeting process, importance and necessity of budgeting**

A majority of the respondents, 95.5%, stated that they prepare budgets in their organizations, while only 4.5% stated that they do not prepare budgets. Further, a majority, 81.8%, of the respondents stated that budgeting process were important and essential to their business for planning, implementation of plans and measuring and evaluation of their business performance. They emphasized that budgets were mostly, used to plan ahead, cost control, to improve company performance and lastly for motivating of employees. Still, a majority of the respondents stated that the major objectives of budgeting were efficient operation of the business, a yardstick for comparison and co-ordination of business activities. The surprising finding was that motivation of employees was lowly rated.

These findings indicate that budgeting is widely practiced by the airlines operating at Wilson airport, Nairobi. The findings are in agreement with Merchant (1998) who asserts that nearly everyone budgets to some extent even though many people who prepare and use budgets do not recognize what they are doing is budgeting. He goes on to say that all enterprises make plans, through budgets, some in a systematic and formal way while others in an informal manner, but still have some form of budgeting and budget control practice for planning, implementation of plans and evaluation of performance.

These findings are further in agreement with Horngren, et al (1997). They assert that budgets are the most widely used tools for formal planning and co-ordinating the various activities of a business. They aid measuring actual performance and comparing it with the targets set out in the budgets. The management can analyze the difference between the actual results and the budgeted figures and take appropriate action in order to improve actual performance in the future and/or to revise the planned budgetary figures, if this is deemed necessary. Budgeting practices aim at achieving high performance by a firm in terms of maximum productivity and profitability (Cooperland 2000)

**Pre-budget analysis**

81.8% of airlines formally prepares budgets and 13.6% of the airlines informally prepare budgets. The majority of the airlines also prepares annual budgets followed by half yearly budgets. The finding confirms that most of the airlines prepare annual budgets, which is a typical business budgeting cycle in many industries.

A large number of the airlines, 27.7%, analyze information gathered from all departments and 22.7% of the airlines analyze past records, and accounting statements before doing their budget. This finding confirms that budgets are prepared on the basis of historical data.

**Types of budgets prepared**

Many of the airlines prepare all the three budgets namely, operating budgets, financial statement budgets and capital budgets. They also use priority incremental budget than activity based budgeting and zero based budgeting.

It was further confirmed that most airlines are involved in format budgeting.

**Those involved in budgeting**

In a lot of cases, top management is involved in preparing budgets, followed by middle level management and lastly all employees. The budget process is top to bottom as is common in small businesses. As to the factors considered important when preparing the budget, departmental segmentation is considered as the most important factor, followed by clear and realistic goals and objectives. Employees' participation, the external environment (competition, technology and the economy), and top management support.

An overwhelming large number, 90.9% of the airlines said it is important to involve, educate and communicate with all employees on the budgeting process. As to the reasons why it is important to involve, educate and communicate with all employees on the budgeting process, 68.1% of the respondents said that it is important in order to ensure success of the budgeting process, followed by to facilitate a smooth budgeting process.

The respondents also stated that suggestion system and brainstorming groups were the most used tools during the budgeting process. Further they mostly communicate with employees using memos and group discussions.

The finding confirms the expectation that all employees and at all levels in the airline industry were involved in budgeting and budgeting process, at one time or another, during the budgeting process and top management always provides the necessary guidance.

**Effects of budgets on profitability and financial performance?**

A large number of the airlines 63.6% stated that budgeting positively affects the financial performance of the airlines. This finding is in agreement with Welsch (1976) who asserts that budgeting is the only comprehensive approach to managing an organization in terms of planning, implementation and evaluation of plans as a means of improving financial performance of the firm.

**Perceived Visible benefits of the budgeting**

The respondents see the most perceived benefits of budgeting as proper planning, predicting the future, giving direction in the firm making greater profit and improving cash flow. This finding is in agreement with Noll et al (1998) who asserts that budgeting is a feed forward process. It makes an evaluation of the variables that are likely to affect future operations of the enterprise and predict the future and removes uncertainty to a greater extent.

**Challenges of Budgeting**

The greatest challenges of budgeted process were noted as evaluation of deficiencies without bias 59.1%, full participation in the budgeting process by all individuals in the organization 54.6% and getting top management support

36.3%. This finding is in agreement with Buckley, et al (1972) who asserts that full participation, by all employees in the preparation of the budget and accepting the evaluation results, particularly when they related to employee/management reward and compensation are the greatest challenges of operating a budgeting system successfully in any industry.

**Why budget practices cause conflict in organizations**

The airlines indicated that scarcity of resources is the greatest cause of conflict 90.9% in budgeting, struggle for resource allocation 50%, performance measurement 45.5% and power struggle 27.3% do influence the favourable allocation of resources. All these conflicts lead to distorting of budgeting data in order to be favoured in resource allocation. According to Birnberg, et al (1983) conflict in budgeting leads to distorting of budgeting data by managers of firms in order to appear more needy of better in performance than other managers so that one can attract more budgetary resources. Some of the distorting behaviours according to Birnberg, et al (1983) include smoothing, biasing, focusing, gaming, and filtering and illegal acts by managers.

**Discussion**

The research data in this survey confirm that airlines operating at Wilson airport operate budgets and use them to plan, implement and evaluate their business programs. The applications of the budgeting practices influence their business operations. This is in agreement with Merchants' (1998) assertion that 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. He further asserts that the issue is not whether to prepare a budget, but rather how to do it. In their research Clarke and Toal (1999) show that a budget is an essential part of most businesses that enables them to position themselves in the external environment. A good budget can enable a firm gain a sustainable competitive advantage in the market place and in its industry. *The airlines at Wilson airport are trying to exactly do that.*

**Limitations of the study**

The extent of this study was limited by seasonality of the operations of the airlines and time to collect all the questionnaires from the respondents, which may have led to different and improved conclusions. The study also cut in a small area of an industry whereas prior studies (Merchant 1999) were in wider sectors like, manufacturing sector, to enable control for sectorial dissimilarities. Money is also a limiting factor in that, with enough funds, more sophisticated analysis would have been done to improve the conclusions. Further, forty-one questionnaires were not received back; their inclusion in the analysis of the data could possibly have changed the conclusions reached on the findings. Also twenty eight airlines shifted operation to other countries and few airlines closed down during the study, possibly due to the economic difficulties in the Kenyan economy and seasonality of the tourism industry, their inclusion would have improved the conclusions reached in one way or another.

**Recommendations for further research**

Budgeting practice is important for the success of the Kenyan companies. It is therefore suggested that further research be carried out focusing on whether there is a strong relationship between the application of certain budgeting practices, financial performance and stability of the firm. Other areas of future research interest would include cross-sectional study, relations between strategy and budgeting approaches and budgeting and human behaviour in Kenya. All these may need the use of multi regression to analyze the date. The future study should be wide enough but limited to particular sectors to control for the differences in various sectors.

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## APPENDIX I

## QUESTIONNAIRE

**Note:** ***The information in this questionnaire will be treated confidentially and will not be used for any other purpose other than academic. In case of difficulties, the data collection difficulties will be discussed with you when picking the completed questionnaire.***

Date: ---------------------------------- Questionnaire No.-------------------------

### Part 1

**A. Company information** – *Mission/objectives/services*

1. Name of the organization -----------------------------------------------------------

2. Year of establishment of company: ----------------------------------------------

3. State your corporate vision: -----------------------------------------------------

4. State your corporate mission below:

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State your key corporate goal:

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Do you have a corporate strategic plan? Yes ☐ No ☐

If 'Yes' for how long does it run?

______________________________________________

______________________________________________

______________________________________________

5. (a) How many airplanes (average) does your company have? ______________

   (b) Total asset value of firm? ______________________________

6. What business are you in?

| | Yes | No |
|---|---|---|
| a. Aircraft leasing | ☐ | ☐ |
| b. Cargo airlift | ☐ | ☐ |
| c. Passenger airlift | ☐ | ☐ |
| d. Cargo and passenger airlift | ☐ | ☐ |
| f. Any other (specify) | | |
| ______________________ | ☐ | ☐ |
| ______________________ | ☐ | ☐ |
| ______________________ | ☐ | ☐ |

7. List the 3 most important destinations of your flights:

a) ______________________________________________

b) ______________________________________________

c) ______________________________________________

8. How many employees does your company have? ____________________

**B. Organisational performance**

9. Kindly provide below your business performance during the years indicated:

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Turnover (KES) | | | | | |
| Operating profits (KES) | | | | | |
| Net profit margin (KES) | | | | | |

10. What do you think contributed to this performance?

| | Least contributed 1 | 2 | 3 | 4 | Most contributed 5 |
|---|---|---|---|---|---|
| ♦ Increased market share | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Improved Technology | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Improved processes | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Improved products | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Enlarged product range | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Training of employees | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Employee empowerment | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ More effective cost control | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Better budgeting system | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Improved marketing efforts | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Better motivation of employees | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Any other (specify) | | | | | |
| ____________________ | ( ) | ( ) | ( ) | ( ) | ( ) |
| ____________________ | ( ) | ( ) | ( ) | ( ) | ( ) |
| ____________________ | ( ) | ( ) | ( ) | ( ) | ( ) |

## Part 2

### Process of budgeting and budgetary control

1. Do you prepare budgets? ☐ Yes ☐ No

2. If yes, how important is budgeting to the success of your company?

| | Yes | No |
|---|---|---|
| ♦ Of no importance at all | ☐ | ☐ |
| ♦ Of limited importance | ☐ | ☐ |
| ♦ Important | ☐ | ☐ |
| ♦ Very important | ☐ | ☐ |
| ♦ Essential | ☐ | ☐ |
| ♦ Any other (specify) | | |
| ________________________ | ☐ | ☐ |
| ________________________ | ☐ | ☐ |

3. What initial preparations and analysis do you do before undertaking budget process?
________________________________________________________________
________________________________________________________________

4. What kind of budgets does your company prepare?

| | Yes | No |
|---|---|---|
| ♦ Cash budgets | ☐ | ☐ |
| ♦ Financial statements budgets | ☐ | ☐ |
| ♦ Budgets for acquisition of fixed assets | ☐ | ☐ |
| ♦ Any other (specify) | | |
| ________________________ | ☐ | ☐ |
| ________________________ | ☐ | ☐ |

5a. How forward is cash budget prepared in your company?

| | Yes | No |
|---|---|---|
| ♦ Weekly | ☐ | ☐ |
| ♦ Monthly | ☐ | ☐ |
| ♦ Quarterly | ☐ | ☐ |
| ♦ Yearly | ☐ | ☐ |
| ♦ Every 2-3 | ☐ | ☐ |
| ♦ Every 3-5 | ☐ | ☐ |
| ♦ Never prepared | ☐ | ☐ |
| ♦ Any other (specify) | | |
| ______________________________ | ☐ | ☐ |
| ______________________________ | ☐ | ☐ |

b. How forward are financial statements budget prepared in your company?

| | Yes | No |
|---|---|---|
| ♦ Weekly | ☐ | ☐ |
| ♦ Monthly | ☐ | ☐ |
| ♦ Quarterly | ☐ | ☐ |
| ♦ Yearly | ☐ | ☐ |
| ♦ Every 2-3 | ☐ | ☐ |
| ♦ Every 3-5 | ☐ | ☐ |
| ♦ Never prepared | ☐ | ☐ |
| ♦ Any other (specify) | | |
| ______________________________ | ☐ | ☐ |
| ______________________________ | ☐ | ☐ |

c. How forward is fixed assets budget prepared in your company?

| | Yes | No |
|---|---|---|
| ♦ Weekly | ☐ | ☐ |
| ♦ Monthly | ☐ | ☐ |
| ♦ Quarterly | ☐ | ☐ |
| ♦ Yearly | ☐ | ☐ |
| ♦ Every 2-3 | ☐ | ☐ |
| ♦ Every 3-5 | ☐ | ☐ |
| ♦ Never prepared | ☐ | ☐ |
| ♦ Any other (specify) | | |
| ______________________ | ☐ | ☐ |
| ______________________ | ☐ | ☐ |

d. How forward are other budgets prepared in your company?

| | Yes | No |
|---|---|---|
| ♦ Weekly | ☐ | ☐ |
| ♦ Monthly | ☐ | ☐ |
| ♦ Quarterly | ☐ | ☐ |
| ♦ Yearly | ☐ | ☐ |
| ♦ Every 2-3 | ☐ | ☐ |
| ♦ Every 3-5 | ☐ | ☐ |
| ♦ Never prepared | ☐ | ☐ |
| ♦ Any other (specify) | | |
| ______________________ | ☐ | ☐ |
| ______________________ | ☐ | ☐ |

6. To what extent does each of the following justify your organisation's preparation of budgets?

| | Least 1 | 2 | 3 | 4 | Most 5 |
|---|---|---|---|---|---|
| ♦ To control costs | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To plan annual operations | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To motivate employees | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To co-ordinate company operations | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To improve company performance | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To communicate within company regarding expectations | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To anticipate operating bottlenecks and their possible solutions | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To facilitate performance evaluation | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To facilitate financial resource Mobilization (e.g. Banks requirements) | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To meet Boards demands | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To implement a business strategy | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Any other (specify) | | | | | |
| ______________________ | ( ) | ( ) | ( ) | ( ) | ( ) |
| ______________________ | ( ) | ( ) | ( ) | ( ) | ( ) |

7. To what extent are the following involved in the preparation of budgets in your company?

| | Least involved 1 | 2 | 3 | 4 | most involved 5 |
|---|---|---|---|---|---|
| ♦ Top management | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Middle level management | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ All employees | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Consultants | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ All of the above | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Any other (specify) | | | | | |
| ______________________ | ( ) | ( ) | ( ) | ( ) | ( ) |
| ______________________ | ( ) | ( ) | ( ) | ( ) | ( ) |

8. Is the budgeting process in your organization ☐ Formal ☐ Informal

9. What factors does your company consider essential in the preparation of budgets

| | Least essential 1 | 2 | 3 | 4 | most essential 5 |
|---|---|---|---|---|---|
| ♦ Top management support | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ All employee participation | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Departmental heads support | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Sound organizational structure | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Clear and realistic goals/targets | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Understanding of external environment (competition, technology, opportunities) | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Assignment of authority and creation of Responsibility centers for managers | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Motivation of employees | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Communicating company policies to all employees | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Any other (specify) | | | | | |
| ________________________________ | ( ) | ( ) | ( ) | ( ) | ( ) |
| ________________________________ | ( ) | ( ) | ( ) | ( ) | ( ) |
| ________________________________ | ( ) | ( ) | ( ) | ( ) | ( ) |

10. To what extent are the following critical objectives of your budgeting system?

| | Least 1 | 2 | 3 | most 4 | 5 |
|---|---|---|---|---|---|
| ♦ To achieve maximum profitability | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Efficient operation of business | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Co-ordinate business activities | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Centralize control | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Provide yardstick for comparing performance | ( ) | ( ) | ( ) | ( ) | ( ) |

11. Which tool is used most during the budgeting process in your Company?

| | Least used 1 | 2 | 3 | 4 | most used 5 |
|---|---|---|---|---|---|
| ♦ Budget committee | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Quality circles | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Inter-disciplinary discussion groups | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Suggestion systems | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Brainstorming groups | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Any other (specify) | | | | | |
| ______________________________ | ( ) | ( ) | ( ) | ( ) | ( ) |
| ______________________________ | ( ) | ( ) | ( ) | ( ) | ( ) |

12. Have your employees been educated about your budgeting processes ☐Yes ☐No

13. If yes, why is it important to educate your employees?

| | Least important 1 | 2 | 3 | 4 | most important 5 |
|---|---|---|---|---|---|
| ♦ To be transparent about our budget | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To be accountable | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To obtain their acceptance and support | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To ensure success of the budgeting process | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To facilitate smooth budgeting process | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Employees are important | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Employees are stakeholders in the budgeting process | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To be able to understand accounts | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ To be able to be promoted | ( ) | ( ) | ( ) | ( ) | ( ) |

14. To what extent does each of the following approach apply in budgeting education programme?

| | Least used 1 | 2 | 3 | 4 | most used 5 |
|---|---|---|---|---|---|
| ♦ Seminars | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Conferences | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Discussions (Group) | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Executive development programmes | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Written (material) budget manuals | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Formal training | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ All the above | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ MBA, BCom academic programmes | ( ) | ( ) | ( ) | ( ) | ( ) |

15. To what extent does your company use the following budget approaches

| | Least used 1 | 2 | 3 | 4 | most used 5 |
|---|---|---|---|---|---|
| ♦ Zero-base budgeting | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Incremental budgeting | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Priority incremental budgeting | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Activity based budgeting | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Any other (specify) | | | | | |
| ______________________ | ( ) | ( ) | ( ) | ( ) | ( ) |
| ______________________ | ( ) | ( ) | ( ) | ( ) | ( ) |

16. How does budgeting affect profitability hence influencing the financial performance of the firm?

| Not at all 1 | 2 | Much 3 | 4 | Very much 5 |
|---|---|---|---|---|
| ( ) | ( ) | ( ) | ( ) | ( ) |

**Benefits of budgeting and budgetary control process**

17. To what extent do you consider the following to be visible benefits realized from the budgeting programmes in your organization

| | Least 1 | 2 | 3 | 4 | Most 5 |
|---|---|---|---|---|---|
| ♦ Cost control | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Motivation of employees | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Disciplines management | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Yard stick for measuring performance | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Coordination of company activities | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Rationalization of expenditure | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Rationalization of activities | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Effective communication to all | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Maximum utilization of resources | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Focuses managers | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Improves business strategy | ( ) | ( ) | ( ) | ( ) | ( ) |

## Challenges on budgeting process

18. What are the notable challenges that the budgetary and budgetary control process goes through?

| | Least 1 | 2 | 3 | 4 | most 5 |
|---|---|---|---|---|---|
| • Lack of top management support and involvement | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Lack of education for all individuals involved | ( ) | ( ) | ( ) | ( ) | ( ) |
| • More participation of all individuals | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Budget implementation | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Evaluation deficiencies | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Lack of understanding of the business environment | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Managers setting unrealistic targets for personal gain | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Budget complexity | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Managers conflicts | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Managers laxity | ( ) | ( ) | ( ) | ( ) | ( ) |
| • Non-communication to employees during budgeting process | ( ) | ( ) | ( ) | ( ) | ( ) |

## Environmental factors

19. How would you describe your business environment?

| Most turbulent 1 | 2 | 3 | 4 | Very stable 5 |
|---|---|---|---|---|
| ( ) | ( ) | ( ) | ( ) | ( ) |

20. How do you react to your business environment?

| Anticipate change and take action before change | | | | Take action after change |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| ( ) | ( ) | ( ) | ( ) | ( ) |

21. In your opinion is budgeting process necessary?

| Strongly disagree | | | | strongly agree |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| ( ) | ( ) | ( ) | ( ) | ( ) |

22. What?

_______________________________________________

_______________________________________________

23. Who initiates budget targets in the company

| | Yes | No |
|---|---|---|
| ♦ Chief Executive | ☐ | ☐ |
| ♦ Financial Director/Controller | ☐ | ☐ |
| ♦ Departmental Heads | ☐ | ☐ |
| ♦ Middle Management | ☐ | ☐ |
| ♦ All employees | ☐ | ☐ |

♦ Any other (please specify)-----------------------------------------------

24. Are your budgets negotiated between higher management personnel and departmental heads ☐ Yes ☐ No

25. What is the role of departmental heads in the budget process?

| | Least role 1 | 2 | 3 | 4 | most role 5 |
|---|---|---|---|---|---|
| ♦ Budget target initiation | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Provision of information to budgeting officer | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Negotiation with budgeting officer | ( ) | ( ) | ( ) | ( ) | ( ) |

26. What information do you communicate to employees during budgeting process

| | Yes | No |
|---|---|---|
| ♦ Targets for the budget period | ( ) | ( ) |
| ♦ Environmental expectations | ( ) | ( ) |
| ♦ Strategic plan details for implementation during the year | ( ) | ( ) |
| ♦ Employees lateness records | ( ) | ( ) |
| ♦ Ending period's performance variances | ( ) | ( ) |
| ♦ Budgeting guidelines | ( ) | ( ) |

27. Why does the budgeting process create conflicts in your company?

| | Yes | No |
|---|---|---|
| ♦ Struggle for resource allocation | ( ) | ( ) |
| ♦ Power struggle | ( ) | ( ) |
| ♦ Scarcity of resources | ( ) | ( ) |
| ♦ Performance pressure | ( ) | ( ) |
| ♦ None of the above | ( ) | ( ) |
| ♦ Control of the above | ( ) | ( ) |
| ♦ Performance measurement | ( ) | ( ) |

28 Which of the methods below are used to communicate to employees about your budgeting process?

| | Least used 1 | 2 | 3 | 4 | most used 5 |
|---|---|---|---|---|---|
| ♦ Supervisors (face to face) | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Senior management | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Chief Executive | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Briefing meetings | ( ) | ( ) | ( ) | ( ) | ( ) |
| ♦ Memos | ( ) | ( ) | ( ) | ( ) | ( ) |

**Position of Respondent:** ------------------------------------------

Chief Executive/Financial Director/Controller

## APPENDIX II

## AIRLINES IN THE SAMPLE

1. Kenya Aeronav
2. Kenya School of Flying
3. G.S.J. Flying School
4. Western Airways
5. Precision Aviation Ltd
6. Sky Master
7. Maf
8. CMC Aviation Flying School
9. Air Kenya
10. Horizon Air Services
11. Warsan Air Services
12. Blue Bird Aviation
13. Blue Sky Aviation
14. Ross Air
15. Prestige Air
16. Phoenix Aviation
17. Capital Airlines
18. River Cross Air Services
19. Superior Aviation
20. Balloon Air Services Ltd
21. Yellow Wings
22. Z. Boskovic Air Charter
23. Trans World Safaris
24. Knight Aviation Ltd
25. United Airlines
26. King Air Services
27. Pegasus Flyers
28. East Africa Safaris Air
29. Skyway
30. Africa Sky Charter

31. Flamingo
32. Titan Air
33. Sunbird Helicopter
34. East Africa Air Charters
35. Africa Commuters Services
36. Aim Air Services
37. ALS Air Ltd
38. A.D. Aviation
39. Queensway Air Services
40. Travel Shoppe Air Ltd
41. Regional Air
42. East African Air
43. Mck Air Services
44. Africa Charters
45. Cheli And Peacock Safaris
46. Hooper Air
47. Aviators Air of Kenya
48. Safari Air Ltd
49. Commuters Air Services
50. Sky Path Aviation
51. Equator Airlines
52. Ninety Nine Flying School
53. East Africa Viation
54. Southern Ir Chapters
55. Photomap International Air Services
56. Aero Kenya
57. Air Charters
58. Eastern Air Charters
59. Serene Air Services
60. Northern Air Charter
61. Western Air Charters
62. Aviation Charters