

**THE EFFECT OF BUDGETS ON FINANCIAL PERFORMANCE OF
MANUFACTURING COMPANIES IN NAIROBI COUNTY**

By

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DECLARATION

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

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DEDICATION

I dedicate this research project to my family members for their love, support, patience, encouragement and understanding. They gave me the will and determination to complete my masters.

ABSTRACT

The aim of this study was to determine the effects of budgets on financial performance of manufacturing companies in Nairobi County. The study used cross-sectional research method targeting eighteen (18) manufacturing firms listed in the Nairobi Securities Exchange by employing a census survey to cover all manufacturing firms within Nairobi County. The researcher used both primary and secondary data. A statistical package for social sciences was used as analyzing tool and also regression model was adopted to determine the association between dependent and independent variables.

The study findings revealed that there is a strong positive effect of budgets on financial performance on manufacturing companies as measured by return on assets (ROA). The study recommends that effective budget implementation should be facilitated through capacity building, robust systems and processes prioritization, and close monitoring for evaluation. Stakeholders should get involved in budget execution to enhancing the overall budget implementation. Further, financial management systems should be supported in order to ensure prudent management of funds and adequate sensitization of both the employees and the public on best financial management practices to enhance the oversight role. In addition, manufacturing companies need to establish a strong link between the planning process and the budget process.

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LIST OF ABBREVIATIONS

ANOVA	-	Analysis of Variance
BCS	-	Budgetary control system
CPA	-	Certified public Accountant
i.e.	-	In other words
JIT	-	Just in time
LTD	-	Limited
MCS	-	Management control system
NSE	-	Nairobi Stock Exchange
ROA	-	Return on Assets
ROCE	-	Return on capital employed
SPSS	-	Statistical packages for social sciences
TQM	-	Total Quality Management

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Business budgeting is a basic and essential process that allows businesses to attain many goals in one course of action. There are several goals that many businesses seek to achieve (or should be trying to work toward) when they create and implement a budget. These goals include control and evaluation, planning, communication, and motivation (Lucey, 2004). (Kariuki, 2010), suggests that budgeting is a process of planning the financial operations of a business. Budgeting as a management tool helps to organize and formulize management's planning of activities. Budgeting as a financial tool is useful for both evaluation and control of organizations for the planning of future activities. Application of these tools can greatly impact the performance of a company (Larson, 1999).

Budgeting as a tool in financial management regularly prepares performance plans and budget requests that describe performance goals, measures of output and outcomes in various activities aimed at achieving performance goals. This helps in the sense that annual plans set forth in measurable terms form the levels of performance for each objectives in the budget period (Larson, 1999).

The budgeting process in manufacturing companies incorporates a policy in financial welfare. For instance, it indicates how money is distributed by the management to the different departments and key areas to focus on. This helps the management in planning and forecasting in order to reduce costs and unnecessary spending and also to increase profits so that the company

may fulfill its corporate vision and mission and also to enable the company to fulfill its debts if any and to ensure the company's long term technical and financial viability. (Horngren, 1990).

1.1.1 The Budget

The budget acts as financial management tool in the manufacturing firm to measure the actual and forecast against the budget throughout the planning process, it also assist in monitoring and controlling of current performance by providing early warning of deviations from the plans and analyses the anticipated versus actual results. Various types of budgets exist.

1.1.1.1 Project Budget: The project budget is a prediction of the costs associated with a particular project. These costs include labor, materials and other related expenses. The project budget is often broken into specific tasks, with task budgets assigned to each. **Capital Budget:** This shows the amounts and timing of approved major capital expenditure over the budget year.

1.1.1.2 Production Budgets: Product oriented companies make a production budget that estimates the number of the units that must be manufactured to meet the sales goals. The production budget also estimates the various costs incurred in manufacturing the units including labor and materials (David, 1988).

1.1.1.3 Marketing Budget: The marketing budget is an estimate of the funds needed for the promotion, advertising and public relations in order to market the product or service.

1.1.1.4 Sales Budget: The sales budget is an estimate of future sales often expressed on both units and monetary terms .It is used to create company sales goals (Kariuki, 2010).

1.1.1.5 Revenue Budget: The revenue budget consists of revenue receipts of government and the expenditure met from these revenues .Tax revenues are made up of taxes and other duties that the government levies.

1.1.1.5 Cash Flow/Cash Budgets: The cash flow budget is a prediction of future cash receipts and expenditure for a particular period .The cash flow budget helps the business determine when income will be sufficient to cover expenses and when the company will need to seek external financing (Kariuki, 2010).

Conditions for successful budgeting are: the involvement and support of top management, clear cut definition long term, corporate objectives within which the budgeting system will operate, a realistic organization structure with clearly defined responsibilities, genuine and full involvement of the line managers in all aspects of the budgeting process (this is likely to include a staff development and education programme in the meaning and use of budgets).

An appropriate accounting and information system which will include: the records of expenditure and performance related to responsibility, a prompt and accurate reporting system showing actual performance against budget, the ability to provide more detailed information or advice on requests, in short accounting system should be seen as supportive and not threatening. Regular revisions of budgets and targets, (where necessary) should be made (Engler, 1995).

Budgets should be administered in a flexible manner. Changes in conditions may call for changes in plans and the resulting budgets. Rigid adherence budgets which are clearly inappropriate for current conditions will cause whole budgeting system to lose credibility and

effectiveness. Indeed budgets are not subject to revision they are effectively decisions and not plan (Engler, 1995).

1.1.2 Financial performance and its measurements

Finance always being disregarded in financial decision making since it involves investment and financing in short-term period. Further, also act as a restrain in financial performance, since it does not contribute to return on equity (Rafuse, 1996). A well designed and implemented financial management is expected to contribute positively to the creation of a firm's value (Padachi, 2006). Dilemma in financial management is to achieve desired trade- off between liquidity, solvency and profitability (Lazaridis, 2006).The subject of financial performance has received significant attention from scholars in the various areas of business and strategic management. It has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large. (Naser and Mokhtar, 2004).

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

Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. Solvency measures the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business. In other words, solvency measures provide an indication of the business' ability to repay all indebtedness if all of the assets were sold. Solvency measures also provide an indication of the business' ability to withstand risks by providing information about the operation's ability to continue operating after a major financial adversity (Harrington and Wilson, 1989).

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business. Four useful measures of profitability are the rate of return on assets (ROA), the rate of return on equity (ROE), operating profit margin and net income (Hansen and Mowen, 2005). Repayment capacity measures the ability to repay debt from both operation and non-operation income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure. The short-term ability to generate a positive cash flow margin does not guarantee long-term survivability (Jelic and Briston, 2001).

Financial efficiency measures the degree of efficiency in using labor, management and capital. Efficiency analysis deals with the relationships between inputs and outputs. Because inputs can be measured in both physical and financial terms, a large number of efficiency measures in addition to financial measures are usually possible (Tangen, 2003).

1.1.3 Effects of budgets on financial performance

Without losing its control and accountability mechanisms, modern budgeting can better support performance management by integrating known financial outcomes with frequent re-forecasting of the budget and linked to analysis of performance trends. A manufacturing firm's financial performance management reporting systems will draw on a number of information sources and reflect the range of stakeholder and departmental perspectives (MelekEker, 2007).

There are a variety of approaches to developing the performance metrics and the reporting of performance. But without integration of the financial resources consumed, the firm cannot measure value for money or make informed choices about future resourcing and service priorities. One way in which the in-year operational performance and financial information can be integrated more closely is to develop a system which encourages the issues to be considered together and to develop management reports that provide a rounded picture (Hansen and Mowen, 2005).

Manufacturing firms should develop an approach that consciously attempts to consider the financial and non-financial processes together. A key feature is that before any review of the financial variances takes place, the firm asks questions about the expected position, based on the understanding of what has happened, what happened that was unexpected and what planned events did not take place. It needs to structure its responses and planned management actions into

those that can be taken in-year and those that require a longer timeframe, with consideration of what specific financial actions may be required as well as substantive operational actions (Drury, 2004).

The best management reports detail what has happened and what is expected to happen in the future. The accounts and report provide the information needed to take any corrective action required. Such action needs to take place for the firm as a whole, so it is important that all areas are covered. This implies that the operational data and financial data are presented together in a comparable and consistent form (Kariuki, 2010). It also implies that risk and other aspects of performance are reported along with the financial headlines. The risks are thus quantified financially and uncertainty in the financial forecasts is made explicit. Some firm have found it helpful to present a regularly updated board-level report of risks and opportunities, in which the main possible financial up- and downsides are shown alongside each period's forecasts. This permits focus on a range rather than a spot forecast (Horngren, 2000).

Where big deviations from budget have occurred, it may be necessary to formulate and report on a recovery plan alongside the routine budget profile. Getting the reporting framework right is critically important so that the Board has the full picture on which to base its decisions. It ensures that everyone is considering issues within the context of a consistent reporting template and using a consistent language. For management it brings the benefit that a common framework for reporting can enhance co-operation between the operational managers and the finance function (Engler, 1995).

1.1.4 An overview of manufacturing companies in Kenya

Kenya manufacturing sector is the fourth biggest sector after agriculture, transport and communications and whole sale and retail trade. It contributes about 18 per cent of Kenya's GDP serving both the local market and exports to the East and Central Africa region. The sector employs about 2.3 Million in both Formal and informal sectors. Although initially developed under the import substitution policy, Kenya's manufacturing sector is now export based in line with the country's policy of emerging as a mid-sized economy in the year 2030. The sector is loosely classified into twelve (12) sub-categories based on the raw materials the companies import and or the products they manufacturer. The individual firm members are organized under the membership of Kenya Association of Manufacturers (KAM) to give them a platform for negotiating common position with the relevant government authorities (*Business Intelligence*, 2011).

The Kenyan manufacturing sector is considered as one of the key segments of the economy. In addition, the Kenyan vision 2030 blue print, one of the key pillars of the attainment of the objectives of the strategy is the need for the manufacturing sector to grow at the rate of 8 per cent over a period of 20 years. This can only be achieved if there is growth in the profits of the sector and this will depend upon identifying all the variables that can influence profit of a firm including the management of working capital. The inability of a firm to meet its obligations will lead to the disruption of its manufacturing process by actions such as labor strikes and blacklisting by suppliers (*Kenya's Economic Outlook*, 2011).

Key challenges' facing the sector includes high cost of production which is ever increasing due to poor infrastructure, regulation, tax administration and burden of government. There is also

shrinking demands for locally manufactured goods due to rising poverty levels and reduced exports from general economic slump after the recent global recession. Other challenges includes security issues with recent cases of terror attacks, arbitrary charges levied by regulatory and local authorities, inadequate government support for local produce esp. procurement of local supplies, weak linkages with local supplies for example in agriculture, inadequate/weak negotiation skills in regional trade agreement and high costs of securing financial facilities with commercial banks. However opportunity for growth exists with the roll out of common tariff under the newly integrated EAC customs union as a result of Kenya's manufacturing sector being the largest in the region (*Kenya's Economic Outlook*, 2011). Currently, there are a total of eighteen (18) manufacturing firms listed in the Nairobi Securities Exchange with the price movement of 5 of them being used to determine the daily average NSE index.

1.2 Problem statement

Budgeting in a business has benefits and consequences that go beyond the organization's management and have more to do with financial dimension in general, key in which, financial performance. Budgeting forces firms' management to do better forecasting. Vague generalizations about what the future may hold for the organization are not good enough for assembling a budget. Firms' management must put their predictions into definite and concrete forecasts (Tracy, 2013). Budgeting motivates managers and employees by providing useful yardsticks for evaluating performance. Budgets provide useful information for superiors to evaluate firm performance and inform financial allocation strategies across various components of a firm (Horngren, 2003). Over the years, companies has undertaken various attempts aimed at improving its budgetary process with the objectives of imposing greater fiscal discipline on management agencies of both private and public companies. today most companies boasts of

having a strong detailed and well laid budgeting legal process which the top executives uses as a tool to allocate revenue resources (Anderson, 1996). Budgeting is the process used by the management of manufacturing companies to formalize its plans (Horngren, 2000).

Budgeting and Financial Performance Management are key financial processes in the manufacturing sector. How to improve firm's financial performance is an issue that concerns every manager in every manufacturing business. The high level of technology and process systems required by the fast growing manufacturing industry in Kenya typically involves large financial investments. The initial purchases of machinery necessary for production, as well as the eventual replacements or upgrades of these machinery, means that manufacturing businesses have to engage in continuous investments. Manufacturing businesses, therefore, need to consider comprehensive, adequate and systems informed flexible budgets to realize substantial financial performance (*Kenya's Economic Outlook*, 2011).

Specific research studies extensively on the relationship between budgeting and the financial performance of firms are scanty, Kenyan manufacturing sector on which limited research work has been done, is not comparable to those firms in the developed world or middle income countries where the empirical studies have been conducted and as a result, the researcher believes there might be differences on the relationship between working capital and firms performance. Locally, studies focusing on budgeting have been carried out. Ndiritu (2007) carried out a study on the effectiveness of cash budgeting at Telkom Kenya which was a public institution. He focused on cash management budgeting process as an important tool of planning and controlling. His study found out that although cash budget as a management and control tool was in place in Telkom (K) limited, it was not effective in improving the management of cash.

Obulemire (2006) found out that, public schools in Nairobi used budgets mostly to implement short term operational plans with majority of the long term plans being implemented without prior budget. Kavoi (2011) found out that adequate planning and accurate projections done in budget preparations influenced budget achievement targets in the University of Nairobi.

Muthinji (2009) carried out a study on the challenges of budget implementation at the commission for higher education. His aim was to study the challenges of budget implementation and its effectiveness at the commission. He found out that budget was important for communication and there is an increasing trend towards decentralization. Murrison (2001) did a survey on budgeting practices among the major British Non-Governmental organizations in Kenya. He focused on their budgeting practices and the extent to which budgets are used as a management control tool. The result showed that 100 percent of the Relief projects over estimated their income.

It is upon this scanty nature of the literature on the relationship between budgeting and the financial performance of firms that this study is based. The manufacturing firms were chosen due to its uniformity in the study aimed to establish the relationship between these two variables, with a view to assess the effects of budgets on the financial performance of manufacturing companies in Nairobi County.

1.3 Research Objective

The objective of this study is to assess the effects of budgets on the financial performance of manufacturing companies in Nairobi County

1.4 Value of the Study

This study was important in that it enabled comparison of actual expenditure with predetermined measures. Information obtained pointed out if budgets by themselves were sufficient in monitoring and controlling expenditure. Budgeting also established if there were other factors that contributed to the actual year end expenditure and if so how management responds to them.

Budgeting process is as important in today's globally competitive operating environment as it were in traditional settings. In fact, it becomes even more important when just-in-time (JIT) or total quality management (TQM) concepts and techniques are applied and when computers and other electronic operating data accumulation devices were used (Drury, 2004).

The government of Kenya uses the budget as its most important economic policy tool. Public budgets translate a government's policies, political commitments, and goals into decisions on how much revenue to raise, how it plans to raise it, and how to use these funds to meet the country's competing needs, from bolstering security to improving health care to alleviating poverty. A budget system that functions well is crucial to developing sustainable fiscal policies and economic growth. In many countries, economic problems are exacerbated by weak budget systems and faulty budget choices. Given its wide-ranging implications for a country's people, the budget should be the subject of significant scrutiny and debate.

Moreover, even when funds have been allocated to specific programs whether for minorities, children, or the disabled weak expenditure and program management can result in funds never reaching the intended beneficiaries. The lack of political power among these marginalized people

to hold their government accountable is another factor in poor budget execution (i.e. after the budget is passed, how money is actually raised and spent).

It is critical for civil society organizations to engage in all stages in the budget cycle not only because they can contribute valuable technical skills to the process but they also have connections with the community that enable them to bring critical information about the public's needs and priorities to budget debates. In addition to representing the concerns of marginalized people, civil society can strengthen and support the ability of the poor and most vulnerable to participate in the budget process and advocate for them.

In budget cycle, the budget is more than just a single document it is a yearlong cycle whose different phases offer civil society varying access points to influence how public resources are raised and spent and, ultimately, the budget's desired outcomes. This budget cycle can be broken down into four major events or stages: Thus Formulation when the executive branch puts together the budget plan, the approval stage when the legislature debates, alters (if it has the power to do so), and approves the budget plan, the execution (implementation, monitoring, and control) when the government implements the policies in the budget and lastly the oversight stage (auditing and legislative assessment) when the national audit institution and the legislature account for and assess the expenditures made under the budget

In order for civil society and the public to be able to influence budget decisions and provide effective independent oversight throughout the process, there are a set of documents that should be produced and made public at each stage. The information in these documents should be comprehensive and accessible, and they should be made available in a timely way to support effective public participation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the benefits that can be derived by use of budgets and problems associated with budgets, the budget process including the types of budgets, the empirical studies on the issues relating to budgets and/or budgeting, and the chapter summary.

2.2 Review of Theories

Budget theory is the academic study of political and social motivations behind government and civil society budgeting. Classic theorists in Public Budgeting include Henry Adams, and William Willoughby while Notable recent theorists include Baumgartner and Jones. Budget theory was a central topic during the Progressive Era and was much discussed in municipal bureaus and other academic and quasi-academic facilities of that time such as the nascent Brookings Institution.

2.2.1 Organizational Theory Perspectives on Budgets

Most modern organizations have budgets. In this paper I will explain the pervasiveness of budgeting from four theoretical perspectives institutional, resource dependency, transaction-cost, and Marxist.

2.2.1.1 Institutional Perspectives on Budgets

According to institutional isomorphism (Powell, 1983), budgeting diffused via three mechanisms. Under mimetic diffusion, organizations adopt budgets because they observe that other groups become more financially confident and successful with a systematic budgeting process.

As budgeting became more popular, there were coercive pressures to adopt budgets. Stockholders who demand sound financial management may expect yearly budgets for key activities. Philanthropic organizations will scrutinize budgets of charitable organizations to ensure future contributions are spent wisely. Employees expect formal budgets to remain confident that money is available for salaries and important projects.

Finally, accountants and financial managers hired by firms bring normative pressures to adopt standardized budget practices. Budgeting is a logical extension of credit-debit accounting principles and is taught in every business school.

Budgets have also become a "rational myth" for modern organizations. According to Rowan, the adoption of these myths is often ceremonial (Rowan, 1977). Budgets necessary for legitimacy can be de-coupled from daily operations. Money may be transferred from one budget category to another to cover over-spending. Often there are little pressures to maintain budgeted spending levels once it has been developed. Uncle Sam's Bakery is a perfect example of budgets as yearly ceremony.

2.2.1.2 Resource Dependency Perspective on Budgets

Budgets are pervasive in organizations because they help clarify internal resource dependencies. Often the hierarchy of budgets reveals organizational priorities and dependencies better than formal organizational charts. The approved budget can also represent a "rationalized" statement of purpose for the coming year understood by both employees and outsiders.

More importantly, budgets are important tools of power (Pfeffer, 1992). Since departments are usually dependent on budgets for general operations, those who control budgeting control

resources. Budget planners and approvers can exploit these asymmetric dependencies to accumulate power. External groups can also exert internal influence by reviewing and/or approving yearly budgets. The budget planning process at a given level is often a zero-sum game where politics and influence is most evident.

Budgets are also useful control mechanisms because there are more flexible than contracts. Unlike contracts, you can quickly change a budget to affect a sub-group's activity.

2.2.1.3 Transaction-Cost Perspective on Budgets

From a transaction-cost perspective (Williamson, 1975), budgets are ubiquitous because they help regulate the internal market. A good budget can lower internal transaction costs by minimizing uncertainties, hindering opportunism, and mediating internal disputes.

Organizational involvement in budget preparation can help clarify future transactions between sub-groups. For example, defining advertising budgets for each product line helps the marketing department plan activities more efficiently. Carefully scrutinized budgets and spending limits can reduce the potential of opportunism. Budgets can also be used to mediate disputes between organizational members by defining the priorities and boundaries of organizational action.

As also stated in the resource dependency perspective, budgets are not contracts. They offer the normative advantages of external contracts with the flexibility of future modification.

2.2.1.4 Critical Marxist Perspective on Budgets

From a Marxist perspective, budgets are an insidious tool used by capitalists to rationally justify the subjugation of the working class. Budget limits are prepared after guaranteeing profits and surplus value for company owners. Management then uses a budget to mask this embezzlement

and build consent and compliance from labor. Yearly budgets are management experiments to help capitalists set labor wages as low as possible without instilling labor unrest.

Management involvement in budget preparation also diffuses responsibility for capitalistic action. Managers can lay off workers and absolve responsibility by "blaming it on the budget". Once again, budgets are not contracts, and can also be changed whenever profits are threatened. Finally, budgets exploit the "tyranny of numbers", hiding the domination of labor in statistics and graphs.

2.2.2 Stake Holders' Theory

In definition stake holder theory (Clarkson, 1994) states that a firm is a system of stake holders operating within the large system of the host society that provides the necessary legal and market infrastructure for the firms activities the purpose of the firm is to create wealth or value for its stake holders by converting their stake into good and services thus view is supported by (Blair, 1995-322) who proposes that the goods 2 directors and management should be maximizing total wealth creation by the firm the key to adhering thus is to enhance the voice and provide ownership like incentives to those participants in the firm who contributes or controls critical specialized inputs (firm specific human capital) and to align the interests 2 their critical stake holders with the interest of outside passive stakeholder.

Consistent with those view by Blair to provide voice and ownership like incentives to critical stockholders (Porter, 1992:16-17) recommended to us by policy makers that they should encourage board representation by significant customer's and supplier's financial adverse, employees and community representatives. (Porter, 1992:17) also recommended that corporation seek long term owners and gives them a direct voice in governance.

All these recommendations would help to establish the sort of business alliances trade related networks and strategic associations which Hollingsworth and (Lindberg, 1985) noted had not evolved as much as the United States as they had in continental Europe and Japan. In other word porter is suggesting that competitiveness can be improved by using all four instrumental modes for governing transaction rather than just markets and hierarchy. Thus supports the need to expand the theory of the firm as suggested by (Turnbull, 1994).

In large enterprises the high degree of detail in budget planning also is an important influence. Decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis consumes large quantities of human and monetary resources moreover wasteful resources consumption occurs every time negotiating parties loop through the planning cycle until they finally approve the annual operating budget. Large firms usually commit 75 percent to 95 percent of their total controlling capacity to operational planning during the time they are engaged in budget preparation (Kopp and Leyk, 2004) unfortunately top management seldom considers the high cost involved relative to the manager benefit derived from such detailed instruments. It then is no wonder that cost, product and strategic controlling often get little attention in the process.

2.2.3 Goal Setting Theory

Goal setting theory (Locke and Latham 1990,2002) was developed inductively within industrial organization psychology over 25 years period based on same 400 laboratory and field studies . these studies showed that specific high (hard) goals lead to a higher level of task performance than do easy goals or vague abstract goals such as the exhortation to “do ones best”.

A budget is a way of setting an organization at goals for a specific period of time

The prime axiom of goals lead to higher performance than when people strive to simple “do their best” (Locke and Latham 1990) the performance benefits of challenging specific goals have been demonstrated in hundreds of laboratory and field studies (Locke and Latham 1990, 2002).

Such goals positively affect the performance of individual’s groups’ organization units as well as entire organizations and over periods long as twenty five years

By providing direction and a standard organs which progress can be monitored challenging goals can enable people to guide and refine their performance it is well document in the scholarly and practitioner literatures that specifies goal can boost motivation and performance by leading people to focus their attention an specific objectives increase their effort to exclusive these objective persist in the face of setbacks and develop new strategies to goal attainment. Through such motivational processes challenging goals often lead to valuable rewards such as recognition, promotions and /or increases income from one work

Budgets should be set in a way that staff members fee their achievements as challenging. Simple to achieve budgets have not been seen to motivate staff to achieve. Even through setting high goals set the bar higher to obtain self-satisfaction, attaining goals creates a heightened sense of efficiency (personal effectiveness) self-satisfaction positive effect and sense of well-being especially when the goals conquered were considered challenging by providing self-satisfaction, positive effect, and sense of well-being especially when the goals conquered were considered challenging.

By providing self-satisfaction, achieving goals often also increases organizational commitment which in turn positively affects the organizational citizenship behavior, negatively affects turnover and increases the strength of the relationship between difficult goals and performance.

2.2.4 Cognitive Evaluation Theory.

This theory suggests that when looking at task, we evaluate it in terms of how well it meets our needs to feel competent and in control. If we think we will be able to complete the task, we will be intrinsically motivated to complete the task requiring no further external motivation, where a person has a stronger internal locus of control they will feel they are in control of how they behave where they have a stronger external locus of control they will believe the environment or others have a greater influence over what they do.

Budgets create a sense of responsibility over the manager in charge of a department or section. The feeling of being in control of the outcome of the results of a department due to accomplishment of budget targets can be a source of motivation and thus improvement of performance. People may see external rewards as achieving some degree of control over them or may see the reward as informational such as where they reinforce feelings of competence and self-determination. When people see the reward as mostly for control they will be motivated by gaining the reward but not by enhancing the requested behavior.

This theory suggests that there are actually two motivation systems, intrinsic and extrinsic that corresponds to two kinds of motivators, intrinsic motivator includes achievements responsibility and come from the actual performance and the task or job.

Extrinsic motivators include pay, promotion, feedback, working conditions. These motivators are things that come from a person's environment and are controlled by others. Intrinsically motivated individuals' perform for their own achievement and satisfaction. If they are doing some job because of the pay or the working conditions or some other extrinsic reason they begin to lose motivation.

Budget achievement is thus a powerful intrinsic motivator as it creates a sense of personal achievements and responsibility meeting a budget target leads to personal satisfaction and will thus be a boost to managerial performance.

2.3 Review of the Empirical Studies.

(Muleri, 2001) did a study on budgeting practices in Non-governmental organization in Kenya. The aim of the study was to establish effectiveness of budgeting practices among British NGO's in Kenya. The research looked at the concept from a different point of view and found that most organization used modern practices as zero based and philosophies to reduce financial management.

The researcher observed that there is a limitation on budgeting process which leads to cost cutting to achieve cost effectiveness there is lack of solid based to enforce budgeting controls as a motivator and concluded that although profit was the main indicator of performance in public sector, budget management should be measured against the background of sound financial policies. The researcher concluded that budgeting is well accepted in evaluation and generally used to communicate plans and operations.

(Melek, 2007) did a study on the impact of budget participation on managerial performance via organizational commitment. He conducted a study on the top 500 firms in Turkey the results of this study provided a number of contributions to management accounting literature by improving understanding of budget participation and organizational commitment affecting managerial performance. First, according to regression analysis results, this study suggested that the effects of budget participation and organizational commitment by itself on managerial performance are positive and significant second this study found out that the managerial performance scores were found to increase when the interaction score between budget participation and organizational commitment increase.

That is to say high interaction between budget participation and organizational commitment provides appropriate condition, for high managerial performance. However, the results indicated that while improving high organizational commitment feeling of subordinates in firms can lead to increase in their performance, low organizational commitment feeling of subordinates can lead to decreasing in their performance.

Similarly the study supported the hypothesis that interaction score between budget participation and organizational commitment varies according to low and high managerial performance.

As to this while high interaction between budget participation and organizational commitment is associated with high managerial performance, low interaction score between budget participation and organizational commitment is associated with low managerial performance.

A survey conducted by (Ambetsa, 2004) of budgeting control practices by commercial airlines operating at Wilson Airport, Nairobi indicated that the challenges faced were budget evaluation

deficiencies, lack of full participation of all individuals in the preparation of the budget and lack of top management support. He further concludes that airlines operate and use budgets to plan implement and evaluate their business performance. All enterprises make plans using budgets some in a systematic and formal way, while others in an informal manner but still have some form of budgetary control and budgetary control practices. Therefore the issue is not whether to prepare a budget but rather how to do it effectively.

(Wamae, 2008) researched on challenges of budgeting at National social security fund (NSSF). The aim of the study was to establish the challenges of budgeting process and the challenges faced when drawing up a budget to be used by an organization and how organization can effectively face the budgeting challenges. The population constituted nine (9) board of directors and sixteen (16) senior managers at NSSF who were concerned with budgeting issues at the organization.

The researcher collected data by use of questionnaire, observation, and interviews as main instrument of data collection. From the study the researcher found that the organization faced challenges when drawing up budget and the biggest included on commitment, various head of department did not take budget seriously leading to giving ambitious budgets which would end up not achieving target, leading to complaints from the board.

The researcher concluded that budgeting was very effective at NSSF as they served their purpose assisting in control, used as a means by which management communicates by other level of department. The researcher added that the process of budgeting at NSSF faced some challenges which were inability to achieve the required value of business inadequate authority to spend despite allocation, cost inflation, poor participation and poor co-ordination of the exercise. The

researcher recommends that all units in the organization should be involved in the budget preparation and enough time is allocated to prepare.

(Otley, 1978) did a study on budget use as a measure of managerial performance. He did a research on a single large organization which had a considerable number of production facilities, producing similar products geographically dispersed around the United Kingdom. The individual production units were largely independent on each other. Therefore, the unit of analysis was the individual unit manager who was responsible to the group manager for the production of their units. His findings were that there is a positive relationship between budget use in evaluating managers and their level of performance unlike (Hop-wood, 1972) he noted little evidence to indicate that any particular style of budget use affected actual performance although this is a most elusive relationship to capture in a field study, But it was found that there were considerable, interaction and long-term unit profitability. A situation had evolved where profitable units produced accurate budgets which were subsequently used as a basis for evaluation; whereas unprofitable units produced optimistic budgets which gave the impression & profitability, but which were not then used in evaluating unit and managerial performance.

(Hop-wood, 1972) had done a previous study to determine what effects different budget based styles of evaluation had on manager's performance. He suggested that one important dimension of budget use is the relative importance attached to the budgeted that one important dimension of budget use is the relative importance attached to the budget in evaluating managerial performance. A rigid style of evaluation based primarily upon whether or not a manager has met his budget, was found to result in the belief that the evaluation was unjust, in wide-spread tension and worry on the job and in feelings of distract and dissatisfaction with the superior using the

style managers evaluated in this rigid manner were also found to manipulate accounting data to improve their reported performance and to make decisions detrimental to the long-term well-being of the organization. However when a more flexible style of evaluation was adopted with budget information being used in conjunction with other sources of information, concern with long-term economic performance was maintained but fewer dysfunctional side effects were observed. However, Hopwood's emphasis was primarily on the effect that budget use has on manager's beliefs and feelings and not with the overall effectiveness of operations.

Though he found no significant difference in the extent to which managers evaluated under different styles met their budgets he was able to conclude that this was likely that the tensions and manipulations noted under the rigid style of evaluation caused deterioration in long-term performance.

(Amalokwu and Obiajulum , 2008) in a thesis present a paper titled Budgetary and management control practices (budget being the tool for management control in Guinness Nigeria plc "The study was described based on a qualitative approach in data collection (primary data) research purpose, data analysis as well as critiques to the method use. A sample of 50 respondents was used. The research conclusion was that budgets could facilitate the creating and sustaining of competitive advantages by enabling the following management functions. Forecasting and planning, communication and coordination, motivational device evaluation and control and decision making.

(Brownell, 1982) did a study to establish relationships between budget participation and performance. New identities some variables which are effective on the relationship between participation and performance namely moderator variables. By using contingency approach he

categorized them into the four groups. These moderators included: 1) the cultural variables of nationality legislative systems, race and religion. 2) the organizational variables of environmental stability, technology, task uncertainty and organizational structure. 3) the interpersonal variables of task stress, group size, intrinsic satisfaction of task and congruence between task and individual, and 4) the individual variables to locus of control, authoritarianism, external reference points and perceived emphasis placed on accounting information.

There are two important studies examining national culture variable that was categorized in the first category by Brownell. Norway culture based study of (Lau and Buckland, 2000) accepts thus culture as a natural chance for managerial performance and low diversity within the Norwegian participation is expected to range from medium to high rather than from low situations are common in Norway, prior studies finding pertaining to high participation situations are expected to be supported in Norway.

(Tsui, 2001) study based on China and Caucasian cultures points that the interaction effects of management accounting system and budget participation on managerial performance were different, because of the cultural background of managers more specifically, he put forward the observation that the relationship between management accounting system information and managerial performance of Chinese participation but positive for Caucasian managers past studies consider organizational culture as an element of organizational structure as in Brownell technology.

2.3 The concept and history of budgets

Budgets are financial blue print that qualifies a firms plan for the future. It's a detailed plan that outlines the acquisition and use of financial and other resources over a given period of time.

According to Flamholtz (1983) a budget in an organization acts as a mechanism for effective planning and controlling. Schick (1999) concurs by stating that the main purpose of a budget in any organization is for planning and controlling in order to achieve organizational goals and objectives. A budget is a standard against which the actual performance of an organization can be compared and measured. A budget stipulates which programmes and activities should be pursued. Lucey, (2002) defines a budget as a quantitative statement, for a period of time which may include planned revenues, assets, liabilities and cash flows.

Budgeting in non-governmental organizations is used as a planning tool. Organizations use a budget as a guiding tool of its activities. According to Goldstein (2005), a budget is used by institutions in setting priorities by allocating scarce resources to those activities that are most important to the organization. The annual budget is commonly referred to as the master budget and has three principle parts namely the operating budget, cash budget and the capital budget.

Premchand (2000), states that a budget is a company policy and determine the manner in which resources are managed. The financial task in budget implementation includes spending the specified money, maximizing savings and avoiding over expenditures at the end of the financial year. Frucot and Shearon (2001) argues that implementation of the budget require an advance program of action evolved within the parameters of the end of the budget and means available. According to Horngren (2003), effective budget implementation is usually assessed by addressing various variances between the actual performance and budgeted performance.

According to Atkinson (1993), one of the most visible and highly publicized economic challenges facing the implementation of operational budget is the decline in the purchasing power of an institution. Continuing budget pressure in an organization is forcing management to

re-think their current service delivery and develop initiatives that reduce costs and increase efficiency. Budgetary task is usually rendered operational through the administrative process in any organization.

In any organization, budget implementation officers determine the portion of the organization's resources that a manager of each unit would be authorized to spend. Budgets establish organizational performance goals for each organizational unit in terms of costs and revenues. A budget enables an organization to predict the movement of their short term and future performance. According to Premchand (2000), if institutions fail to provide fairly accurate predictions in operations and capital projects, then doubt is cast on the performance of that institution.

Even though money management has been around as long as money existed, the idea of a budget is a recent concept, often attributed the British monarchy in the 1700s. The Parliament was put in place to establish some form of checks and balances. At that time, budgeting was mainly self-serving as the first controls were put on the military so the King couldn't create a force to overthrow the Parliament. However, things were rarely written down, there wasn't a regular review and any auditing or reporting. As the budget expanded to include more areas of the government, the idea of a true budget evolved to mean more control and accountability.

At the beginning of the Nineteenth Century, many of the currently accepted policies and procedures were taking shape. It was actually the French efforts to streamline their own government that budgeting became a useful and practical practice. By the mid-1800s, they had put together guidelines for performing audits, defined a standard fiscal year, and created accountability reporting. They required written reports that detailed all of the revenue and

expenses for the year with a reconciliation of where all funds came from and how they were dispersed. In the early 1800s, American government and business began to recognize the concept of a balanced budget. While it would appear to mean something different to people now, in those days a balanced budget meant controlling expenditures and keeping them low while reducing or eliminating debt.

Starting as a tool to manage governments, budgets appear in business and personal lives. It is a way to accurately track what is coming in and what is going out. That gives you the data to determine where you can make changes in your income and expense strategies to make the most of the money you have.

2.3.1 Budget Process

Budgeting process pushes managers to take time to create strategies, targets and goals before activity begins. Budget preparation helps management focus on the next month or the entire coming year. The budgeting process forces managers to assess current operating conditions and aids in forecasting and implementing needed changes (Anderson, 1996).

Budget preparation is also an excellent vehicle with which to work with all supervised personnel by requesting their managers and their staffs. At the end of a period the budget helps managers evaluate performance, locate problematic areas, bottlenecks and provide solutions to these problems (David, 1988).

Budgets analysis should be a regular and ongoing part of management duties because it helps chart the course of operations and provides a means to evaluate performance once the task has been

completed .If realistic goals have been established comparing the actual results with budgeted targets can help management assess how well the organization performed(Belverd, 1996).

2.3.2 Budget Goals and Objectives

According to (Anderson, 1996), the following are five groups of budgetary principles and are explained as follows: First, long Range goal principle: Annual operating plans cannot be made unless those preparing the budget know the direction that top management expects for the organization. Long range goals projections covering a five to ten year period must be set by the top management. In doing so management should consider economic or industry forecast.

The long range goals themselves should include some information about the expected quality of products or services and growth rates. Second, short range goals: These short range targets and goals form the basis for the organization's operating budget for the year. Third, responsibility and interaction principles: Budgeting success or failure is in large part determined by how well the human aspect of the process are handled from top management down through the organization all appropriate people must take part actively and honesty in the budgeting process (Anderson,1996).

This kind of cooperation will occur only if each person realizes that he or she is important to the process. Fourth, budget follow up principles: Since the budget consists of projections and estimates, it is important that it be checked and corrected continuously. It makes more sense to correct an error than to work with an inaccurate guide (Anderson, 1996).

A number of writers have argued that there are several objectives of budget. According to (Caldwell, 1996), the main objectives of budget include; to aid in establishing procedures for

preparing a company's planned revenue and costs, also budgets aid in coordinating and communicating these plans to various levels of management and, they formulate a basis for effective revenue and costs control. Conventional budgeting concentrates on expenditures by budget centers under conventional cost headings for example salaries, telephone and travelling expenses.

These are sometimes known as line items budgets as there is a line for each expenditure item. Traditional budgeting systems have been criticized as it is claimed that they do not support the drive for continuous improvement, nor do they relate expenditure to the activities which cause them. It is claimed that budgeting based on activity analysis overcomes some of these problems (Kariuki, 2010).

2.3.3 Budgetary Control

Planning and control and related resources and their costs are the keys to good management. The process of developing plans for a company's expected operations and controlling operations helps to carry out those plans is known as budgetary control. Objectives of budgetary control are: To aid in establishing procedures for preparing a company's planned revenues and costs. Budgets also aid in coordinating and communicating these plans to various to various levels of management (Kariuki, 2010).

In addition, budgets formulate a basis for effective revenue and cost control .for companies to benefit from budgetary control, they should first set quantitative goals, define the roles of individuals, and establish operating targets. Short term or one year plans are generally formulated in a set of period budgets. A period budget is a forecast of operating results for a segment or function of a company for specific period of time (Caldwell,1996).

In practice, most of the manufacturing companies in Nairobi County use period budgets as their budgetary control. These follow several management accounting tools. These are, Knowledge of responsibility accounting reporting systems, cost behavior patterns, and the use of cost, volume-profit analyses help management project revenues and costs for departments or products. A profit planning in itself is possible only after all cost behavior patterns have been identified. (Caldwell, 1996).

2.3.4 Budgeting Techniques

There are two main techniques for budgeting i.e. Incremental budgeting and Zero based budgeting. An incremental budget is a budget in which the figures are based on those of the actual expenditure for the previous year with a percentage added to cover for an inflationary increase for the New Year. It is an easy technique that saves time but is often inaccurate. This budgeting technique is only appropriate for organizations where each year is very similar to the earlier one in terms of activities. In normal situations however, very few dynamic organizations or projects are so stable as to make this budgeting technique really work for them (Lucey, 2004).

In zero based budgeting scenarios, past figures are not used as the starting point .the budgeting process starts from ‘scratch’ fore posed activities for the year. This results in a more detailed and accurate budget, although it takes more time and energy to prepare. This technique is most useful for new organizations and projects but is also probably the best route to go in a dynamic organization that is proactive in taking on fresh challenges (Kariuki, 2010).

2.3.5 Problems Associated With Budgeting

There may be too much reliance on the technique as a substitute for good management. The budgetary system, perhaps because of undue pressure or poor human relations, may cause antagonism and decrease motivation. Variances are just as frequently due to changing circumstances, poor forecasting or general uncertainties as due to general managerial performance (David, 1988).

Budgets are developed around existing organizational structures and departments which may be inappropriate for current conditions and may not reflect the underlying economic realities. The very existence of well documented plans and budgets may cause inertia and lack of flexibility in adapting to change (David, 1988).

There is a major problem in setting the levels of attainment to be included in budgets and standards .Although much research has been done in these areas by Stedry, Becker and Green and others, knowledge is still incomplete. There are many factors to be considered including the aspiration level of individuals, group pressures, and the extent of participation and past performances (David, 1988).

2.4 Budget Review

Budgets are one of the accounting measures which are used to assess a company's performance. The reward system of the organization (i.e. pay, promotion) is often linked to the achievement of certain levels of performance, frequently measured in accounting terms. It is conventionally assumed that by establishing formal performance measurement and rewarding individuals for their performance they will be encouraged to maximize their contribution towards the organization's objectives (Horngren, 2000).

In this way it is assumed that goal congruence will be achieved. On the other hand , if performance measures and the way they are used motivate managers in ways that do not contribute to organizational objectives this is a dysfunctional consequence and leads to a lack of goal congruence (Simiyu, 1979).

Unfortunately, the research evidence suggests that not too often accounting performance measures leads to lack of goal congruence. Managers seek to improve their performance on the basis of the indicator used even though this is not in the best interest of the organization as a whole. For example, *Likert* found out that concentration on short term cost reductions produced damaging long term effects on labor turnover and absenteeism which were dysfunctional. (Simiyu, 1979).

This problem occurs not only with budgets but with other types of accounting measurements. For example, assessing managements performance by the return on capital employed has been found by Dear den to cause managers to delay making new investments which are in the interest of the organization as a whole but which would cause their own R.O.C.E. to fall (Williamson, 1999).It should be noted that concentration on a single measure or target causes problems.

The law of requisite variety states that for full control the control system must have as much variety as the system being controlled so that concentration on a single measure (Sales budget level, return on capital employed) cannot hope to control adequately a complex system. Numerous organizations have attempted to deal with the problem of assessing managerial performance using multiple criteria and one of the pioneers was the General electrical company of America which identified eight key result areas: Productivity, personal development,

profitability, market position, product leadership, employee attitudes, public responsibility, balance between short term and long term goals (Horngren, 2000).

Manufacturing firms prepare a manufacturing budget rather than a purchases budget. A manufacturing budget contains more details than a purchases budget, but both budgets accomplish the same objectives: providing cost of goods sold for the budgeted income statement, disbursements for each cash budget, and inventory values for the balance sheet (Kariuki, 2010).

A manufacturing company produces instead of purchasing its inventory. The focus of a manufacturing firm's budget is the production budget, which specifies the number of units to be produced. Like the purchases budget, the production budget is based on the sales forecast and the desired change in inventory (Kariuki, 2010).

Budgeted units of production =desired units in ending inventory+ units of sales –units in beginning inventory.

After determining the units to be produced, a manufacturing company prepares detailed budgets for direct material, direct labor, factory overhead and cost of goods manufactured and sold (Horngren, 1990).

Budgeting in manufacturing companies is a vital tool in financial management; some of its benefits are, first, budgets are the major formal way in which the organizational objectives are translated into specific plans, tasks and objectives related to individual managers and supervisors. It should provide clear guidelines for current operations. Secondly; the budgets are an important medium of communication for organizational plans and objectives and of the progress towards meeting those objectives (Kariuki, 2010).

More so, the development of budgets (done properly) helps to achieve co-ordination between the various departments and functions of the organization. Budgets also through the involvement of all levels of management with setting budgets , the acceptance of defined targets , the two way flow of information and other facets of a properly organized budgeting system all help to promote a coalition of interest and to increase motivation (Horngren, 1990).

Through the budgets, management's time can be saved and attention directed to areas of most concern by the 'exception principle' which is at the heart of budgetary control. Budgets allow the systematic reporting and monitoring of performance at all levels and thus aiding in the control of current activities. The investigation of operations and procedures, which is part of the budgetary planning and the subsequent monitoring of expenditure, may lead to reduced costs and greater efficiency (Lucey, 2004).

The regular systematic monitoring of results compared to plan that is the budget provides information upon which either, to adjust current operations to bring them into line with the previous plan or, to make adjustments to the plan itself where this becomes necessary. The integration of budgets makes possible better cash and working capital management and makes stock and buying policies more realistic (Lucey, 2004).

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(Muleri, 2001) did a study on budgeting practices in Non-governmental organization in Kenya. The aim of the study was to establish effectiveness of budgeting practices among British NGO's in Kenya. The research looked at the concept from a different point of view and found that most organization used modern practices as zero based and philosophies to reduce financial management.

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of budget use is the relative importance attached to the budgeted that one important dimension of budget use is the relative importance attached to the budget in evaluating managerial performance. A rigid style of evaluation based primarily upon whether or not a manager has met his budget, was found to result in the belief that the evaluation was unjust, in wide-spread tension and worry on the job and in feelings of distrust and dissatisfaction with the superior using the style managers evaluated in this rigid manner were also found to manipulate accounting data to improve their reported performance and to make decisions detrimental to the long-term well-being of the organization. However when a more flexible style of evaluation was adopted with budget information being used in conjunction with other sources of information, concern with long-term economic performance was maintained but fewer dysfunctional side effects were observed. However, Hopwood's emphasis was primarily on the effect that budget use has on manager's beliefs and feelings and not with the overall effectiveness of operations.

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planning, communication and coordination, motivational device evaluation and control and decision making.

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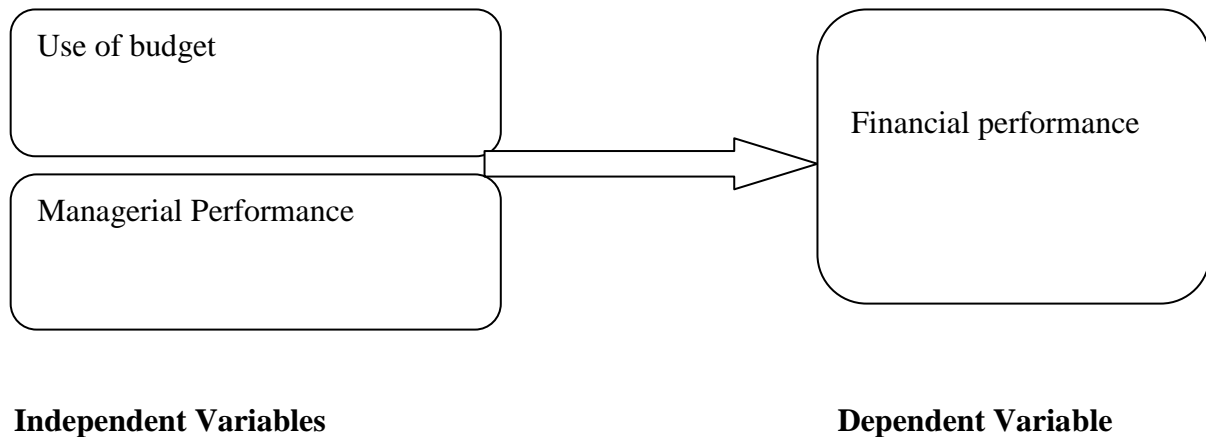
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studies consider organizational culture as an element of organizational structure as in Brownell technology.

2.6 Conceptual Framework

Figure 1: Conceptual Framework



Source: Researcher, 2013

2.7 Summary of Literature Review

This chapter tends to deal with Budgets and budgetary control system which intended serve as purposes of effectively monitoring and controlling cost in order to enhance performance. The management should incorporate the effects of other budget holder so that the belief that budgets are forced on them is removed. Causes of variances should also be investigated and corrective actions should be taken immediately. Variances can be used by management to monitor and control activities. They are also used to identify problem areas.

Total cost variances can be broken into price and quantity variance to direct managements' attention to the actions of lower level managers responsible for quantities used or prices paid. Budget committee helps in providing an independent opinion on the effectiveness of operating a budgeting and budgetary control system as it is composed of professionals from various disciplines for instance involving sales department in preparing sales estimates, production department should have initial responsibility for preparing its own exposure budget.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was used in conducting the research. The chapter presents the research design, target population and sampling techniques to be employed. It further identifies the data collection instruments to be employed in the research and the procedures for data collection. It concludes by describing how data analysis was conducted and expected output.

3.2 Research Design.

Cross-sectional research is a research method often used in developmental psychology, but also utilized in many other areas including social science and education. This type of study utilized different groups of people who differ in the variable of interest, but share other characteristics such as socioeconomic status, educational background and ethnicity. For example, researchers studying developmental psychology may select groups of people who are remarkably similar in most areas (Terell, 1968).

While the design sounds relatively simple; finding participants who are very similar except in one specific variable can be difficult. Also, groups can be affected by cohort differences that arise from the particular experiences of a unique group of people. Individuals born in the same time period may share important historical experiences, while people born in a specific geographic region may share experiences limited solely to their physical location Daniel, (1968).

A cross-section survey was used for this study because it employed a single point of data collection for each participant, it was cheap to undertake compared to longitudinal survey and the results from the sample were inferred to the larger population. In addition, some extraneous factors were manifested in the observed change other than the independent variable concerned. (Terrell, 1968).

3.3 Target Population.

Currently, there are a total of eighteen (18) manufacturing firms listed in the Nairobi Securities Exchange, all of which was targeted. I chose accountants as they are responsible for budgeting and are in charge of finance.

3.4 Sampling Design

A census survey of all the manufacturing firms within Nairobi County was adopted as the numbers were relatively manageable in terms of visiting them.

3.5 Data Collection.

The researcher used both primary and secondary data. The primary data was collected by use of a questionnaire. In order to know the relevance of the budgets as a financial management tool among manufacturing firms through the self-administered drop and pick. Questionnaires were distributed or provided to the top and Managers/accountant personnel of the selected firms. Interviews were also used in the case where managers were willing to respond. This enabled the researcher to get adequate and accurate information from people who have the main data collection instrument. The questions were both open and close ended. As it were the open ended questions provided more information while the closed ended questions were used to get specific

unique information. The reason for choosing questionnaires is because it was less costly, convenient and not biased

The secondary data comprised the various manufacturing firm's budgetary records and financial records for the years – to – various data relating to budget vs. actual variances, income vs. costs etc. were sought to complement raw data.

3.5.1 Data validity and reliability

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

Validity determines whether the research truly measures that which it was intended to measure and how truthful the research result is (Muthoni, 2010) reference from waiver and Braun, describes the validity in quantitative research as construct validity. The construct is the initial concept, notion, question or hypothesis that determines which data is to be gathered and how it is to be gathered.

A pilot test was done on some 20 manufacturing firms in Nairobi, to ensure validity of the data the research instruments was pretested to ensure they served the intended purpose. After the pretest the questionnaire was appropriately amended and revised.

3.6 Data Analysis.

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

There are a broad range of statistical data analysis tools in existence, each carrying a different and very specific purpose such as Analysis of Variation (ANOVA) which is a statistical tool used to test the hypothesis of an experiment but rather opted to use SPSS as my statistical tool in my data analysis which is an important tool for any statistical analysis. (Kombo, 2006).

Dissertations often require this tool for the completion of research using statistical data's. I also applied the spreadsheet as my statistical software package which is one of the versatile and storage combination tools and it also allowed large range of conventional summary statistics which offer graphical presentation of the results of an analysis in form of bar charts, pie charts etc. (Kombo, 2006).

The regression models were presented the dependent variable (financial performance) and independent variable (budget use and managerial Performance) as expressed in the equation below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:-

Y = Financial performance as measured by ROA

X1 = Use of budget

X2 = Managerial Performance

β_0 = Intercept

β = Coefficient of independent variables

e = error term

The study used secondary data (financial records) to measure the managerial performance the key type of measure was efficiency measure. This was measured by comparing the profit margins of the different manufacturing firms in the same period of time. This was the average net profit divided by average revenue for the period under study.

The independent variables X1 and X2 are variables of Budget used for this study which was measured using the various questions asked the respondents in the questionnaire.

The computer programme SPSS version 18 was used to analyze the data correlation and regression analysis was utilized to test the effect of budget use as a financial management tool.

To measure budget use, managers and accountants were given a list of questions which sought to determine how set budgets affected their day to day decision making and how important they think meeting budget targets affects the way their group managers evaluate their performance. A five point likert scale was used to interpret the level of ranking.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

The results of the research project exploring the effect of budgets on financial performance of manufacturing companies in Nairobi County. The results of the analyses are presented per study objective and described in tables where stated. The sample size for the analyses was 20 manufacturing firms in Nairobi. Once the respondents answered the questionnaire, data was then coded and analyzed using SPSS.

4.2 Participation Rate

The study targeted 20 respondents in collecting data with regard on effect of budgets on financial performance of manufacturing companies in Nairobi County. From the study, 17 respondents out of the 20 respondents, making a response rate of 85%. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% rated very good. This also concurs with Kothari (2004) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. This implies that based on this assertions; the response rate in this case of 85% is very good.

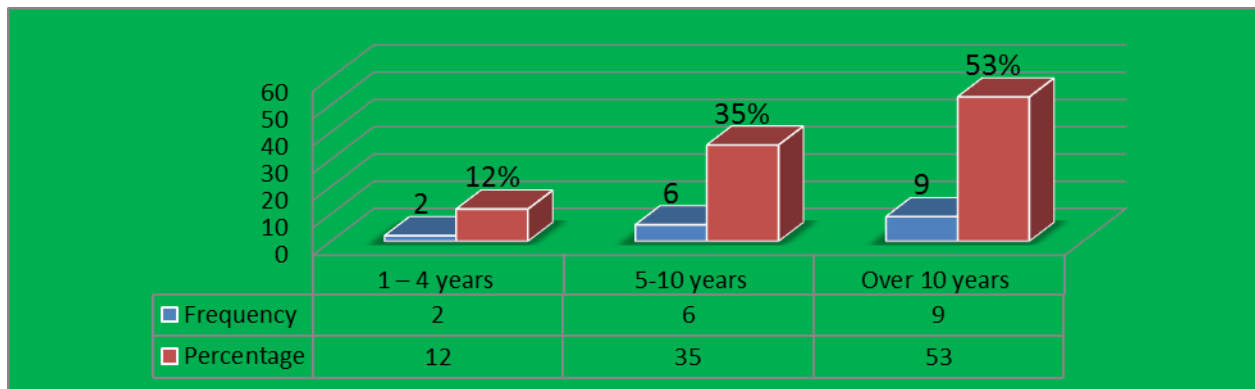
4.3 General Information

Table 1: Response Rate

	Questionnaires administered	Questionnaires filled & returned	Percentage
Respondents	20	17	85

Source: Researcher, 2013

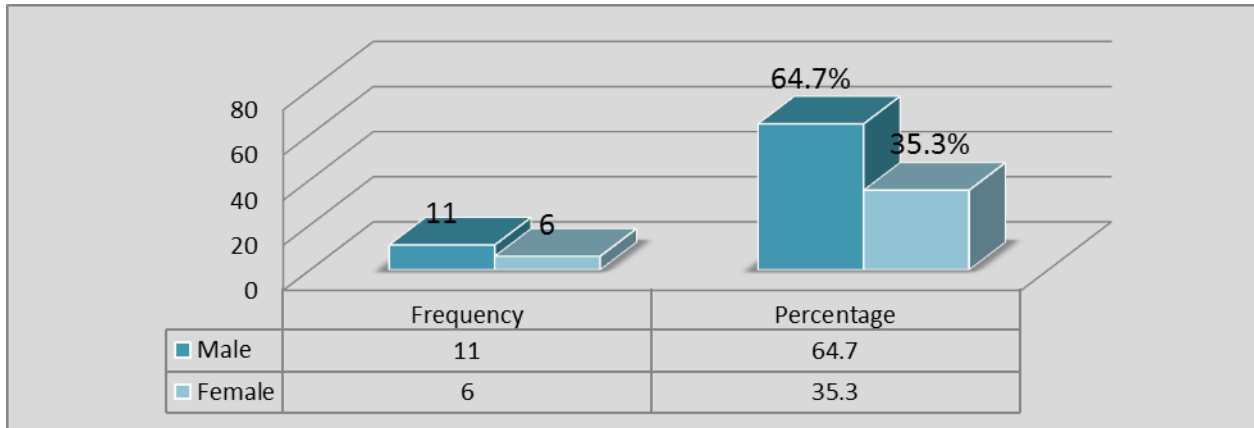
Figure 2: Number of years the firm in operation



Source: Researcher, 2013

The study sought to determine number of years the firm has been in operation. This was to enable the researcher to get vital information with regard of company operations budget as a tool of financial performance. Based on the analysis of the findings it can be depicted that majority (53%) of firms have been in operation for more than 10 years which was enough indeed to give out information required by the researcher while 35% indicated that have operated between 5-10 years and only 12% revealed that operated between 1-4 years. The finding is illustrated in figure 1.

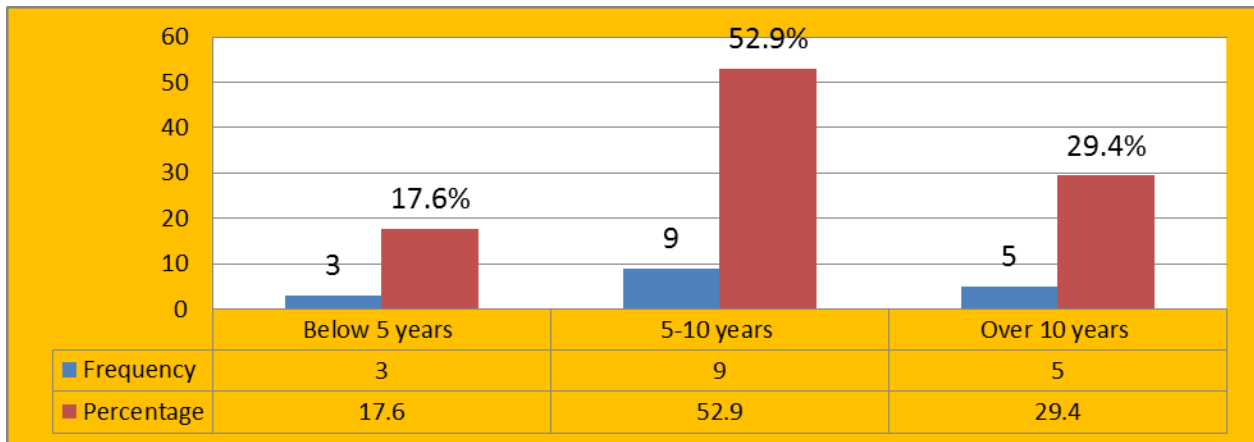
Figure 3: Gender Distribution of the respondents



Source: Researcher, 2013

The study also requested the respondents to indicate their respectful gender. According to the analysis of the findings 64.7% were from the male genders who were the majority while 35.3% indicated females and comprised the minority of respondents. The results are as shown in figure 3.

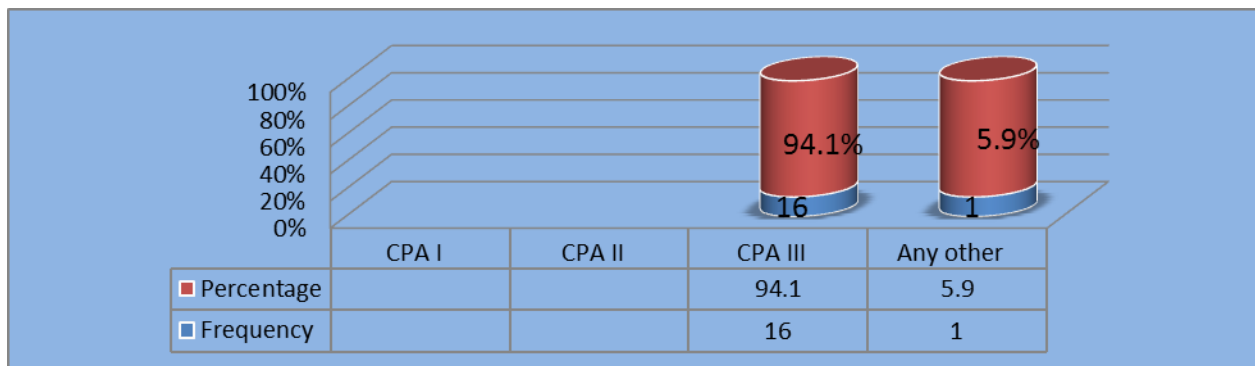
Figure 4: Number of years worked



Source: Researcher, 2013

The study sought to determine number of years worked in respective firms of the respondents. This was to enable the researcher to establish accumulated experience with regard of budget as a tool of financial performance. Based on the analysis of the findings it can be depicted that majority (52.3%) have worked between 5-10 years indicating that most accountants had that accumulated experience to discharge their functions effectively and efficiently with regard of budgets as a tool for financial performance of manufacturing firms while 29.4% indicated that have worked for more than 10 years and the remaining 17.6% worked below 5 years. The finding is illustrated in figure 3.

Figure 5: Highest professional qualification of accountants

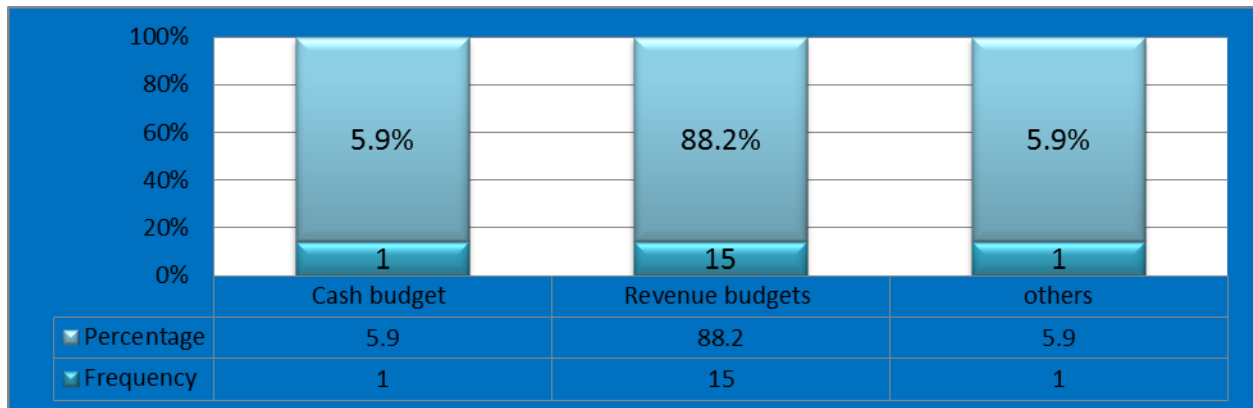


Source: Researcher, 2013

The researcher also investigated the highest professional qualification of the accountants. It is evidently revealed that overwhelm majority said that it is CPA III by accounting for 94.1% meaning that the professional of an accountant is CPA III while only 5.9% indicated other professional qualification. The analysis of the findings is illustrated by figure 4.

4.4 Kind of Budget Prepared

Figure 6: Types of budgets prepared by Accountants



Source: Researcher, 2013

The researcher further probed from the respondents the kind budget prepaid by accountants. The analysis of the findings depicts that mostly accountants prepare revenue budgets as illustrated by overwhelm majority responding upto 88.2%. The findings of the study also indicated 5.9% indicated its cash budget and other kinds of budgets respectively. The results are as shown in figure 6.

Table 2: Relevance of the kinds of budgets prepared

Descriptive statistics

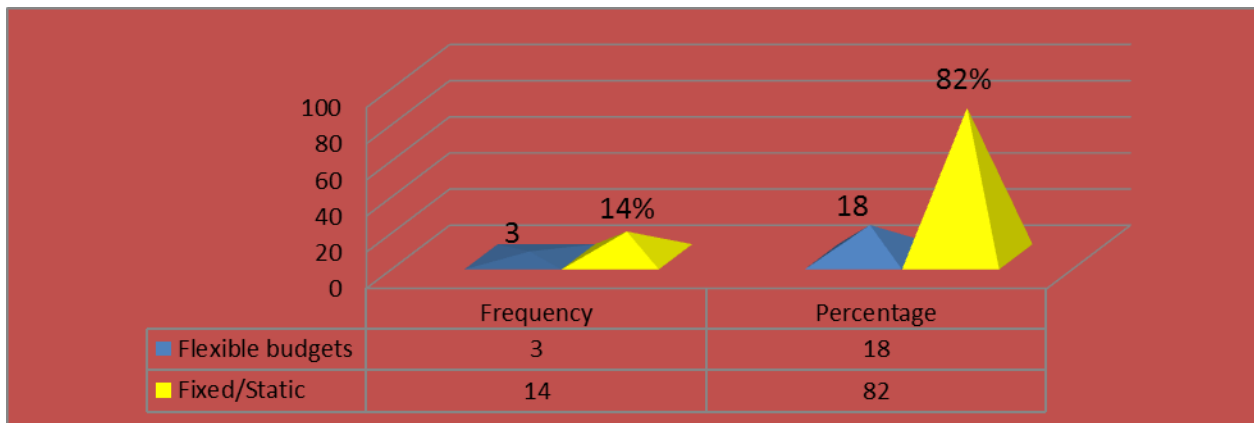
Adequacy	Mean	Standard Deviation
How relevant do staff in finance department need for training before preparing the budget annually	4.3	1.024
Do budget guidelines issued to budget holders assists much in preparation of the next financial year accurately	3.9	0.589
Do you think that there is need for consultation with other officers of the firm's relevant while preparing the budget	5.1	0.843
How do you think is important of the approval of the budget by the board of the directors before they are implemented	4.2	1.106
Do you think you authorization and involvement of you as accountant to factor in changes to the budget is of much relevance	4.9	0.912

Source: Researcher, 2013

There were five levels of relevance with regard of kinds of budgets prepared in the manufacturing in NSE. The five levels strongly relevant which was given 5 points, relevant which was given 4 points and neither relevant nor relevant which was given 3 points. Moreover, there was Irrelevant which was given 2 points and strongly irrelevant given 1 point. A mean and standard deviation were worked out for the analysis. Strongly relevant was indicated by thinking that there is need for consultation with other officers of the firm's relevant while preparing the budget with a mean of 5.1 and standard deviation of 0.843, thinking that authorization and involvement of you as

accountant to factor in changes to the budget is of much relevance with a mean of 4.9 and standard deviation of 0.912. In addition, to those who said relevant were indicated on how relevant the staff in finance department need for training before preparing the budget annually with a mean of 4.3 and standard deviation of 1.024, thinking on importance of the approval of the budget by the board of the directors before they are implemented with a mean of 4.2 and standard deviation of 1.106 and also whether budget guidelines issued to budget holders assists much in preparation of the next financial year accurately with a mean of 3.9 a standard deviation of 0.589 This is an indication that most of the budgets prepared in the listed manufacturing firms in NSE they are relevant. The finding of study is as shown in table 2.

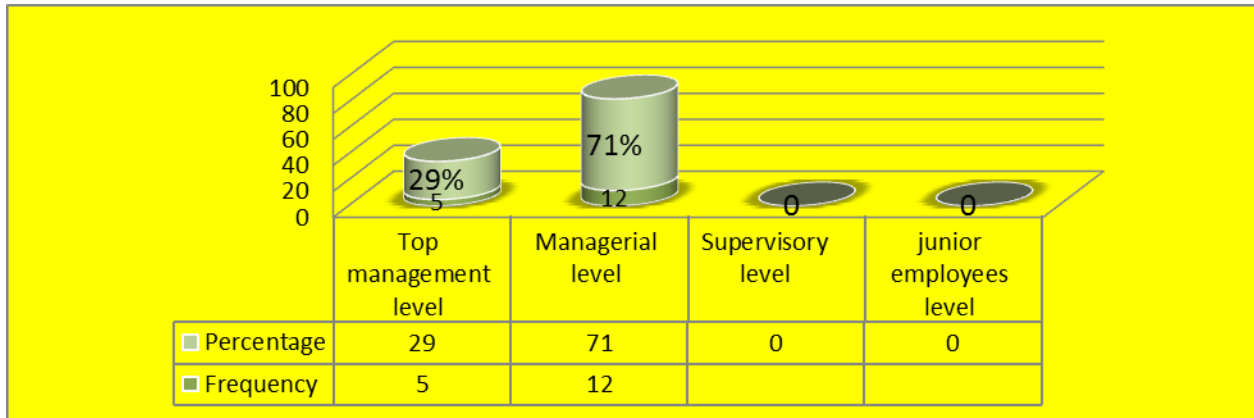
Figure 7: Approaches used to prepare budgets.



Source: Researcher, 2013

The researcher found of paramount importance to probe further on the types of approaches employed in preparing budgets. According to the analysis of the findings it's evidently revealed that fixed/static budgets are mostly prepaid by accounting 82% while only 14% indicated flexible budgets. The results are as shown in figure 7.

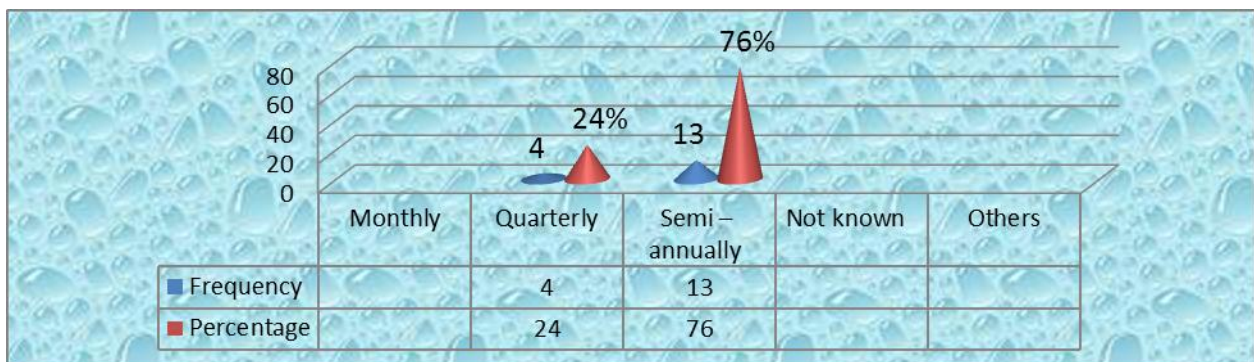
Figure 8: Budgeting process



Source: Researcher, 2013

The researcher further requested the respondents to indicate down on starting point of budgeting process. Data was collected, coded and analyzed per the study objective. From the results, it can be observed that 71% said managerial level who were the majority of the respondents and while the remaining 29% indicated top management level. It can therefore conclude that budgeting process starts from management according to analysis of the findings in figure 8.

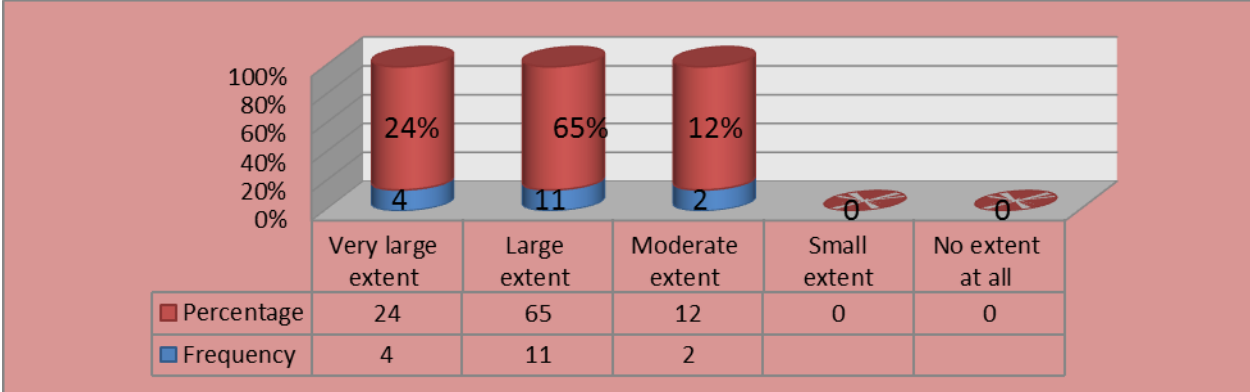
Figure 9: Frequency of budget preparation



Source: Researcher, 2013

The study further sought to determine the frequency of budget preparation. The analysis of the findings clearly indicates that most budgets are prepared semi-annually by accounting 76% while only 24% are the one who revealed quarterly. The findings of the study are illustrated in figure 9.

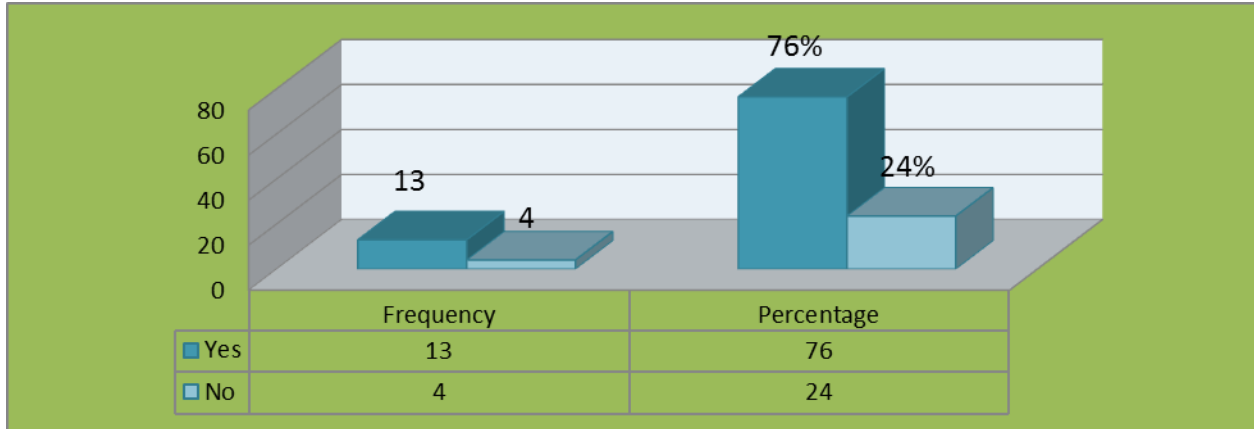
Figure 10: The extent internal staff expertise used to prepare budgets



Source: Researcher, 2013

Further the researcher required the respondents to indicate down the extent internal staff expertise used to prepare budgets in manufacturing firms. Evidently the findings reveal that majority said large extent who accounted for 65%. The study also revealed to a very large extent was 24% and only 12% indicated moderate extent meaning that internal is mostly involved in budget preparation. The results are illustrated in figure 10.

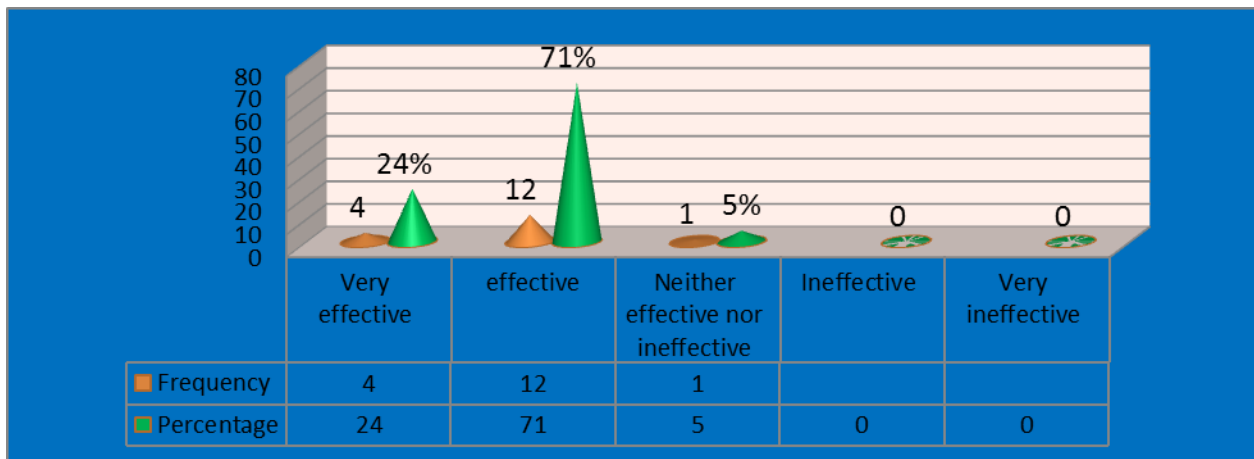
Figure 11: Whether manufacturing companies in NSE outsource the services of a consultant to assist in budget preparation.



Source: Researcher, 2013

The study also required the respondents to write down if whether manufacturing companies in NSE outsource the services of a consultant to assist in budget preparation. Majority of the participants said yes indeed they outsource services of consultancy who accounted for 76% while the remaining 24% indicated no outsourcing as it been illustrated in figure 11.

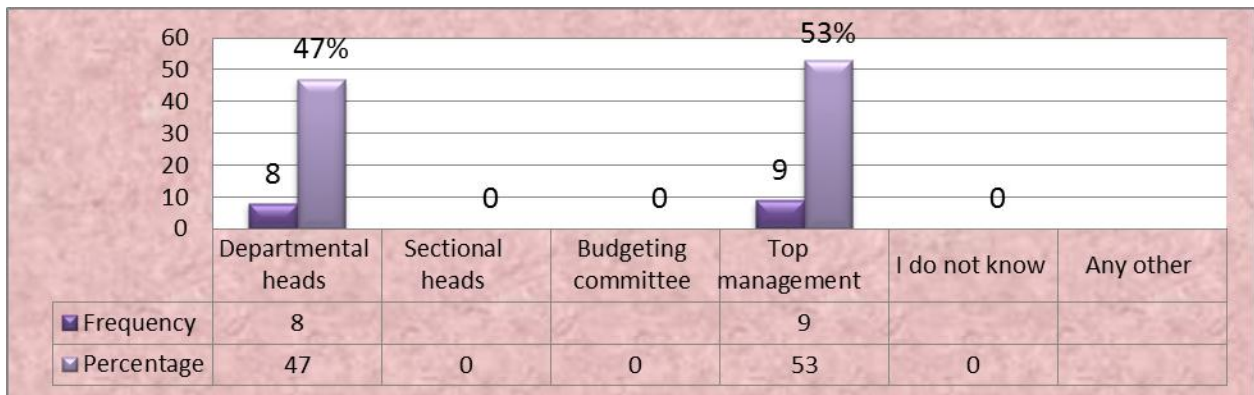
Figure 12: Effectiveness of budget prepared



Source: Researcher, 2013

The study further probed the effectiveness of the budget prepared. It can be observed that 71% said it is effective who were the majority of the respondents while 24% indicated very effective and only 5% said it is neither effective nor ineffective. From the findings of the study this means that Budget prepared is relevant as it can be observed in figure 12.

Figure 13: Evaluation of budget variance report



Source: Researcher, 2013

The study also required the respondents to reveal on who does evaluation of budget variance report. It is clear that top management are charged with the responsibility of evaluation budget variance report as it can be indicated by 53% while the remaining 43% said that the evaluation is done by departmental heads. The findings are illustrated in figure 13.

Table 3: Extent of Using Budget in Decision Making

Descriptive statistics

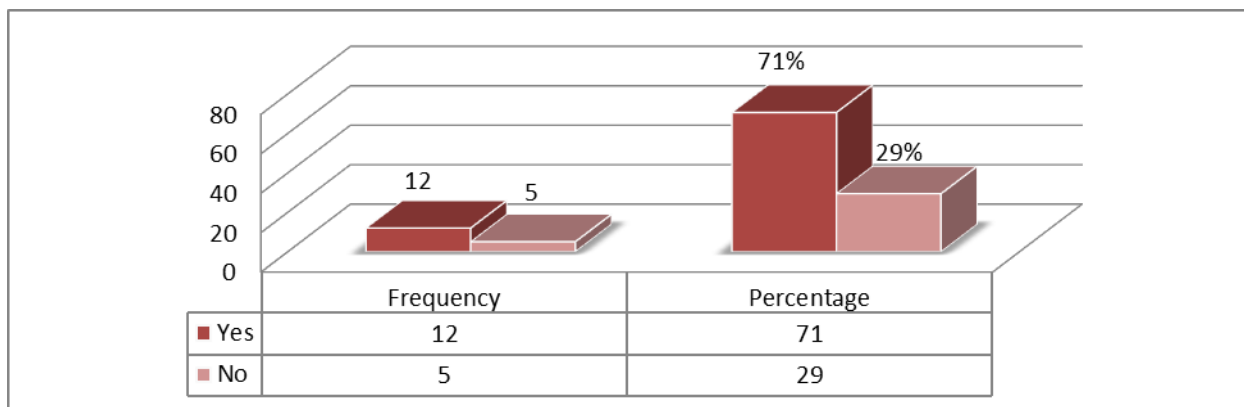
USES	Mean	Standard Deviation
Budgets help to control inventory	4.7	0.880
Budgets are used as a communication medium for organization plans and objectives	4.3	0.967
Budgets help the organization to achieve departmental coordination	4.9	0.689
Budgets are used to motivate staff	3.8	0.812
Budgets allow for systematic reporting and monitoring of performance at all levels	5.2	0.731
Budgets are used as a basis for effective revenue and costs control	5.1	0.813
Budgets are used as a guide to making new investments	5.4	1.054
Budgets are used as estimates/projections to source for additional capital	4.2	1.204

Source: Researcher, 2013

The respondents were also requested to indicate their respectful level of agreement pertaining role of using a budget in decision making. To strongly agree was indicated by budgets used as a guide to making new investments with a mean of 5.4 and standard deviation of 1.054, budgets

allowing systematic reporting and monitoring of performance at all levels with a mean of 5.2 and standard deviation of 0.731, budgets being used as a basis for effective revenue and costs control with a mean of 5.1 and a standard deviation of 0.813, budgets help the organization to achieve departmental coordination with a mean of 4.9 and standard deviation of 0.689 and budgets aids to control inventory with a mean of 4.7 and standard deviation of 0.880. Moreover, those who agreed were indicated by budgets being used as a communication medium for organization plans and objectives with a mean of 4.3 and a standard deviation of 0.967, budgets are used as estimates/projections to source for additional capital with a mean of 4.2 and a standard deviation of 1.204, and also on budgets being used to motivate staff with a mean of 3.8 and a standard deviation of 0.812. Therefore it can be deduced that most respondents strongly agreed that budget preparation is used in decision making. The findings are tabulated in table 3.

Figure 14: Whether the respondents are satisfied with budgets as management tool in your company

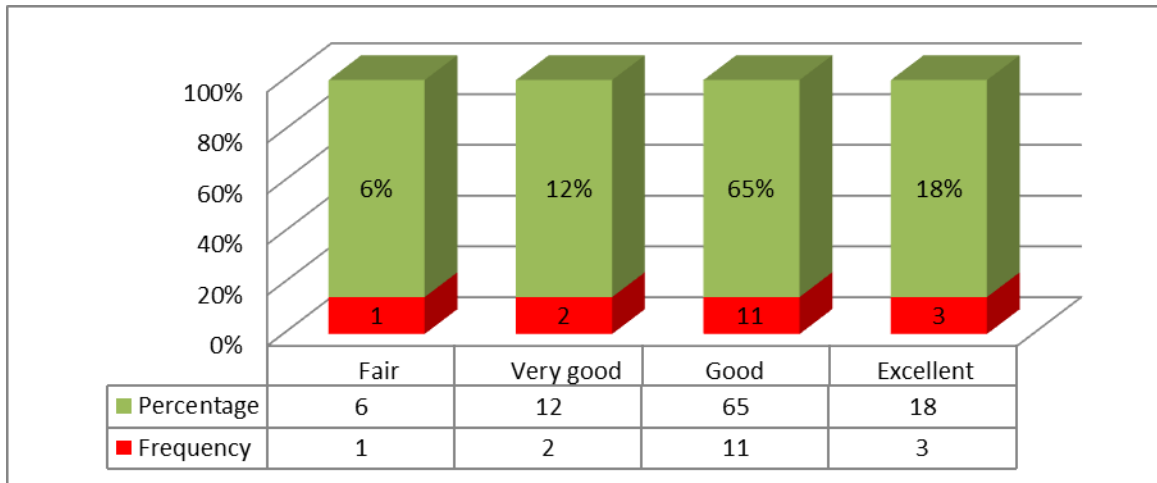


Source: Researcher, 2013

The researcher also investigated from the participants if whether they are satisfied with budget being management tool in their respectful manufacturing companies. According to the analysis

of findings clearly budget is a management tool as shown by 71% who said yes and only 29 said no. Therefore it can be concluded that budgets is a management tool as shown in figure 14.

Figure 15: Relating the effectiveness of budgets

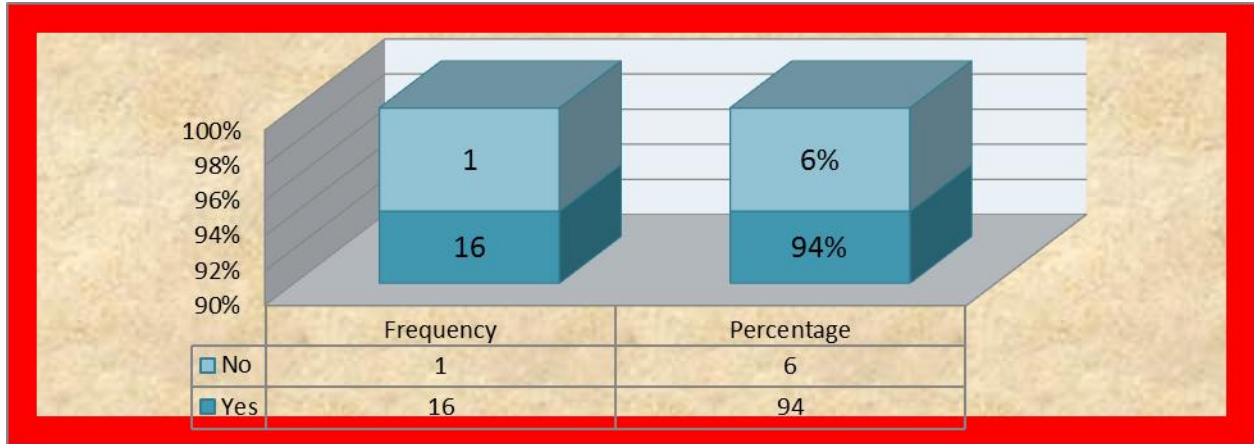


Source: Researcher, 2013

One of the objectives of the study was to investigate from the respondents on how they relate the effectiveness of budgets. The findings of clearly shows that majority (65%) indicated good, 18% said excellent, 12% said very good and only 6% indicated fair. It can be deduced that budgets are effectively good as illustrated in figure 15.

4.5 Extent of Using Budget in Decision Making

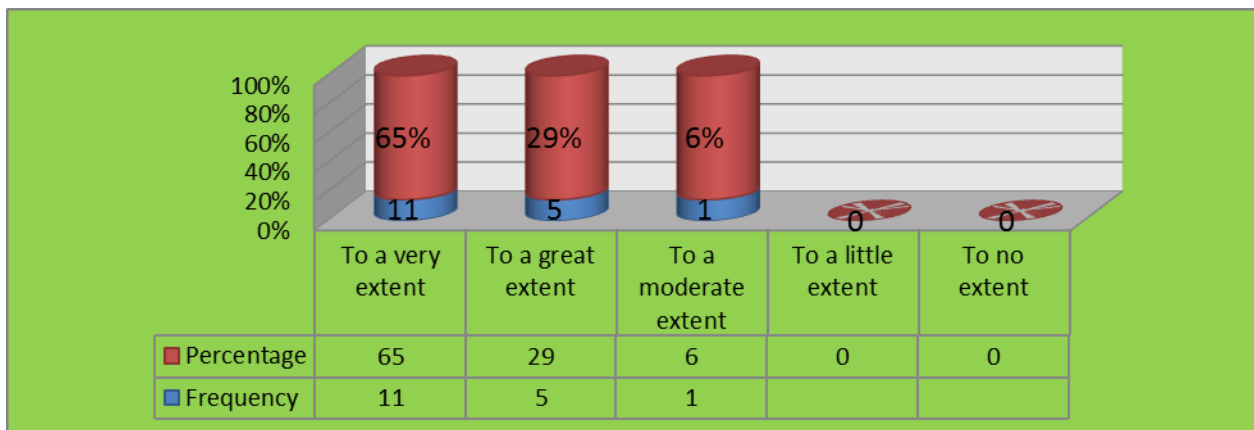
Figure 16: If whether budgeting affects the financial performance of companies



Source: Researcher, 2013

The researcher explored whether budgeting affects the financial performance of companies. Evidently it was observed that overwhelm majority (94%) indicated yes while only 6% said no. It can be therefore depicted that budgeting largely affects financial performance of companies as it illustrated in figure 16.

Figure 17: Extent budgeting affect the financial performance of corporations



Source: Researcher, 2013

The researcher was also further committed to know the extent budgeting affect the financial performance of corporations. The findings revealed that 65% said to a very great extent who was the majority of respondents, 29% said to a great extent and the remaining 6% indicated to moderate extent. It can be concluded that most respondents said to a very great extent. The findings are illustrated in figure 17.

Table 4: Operational manager’s involvement in the budget planning process

Descriptive statistics

	Mean	Standard Deviation
In our firm, operational managers are fully involved in budget planning	5.0	0.937
The operational manager has expertise in financial management	4.7	0.642
The operational manager has sufficient skills and awareness to manage the financial resources under their control	4.2	0.984
The operational manager is in the best position to understand day-to-day activities, risks and opportunities that drive the company	5.1	1.211
It is essential to involve operational managers throughout budget processes	4.0	1.042

Source: Researcher, 2013

The researcher also taught of great importance in determining whether operational managers are involved in the budget planning process by requesting respondents their level of agreement with

various aspects in a five point likert scale. According to analysis of the findings, those who strongly agreed were indicated on operational manager being in the best position to understand day-to-day activities, risks and opportunities that drive the company with a mean of 5.1 and standard deviation 1.211, firm operational managers are fully involved in budget planning with a mean of 5.0 and standard deviation of 0.937 and also on operational manager has expertise in financial management with a mean of 4.7 and a standard deviation of 0.642. Those who agreed were indicated by operational manager having sufficient skills and awareness to manage the financial resources under their control with a mean of 4.2 and a standard deviation of 0.984, and on involve operational managers throughout budget processes with a mean of 4.0 and a standard deviation of 1.042. The results concludes that indeed operational manager's involvement in the budget planning process affects financial performance as tabulated in table 4.

Table 5: Budget planning and coordination

Descriptive statistics

	Mean	Standard Deviation
We develop budget timetables and identify responsibilities for budget preparation	4.1	1.007
We develop the key planning assumptions to be applied across the organization	3.8	0.830
We undertake quality assurance checking of estimates and requests submitted by line areas	2.9	1.272
We prepare estimates that are not captured at group level	4.0	0.614
We review budget processes	3.7	0.589

Source: Researcher, 2013

The researcher also investigated the effects of budget planning and coordination in financial performance. The results revealed that those agreed were on development of budget timetables and identify responsibilities for budget preparation with a mean of 4.1 a standard deviation of 1.007, preparing estimates that are not captured at group level with a mean of 4.0 and a standard deviation of 0.614, developing key planning assumptions to be applied across the organization with a mean of 3.8 and a standard deviation of 0.830, and by reviewing budget processes with a mean of 3.7 and standard deviation of 0.589. The results conclude that most respondents agreed

that budget planning and coordination affects financial performance. The results are as shown in table 5.

Table 6: Budget construction

	Mean	Standard Deviation
The budget is driven through bottom-up participation	2.1	0.647
The budget is derived incrementally from previous budgets	3.7	0.911
Budget systems and processes are included in disaster recovery and business continuity arrangements	3.9	0.580
Access to budget systems and tools is appropriately restricted	3.2	0.901

Source: Researcher, 2013

The respondents were further probed if whether budget construction affects financial performance. According to the findings those agreed were indicated by budget systems and processes being included in disaster recovery and business continuity arrangements with a mean of 3.9 and a standard deviation 0.580, the budget being derived incrementally from previous budgets with a mean of 3.7 and a standard deviation of 0.911. Moreover, those undecided was indicated by accessibility to budget systems and tools is appropriately restricted with a mean of 3.2 and a standard deviation of 0.901 and those who disagreed were indicated by budget being driven through bottom-up participation with a mean of 2.1 and a standard deviation of 0.647. The finding of the study is tabulated in table 6.

Table 7: Oversight, review and communication

Descriptive statistics

	Mean	Standard Deviation
Budget committee would focus on improving the company performance and competitiveness	5.2	0.943
Budget committee is expected to focus on the optimization of shareholders' wealth and prevent the maximization of personal interests by the top management.	5.4	0.731
Budget committee should be independent, competent, financially literate, adequately resourced and properly compensated	4.8	1.104
Budget committee evaluates budget bids, including alignment with the organization's priorities	4.6	1.005
Budget committee is effective against risk and are not overloaded	3.4	1.043

Source: Researcher, 2013

The respondents were requested to indicate on how oversight, review and communication affect financial performance in a five point Likert scale. The range was 'strongly agrees (5)' strongly disagrees '(1). The scores of 'disagree, 'and' strongly disagree;' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the

continuous Likert scale ;($0 \leq S.E < 2.4$). The scores of ‘undecided;’ have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The score of ‘agree, and strongly agrees,’ have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.4 and on a continuous Likert scale; $3.5 \leq L.E. < 5.4$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents. From the findings in table 7 it is a clear indication that most respondents strongly agreed except from who were undecided on budget committee being effective against risk and are not overloaded with a mean of 3.4 and standard deviation of 1.043. The results

4.6 Regression Analysis

4.6.1 Correlation analysis

Two predictors variable are said to be correlated if their coefficient of correlations is greater than 0.5. In such a situation one of the variables must be dropped from the analysis. As shown in table 8, none of the predictor variables had coefficient of correlation between themselves more than 0.5 hence all of them were included in the model. The matrix also indicated high correlation between the response and predictor variables that is Use of budget, and Managerial Performance.

Table 8: Pearson Correlations

	Financial performance as measured by ROA	Use of budget	Managerial Performance
Financial performance as measured by ROA	1.000		
Use of budget	.536	1.000	
Managerial Performance	.752	.118	1.000

Source: Researcher 2013

The researcher performed a regression analysis to establish the association between the independent variables with the dependent variables of the study. The following regression model was adopted for the study:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:-

Y = Financial performance as measured by ROA

X1 = Use of budget

X2 = Managerial Performance

β_0 = Intercept

β = Coefficient of independent variables

e= the standard error

$$Y = \beta_0 + \beta_1x_1 + \beta_2X_2 + e$$

4.6.2 Strength of the model

Analysis in table 9 shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R² equals 0.843, that is, Use of budget and Managerial Performance explains 84.3% of observed change in Financial performance as measured by ROA. The P- value of 0.000 (Less than 0.05) implies that the regression model is significant at the 95% significance level.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.918(a)	.843	.805	.51038	.843	1.242	4	96	.000

Predictors: (Constant), Use of budget and Managerial Performance

Dependent Variable: Financial performance as measured by ROA

Source: Researcher 2013

Table 10: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.852	4	.213	1.242	.000
Residual	20.35	119	.171		
Total	22.64	123			

Predictors: (Constant), Use of budget and Managerial Performance

Dependent Variable: Financial performance as measured by ROA

Source: Researcher 2013

ANOVA findings (P- value of 0.00) in table 10 show that there is correlation between the predictors' variables (Use of budget and Managerial Performance) and response variable (Financial performance as measured by ROA).

Table 11: Coefficients of Regression Equation

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.903				
Use of budget	0.035	0.028	0.018	1.021	0.031
Managerial Performance	0.016	0.021	0.013	1.115	0.015

a. Dependent Variable: Financial performance as measured by ROA

The established multiple linear regression equation becomes:

$$Y = 0.903 + 0.016X_1 + 0.035X_2 + 0.028$$

Constant = 0.903, shows that if all the independent variables (Use of budget and Managerial Performance) are rated as zero, Financial performance as measured by ROA would be 0.903.

The level of confidence for the analysis was set at 95%. Therefore, the P- value less than 0.05 imply that the independent variable is significant. The regression results show that Financial performance as measured by ROA is influenced by Use of budget ($p=0.031$), and Managerial Performance ($p=0.015$).

The independent variables in the regression model with positive coefficient have a direct relationship with the dependent variable. Therefore, financial performance as measured by ROA increases proportionately with more inclusive Using of budget, and influences of Managerial Performance.

The magnitude of the coefficients of the independent variables denoted the strength of the influence that they have on the dependent variable (Financial performance as measured by ROA). The results indicate that financial performance as measured by ROA is strongly influenced by Using of budget (coefficient 0.035) and Managerial Performance, (Coefficient 0.016) respectively.

4.7 Summary of interpretations

The main objective of the study was to determine the effect of budgets on financial performance of manufacturing companies in Nairobi County. The findings established that most firms have operated for over 10 years and majority of the participants are males who have worked in their respectful firms between 5-10 years. The study further revealed that the highest professional qualification of accountants is CPA III.

The study further probed on types of budget prepared by accountants. It was clearly observed that they prepare revenue budgets whereby most of these budgets are relevant according to findings of the study. The findings also revealed that fixed/static are used to prepare budgets and mostly budgeting process starts from managerial level. Also the results revealed that in most cases budgets are prepared semi-annually and internal staff expertise are involved to large extent to prepare budgets.

It was indeed revealed that manufacturing companies in NSE outsource the services of a consultant to assist in budget preparation and in this case budgets prepared are effective and also top management are ones who are charged with the responsibility of evaluating budget variance report. Further, the findings indicated that most respondents strongly agreed that budgets are used in decision making and majority of the participants was satisfied with budgets being a management tool and also on the effectiveness of budgets it related good by most respondents saying that budgeting affects to a very great extent the financial performance of manufacturing companies in NSE. On the operational manager's involvement in the budget planning process, it was clearly indicated that indeed they were involved budget planning process to affect financial performance of manufacturing companies listed in NSE. The study further revealed that most respondents agreed budget planning and coordination affects financial performance and the oversight, review and communication roles, there was a clear indication of strong agreement. It was also concluded that financial performance as measured by ROA is influenced by use of budget ($p=0.031$), and managerial performance ($p=0.015$). The independent variables in the regression model with positive coefficient revealed that there was a direct relationship with the dependent variable. Therefore, financial performance as measured by ROA increased proportionately with more inclusive using of budget, and influences of managerial performance.

The findings of the study concluded that the magnitude of coefficients of the independent variables denoted the strength of the influence that they have on the dependent variable (Financial performance as measured by ROA). The results indicated that financial performance as measured by ROA is strongly influenced by using of budget (coefficient 0.035) and managerial performance, (Coefficient 0.016) respectively. The findings of the study was relevant due, use of budget, managerial performance convenience are critical factors for financial performance as measured by ROA. It concluded that the interactions use of budget and managerial performance of the two factors create an impetus for financial performance as measured by ROA, hence manufacturing firms listed in NSE should adopt strategies to enhance these to two areas.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

On the general characteristics, the study indicated that majority are males and most of them have worked in their respectful firms between 5-10 years. The findings also indicated that CPA III is the highest professional qualification of accountants and mostly revenue budget are the one prepared semi-annually and that matter are relevant. The study further revealed that overwhelm majority indicated that fixed/static budget is prepared whereby the process starts from managerial level in semi-annually basis. On the extent internal staff expertise used to prepare budgets, it was clearly revealed that it is to a large extent and mostly these manufacturing firms outsource the services of a consultant to assist in budget preparation. The study further emerged out to reveal that the budget prepared was effective and mostly evaluation variance report was done by top management. Most participants strongly agreed that indeed budget is used in decision making and it is a management tool. On relating the effectiveness of budgets, it was also observed that majority related it as good. The researcher further determined on extent of using budget in decision making by asking the participants to indicate if budgeting affects the financial performance of companies. Indeed, overwhelm majority said yes by indicating that to a great extent budgeting affect financial performance of manufacturing firms. Further, the study indicated that most respondents strongly agreed that operational managers are involved in the budget planning process and it improves financial growth so it should be embraced in all quotas. The study also revealed and on oversight, review and communication majority strongly agreed

that indeed it bring into realization of obstacles, barrier of financial performance which are worked so that to improve general performance of manufacturing firms.

5.2 Conclusions

The researcher inquired on the types of budget prepared. From the findings of the study it was concluded that majority indicated fixed/static budget and the process starts from managerial level in semi-annually basis. The study findings also concludes that internal staff expertise was used to a large extent to prepare budgets and mostly manufacturing firms outsource their services of a consultant to assist in budget preparation. Further, the findings of the study concluded that budgets prepared in manufacturing firms listed in NSE are effective and mostly evaluation variance report was done by top management. Also the findings concludes that most participants strongly agreed that indeed budget was used in decision making and it is really management tool. The researcher also found of paramount importance to determine effectiveness of the budget. It was also revealed that it was effectiveness and it related good. The findings also concludes budget is used in decision making by stating that operational managers should be involved in the budget planning process to improve financial performance . On determining the association among variables, regression method was used whereby the results showed financial performance as measured by ROA is influenced by use of budget ($p=0.031$), and managerial performance ($p=0.015$). The independent variables in the regression model with positive coefficient revealed that there was a direct relationship with the dependent variable. Therefore, financial performance as measured by ROA increased proportionately with more inclusive using of budget, and influences of managerial performance. The study findings concluded that the financial performance as measured by ROA is strongly influenced by using of budget (coefficient 0.035) and managerial performance, (Coefficient 0.016) respectively.

5.3 Policy Recommendations

In regards to practice, the study recommends that manufacturing companies should establishing formal performance measurement and rewarding individuals for their performance which will encourage to maximize their contribution towards the organization's objectives by: goal congruence to be achieved on productivity, personal development, profitability, market position, product leadership, employee attitudes, public responsibility, and balance between short term and long term goals . The findings recommends that they should be two way flow of information and other facets of a properly organized budgeting system to help in promoting a coalition of interest and to increase motivation.

Effective budget implementation at the company level should be facilitated through capacity building, robust systems and processes, prioritization close monitoring and evaluation. All stakeholders should get involved in budget execution in enhancing the overall budget implementation.

The financial management systems need to be supported in order to ensure prudent management of funds. There is a need for adequate sensitization of both the employees and the public on best financial management practices so that the oversight role is enhanced.

Manufacturing firms needs to establish a strong link between the planning process and the budget process. Companies need to adopt a medium term plan to define priorities for their daily tasks.

5.4 Limitations of the study

The research met with various challenges when conducting the research that included the fact that the firms ordinarily do not want to give information due to client confidentiality. The findings of the study may not be generalizable to other manufacturing firms in Kenya to differences in social, political and economic environments in different parts of the country. In addition, some of the respondents would not find the subject to be of interest. Additionally, some respondents would not want to give the information as they considered it of competitive importance. Time limitation made it impractical to include more respondents in the study. This study was also limited by other factors in that some respondents may have been biased or dishonest in their answers. More respondents would have been essential to increase the representation of manufacturing firms in this study and to allow for better check of consistency of the information given. However, the researcher did look for contradictions in the information given and no inconsistency were found.

5.5 Suggestions for further study

The study has achieved its aim that is to investigate the effect of budgets on financial performance of manufacturing companies in Nairobi. It has therefore opened up avenues for further research since it was confined to manufacturing companies in Nairobi which may differ in the way they use budget to affect financial performance. Therefore similar studies need to be conducted in other manufacturing firms in Kenya in order to assess whether the study could yield similar findings regarding effect of budgets on financial performance

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APPENDICES

Appendix I: Questionnaire

SECTION A: GENERAL INFORMATION

Please Mark/Tick the appropriate response or write in the spaces provided.

1. How long has the firm been in operation?
1 – 4 years [] 5-10 years [] Over 10 years []
2. Gender of the accountant. Male [] Female []
3. How long have you worked in these firm?
Below 5 years [] 5-10 years [] Over 10 years []
4. What is the highest professional qualification of the accountant?
5. CPA I [] CPA II [] CPA III [] Any other []

SECTION B: KIND OF BUDGET PREPARED

1. What kind of budgets do you prepare?
Cash budget [] Revenue budgets [] others []

The following are the perceived to be the relevance of the kinds of budgets prepared.

Please indicate the level of your relevance with each role to your industry.

- 1 Strongly relevant
- 2 Relevant
- 3 Neither relevant Nor relevant
- 4 Irrelevant
- 5 Strongly irrelevant

Adequacy	1	2	3	4	5
How relevant do staff in finance department need for training before preparing the budget annually					
Do budget guidelines issued to budget holders assists much in preparation of the next financial year accurately					
Do you think that there is need for consultation with other officers of the firm's relevant while preparing the budget					
How do you think is important of the approval of the budget by the board of the directors before they are implemented					
Do you think you authorization and involvement of you as accountant to factor in changes to the budget is of much relevance					

7. Which approaches do you use to prepare budgets?

Flexible budgets [] Fixed/Static []

SECTION C: APPROACHES OF PREPARING A BUDGET

1. Where does the budgeting process begins?

Top management level [] Managerial level []

Supervisory level [] junior employees level []

2. How often do you prepare budget

Monthly [] Quarterly [] Semi – annually []

Not known [] Others (specify)

3. To what extent do you use internal staff expertise to prepare budgets?

i) Very large extent [] ii) Large extent [] iii) Moderate extent []

iv) Small extent [] v) No extent at all []

4. Do you outsource the services of a consultant to assist in budget preparation?

Yes [] No []

5. If yes how effective is the budget prepared relevant?

i) Very effective [] ii) effective [] iii) Neither effective nor ineffective []

iv) Ineffective [] v) Very ineffective []

6. in your department who evaluates the budget variance report?

Departmental heads [] Sectional heads [] Budgeting committee []

Top management [] I do not know [] Any other (specify)

SECTION D: EXTENT OF USING ABUDGET IN DECISION MAKING

The following are the perceived uses of a budget in decision making. Please indicate the level of your agreement with each role to your industry.

- 1 Strongly agree
- 2 Agree
- 3 Neither agrees nor disagrees
- 4 Disagree
- 5 Strongly disagree

USES	1	2	3	4	5
Budgets help to control inventory					
Budgets are used as a communication medium for organization plans and objectives					

Budgets help the organization to achieve departmental coordination					
Budgets are used to motivate staff					
Budgets allow for systematic reporting and monitoring of performance at all levels					
Budgets are used as a basis for effective revenue and costs control					
Budgets are used as a guide to making new investments					
Budgets are used as estimates/projections to source for additional capital					

9. Are you satisfied with budgets as management tool in your company? Yes No

10. If satisfied, how can you relate the effectiveness of budgets?

Fair Good

Very good Excellent

SECTION E: EXTENT OF USING ABUDGET IN DECISION MAKING

1. ?

Yes () No ()

2.To what extent does budgeting affect the financial performance of these corporations?

To a very extent []

To a great extent []

To a moderate extent []

To a little extent []

To no extent []

To what extent do you agree with the following statements on budget and manufacturing firm’s financial performance in Kenya? Key: 5 strongly agrees, 4 agree, 3 undecided, 2 disagree, 1 strongly disagree (please put an X as appropriate)

	1	2	3	4	5
Section A: Operational manager’s involvement in the budget planning process					
In our firm, operational managers are fully involved in budget planning					
The operational manager has expertise in financial management					
The operational manager has sufficient skills and awareness to manage the					

financial resources under their control					
The operational manager is in the best position to understand day-to-day activities, risks and opportunities that drive the company					
It is essential to involve operational managers throughout budget processes					
Section B: Budget planning and coordination					
We develop budget timetables and identify responsibilities for budget preparation					
We develop the key planning assumptions to be applied across the organization					
We undertake quality assurance checking of estimates and requests submitted by line areas					
We prepare estimates that are not captured at group level					
We review budget processes					
Section C: Budget construction					
The budget is driven through bottom-up participation					
The budget is derived incrementally from previous budgets					
Budget systems and processes are included in disaster recovery and business continuity arrangements					

Access to budget systems and tools is appropriately restricted					
Section D: Oversight, review and communication					
Budget committee would focus on improving the company performance and competitiveness					
Budget committee is expected to focus on the optimization of shareholders' wealth and prevent the maximization of personal interests by the top management.					
Budget committee should be independent, competent, financially literate, adequately resourced and properly compensated					
Budget committee evaluates budget bids, including alignment with the organization's priorities					
Budget committee is effective against risk and are not overloaded					

Appendix II: Time Plan

Phase	Description	Week										
		1	2	3	4	5	6	7	8	9	10	11
1	Preliminary Activities											
2	Literature Review 2 weeks											
3	Research Methodology											
4	Report writing 2 weeks											
5	Compilation and presentation 2 weeks											

Appendix III: The Budget Schedule

ITEM	COST
PROPOSAL WRITING	
Printing of 45 pages @ Kshs. 13	1,140.00/-
a. Reproduction 6 copies @ Kshs. 80	4,800.00/-
b. Binding 6 copies @ Kshs. 50	300.00/-
c. Travelling Expenses	4,000.00/-
d. Subsistence	4,000.00/-
e. Miscellaneous expenses	3,000.00/-
	17,240.00/-
f. PRODUCTION OF THE FINAL DOCUMENT	
- Data collection	23,000.00/-
- Books and reading material	5,000.00/-
- Data analysis and computer runtime	5,000.00/-
- Printing 70 pages @ Kshs. 30	2,100.00/-
- Reproduction 6 copies @ Kshs. 40	8,400.00/-
- Binding 5 copies @ Kshs. 1,000/-	5,000.00/-
- Miscellaneous expenses	4,000.00/-
	52,500.00/-
GRAND TOTAL	69,800.00/-