

**EMPLOYEES ATTITUDES TOWARDS BUDGETING PROCESS AMONG
LARGE MANUFACTURING FIRMS IN NAIROBI.**

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**A RESEARCH PROJECT SUBMITTED FOR THE PARTIAL FULFILMENT OF
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DECLARATION

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

NICKSON HERBERT ODONGO

Signature 
Date 

This research project report has been submitted for examination with my approval as university supervisor.

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Signature
Date

DEDICATION

I dedicate this work to my parents, Mr Joseph Ndubi Kesa and Jenipher Achieno for their love for knowledge, encouragement and love.

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[am deeply indebted to Mr. Martin Khoya Odipo, my supervisor, who has worked patiently and tirelessly with me from the beginning of this work; constantly providing me with meaningful advice, guidance and criticism. From him, i learnt the virtues of patience and dignified humility.

To my beloved wife, Mercy Omollo Abong'o and daughters, Shallom Anjele Atieno and Alicia Anyesi Odongo, brothers and sisters, for their moral support and encouragement. To my friends Mr Wycliffe Adongo and Vincent Omenge, MBA colleagues for their invaluable contributions. My special thanks go to Mr William Motari who remained a trusted friend and mentor.

To many others who contributed in one way or another to the fulfillment of this work, i express my heartfelt gratitude. In so far as you may find this work deficient, the fault is entirely mine.

ABSTRACT

This study sought to establish the extent of behavioural influence of employees in the budgeting process in large manufacturing firms and the challenges faced by them in the budgeting process. Data was gathered from a sample of 30 large manufacturing firms using a structured questionnaire.

It was found out that, the most influencing behavioural aspect in the budgeting process was group pressure. Similarly, executive legislature, interdepartmental disputes and a perception that the budget process was a socialization mechanism were of profound effect.

Evidence gathered from the data analysis suggests that, to a very large extent was the budget perceived as a socialization process. It is specifically a mechanism through which participants raise their preferred information. The level of information sharing depends on the attitudes of the employees towards the budget. Insufficient skills by employees hinder the budget process as well as the budget process perception.

This study concluded that, budgets as a managerial tool of control and coordination as well as planning requires the inputs of employees from the different parts of the organization. As such, their participation increases their motivation and overcomes the negative attitudes to the budgeting process.

Finally, the findings of this research should be understood and evaluated in light of the limitations of the study, which were mainly two fold. First, the study was limited in scope to only manufacturing firms in Nairobi. Secondly, the size of the sample couldn't generate adequate generalization.

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LIST OF ABBREVIATIONS

AGOA- African Growth Opportunity Act

BOD- Board of Directors

CEA- Chief Economic Advisor

CEO- Chief Executive Officer

CFO- Chief Financial Officer

COMESA- Common Market for East and Southern Africa

CSO- Chief Strategy Officer

EAC- East African Community

GOK- Government of Kenya

ICEAW- Institute of Chartered Accounts in England and Wales

IFC- International Finance Corporation

KAM- Kenya Association of Manufacturers

RIPA- Royal Institute of Public Administration

SBU- Strategic Business Unit

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

Any organization's objectives are expressed in one year or in three to five year time frame and are based on its mission and vision. Traditionally, objectives have been based on financial measures but increasingly are inclusion of non-financial measures. Budgets are the ways in which organizations expect to meet financial success. Depending on the uncertainty of the environment, budgets can be developed as a plan or a series of decisions made in a period of time, but either way for a stipulated time period. Their outcomes are consistent with the organization's objectives, in that, they are expressed in financial and non-financial terms.

An attitude can be described as the way a person feels towards an object or idea. It may be favourable or unfavourable. According to Fill (2005) attitude consist of three components: the cognitive, affective and conative. The cognitive is the learn component and refers to the level of knowledge and believes an individual has about a product or an idea. This knowledge is acquired through past experience of a product or from what a person has been told. The affective is the "feel" component and relates to how a person feels about a particular product. An individuals' evaluation of the information presented arouses positive or negative emotions. The conative component is the "do" or action element, which relates to a person's intention to behave in a certain way.

Typically, subordinates posses better local information than superiors. In order to incorporate the preferred information to produce a more accurate budget, subordinates are encouraged to participate in the budget setting process. Participative budgets are said to produce optimal coordination mechanisms with subordinate's private information (Hunt, 2003). Hope and Fraser (2000) in their field study, cited managers reporting the level of slack diminishing with increasing frequency of participation. The level of information sharing depends on the attitude of the subordinates towards the budget. If the budget serves as the main criterion for performance evaluation, (Schiff and Lewin, 1970) and is

central to the motivation and control of individual achievement (young, 1988), then the attitude towards the budget is considered high.

A budget is a basic and powerful tool for management and serves as a useful aid in planning and controlling the use of scarce financial resources in the accomplishment of financial goals. According to the Royal Institute of Public Administration (1959), budgets occupy a leading place among the special tools of management employed to direct and control the affairs of large multi-various organizations. They are used not only by governments, where budgeting had its origin, but in other public bodies, in Industry, commerce and private families. All have found out that a budgetary system can be an invaluable aid in planning and formulating policy and in keeping check on its execution.

The budget thus stipulates which activities and programs should be actively pursued, emphasized or ignored in the budget period considering the limited financial resources available to the organization. In certain organizations, the budgeting process usually starts at the organizational subunit level where the various activities take place. It is the decision makers at the subunit level who have the relevant facts to effectively classify activities into various categories according to their importance.

At many levels and in all divisions or functions of the organization, the budget communicates targets (objectives) and ensures adequate resources are deployed throughout the organization's support functions in order to sustain the organization's anticipated trading volumes (Hope and Fraser, 2000).

1.1.1. Budgeting and employees.

Budgets provide a means of managing performance, communicating expectations and deploying resources. According to Simons (1995), budgets can be used either as a means of monitoring outcomes and controlling correction of deviations from plans or as a means by which managers interact with subordinates and become involved in their decision making activities. When managers use budgets in interactive way, they have been found to assist transition during times of strategic change. Budget process creates opportunities for subordinates to become involved in the planning and performance management process that traditionally is the province of top management. Varying degrees of

participation by subordinates in the budget setting process have been found; Merchant Van Der Stede and Zheng (2003), found that the degree of participation increases with organizational size, diversification and decentralization and that participative budgeting has a large influence in large organizations.

According to Jensen (2003), Budgets long considered a necessary tool in managing a company; the budgeting process frequently consumes six months of management time in negotiations, planning and target setting. Most line managers realize that these processes are a joke. They go to a lot of meetings, scope the extent of their problems, submit budgets they know will be unacceptable, and then scramble to re-do budgets to reflect the new level of earnings stipulated by senior management. What is more, everyone at every level is so wrapped up in their budgets system that even though most dislike the budgeting process and perceive the damaging effects of the behavior it encourages, they cannot conceive of managing a company in any other way.

Budgetary participation is considered to be a management strategy used to reduce effects of information asymmetry. This is by incorporating the knowledge of employees into budget plans. It is also anticipated that with greater involvement, workers will become more motivated and will consequently improve performance. Locke, (2001) indicated that communication of that information to their superiors would improve the coordination and evaluation of organization activities; and Lewis (1972) suggested that, as a consequence, the budget would be more accurate. Hope and Fraser (2000) interviewed managers and found that, increased participation implied accountability for the budget. In addition employees who have participated have felt that their extra effort deserves some form of participation. Furthermore they have the opportunity to incorporate slack into the budget in order to enhance their performance evaluation.

According to Locke (2001), budget systems are based on the premise that manager should be rewarded for achieving their targets for the period and punished for missing them. In their earlier studies (Locke, 2001; Jensen, 2003) describe the counter productive effects of compensation schemes that are linked to budget targets and how budget targets being used in compensation formulae in order to stop the gaming that surrounds target setting and the reporting of target achievement.

Layoffs and budget quotas shape Companies' profit, loss and even survival. In order to cut costs and raise profits, managers have taken on more financial roles. In their research Abernethy and Brownell (1999), report that managers need to understand how to read and present budgets to upper level management, and by so doing, should manage to win the staff in the organization to buy-in the budget process. More often, the process becomes difficult when the apparent attitudes of the employees to the budget process are viewed with skepticism. Schiff and Lewin (1970), found out that the use of a budget process results in the frontline staff being disempowered, because they must act within the constraints set by management rather than act upon the needs of the customers or competitive threats. Furthermore, the process is usually protracted often due to managers' self-interest wrangling.

The processes supporting the use of budgets consume a significant portion of management time in administration and preparation and generally both managers and employees are not satisfied with the effectiveness of the process (Chenhall, 1986). There is scanty empirical evidence and/or few studies done on employee attitudes on budgeting process among large manufacturing firms in Kenya.

1.1.2. Manufacturing firms in Kenya and the budgeting process.

Kenya's manufacturing firms are diverse in terms of the products that they are engaged in and size as determined by the number of employees in such firms. These firms are small, medium or large. Whereas these firms engage in production of a wide range of products, food and beverage, metal, engineering and textile firms' account for 63% of manufacturing value added (GOK, 2006). The Kenya Association of Manufacturers (KAM) annual report (2004) notes improved power supply, increased supply of agricultural products for agro processing, favorable tax reforms and tax incentives, more *vigorous* export promotion and liberal trade incentives, are factors to take advantage of the expanded market outlets through African Growth Opportunity Act (AGOA), Common Market for East and Southern Africa (COMESA) and East African Community (EAC), arrangements which have resulted in a modest expansion in the sector by 1.4% in 2004 as compared to 1.2% in 2003(GQK, 2006).

However the raising levels of poverty coupled with the generation slow down of the economy has continued to inhibit growth in the demand for locally manufactured goods as effective demand continues to shift more in favour of relatively cheaper imported manufactured items thus affecting the importance of a section of manufacturing firms in Kenya.

Competition in the market place continues to dramatically change and increase. Companies everywhere are rethinking and improving there planning and budgeting process. The process of preparing a meaningful and useful budget is best undertaken as an organized and structured group exercise. The budget process involves asking a number of questions. These start with plans and goals not numbers. The questions asked include; what are the objectives of the project? What activities will be involved in achieving these objectives? What resources will be needed to perform these activities? What will this resources cost? Where will the funds come from? Is the result realistic?

Good practice in budgeting should be clear, timetabled, sub headed, cost estimated and provision made for contingency. Since different people will need to use the budget for different purposes, they should be able to pick it up and understand it without any additional explanation. Clarity and accuracy is crucial, particularly if staff change during the life of the budget.

There are several stages involved in preparing a budget before it can be submitted for approval to the governing body or senior managers. It's a good idea to prepare a budgeting timetable and start the process early. This could be up to six months before the start of the financial year depending on the size of the organization and the approach to be undertaken when setting a budget for the first time or when reviewing a budget. It's important to pay attention to the chart of accounts (list of accounts codes). This is because the budget line items also appear in the books of accounts and in management reports. If the budget items and the accounting records are not consistent, then it will be very difficult to produce monitoring reports. One way of achieving consistency is to prepare information sheet for people producing budgets in the organization. This could be a list of all the main types of income and expenditure that a department might have in a typical year.

It's important to be able to justify the calculations when estimating costs. The best approach is to make a list of all the inputs needed for a specific activity, and then work out the number and unit cost of each input. From the detailed working sheet, it's simple to produce a summarized budget for each line item and it's also very easy to update if units or costs changes. Additionally, it's better to calculate and include a contingency amount for relevant items in the budget, for example salaries, insurance and fuel.

1.2 Statement of the problem.

The literature reviewed in the background indicates that the budget making process is cumbersome and involving. However the said literature is exclusively on studies conducted in developed countries, particularly in the USA and UK. The extensive literature search on the subject reveals no similar study in Kenya. Given the attention of the budget as a mechanism for performance evaluation and control and the benefits arising there from, it would be important to find out the extent to which employee attitude influence these firms in executing the process in large manufacturing firms in Kenya and the challenges faced by these firms in executing the process.

1.3 Objectives of the study.

- (i) To establish the extent of behavioral influence of employees in budgeting process in large manufacturing firms.
- (ii) To determine the challenges faced by large manufacturing firms in budgeting process.

1.4 Significance of the study.

- (i) It's hoped that this study will be of importance to manufacturing firms and all organizations without exception, to understand the intricate of budgeting and the role of its staff in the budgeting process.
- (ii) This study will also prove useful to private/public institutions, as it will hopefully bring out the single most qualitative factor that the budgetary authorities take into consideration during the budgetary process. This could act as a benchmark of measuring the success of budgetary systems.
- (iii) Finally this study will be useful to academicians as a model for the study of budgetary systems and organizations.

1.5 Structure of the paper

This paper focused on generating detailed information on attitudes of employees to the budgeting process in large manufacturing firms in Kenya. The scope was limited to firms that are located in Nairobi. A structured questionnaire was used to collect data from a sample of 30 firms. The findings were analyzed statistically using descriptive statistics. Summary, conclusions, discussions, limitations and recommendations for further research were done.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Historical Background

The English word 'Budget', originated from the French word 'Bougette' which means leather bag or a large sized purse, which travelers in earlier centuries hung on the saddle of their horses (Burkhead, 1956). The treasurers' 'Bougette' was the predecessor of the small leather case from which the finance ministers in countries like Britain and Kenya still present their annual financial plan for the state. Over time, the meaning of the word budget has shifted to the financial plan itself. Today, the budget is the central instrument of expenditure policy.

As regards budgetary responsibility, historical development of modern budgeting suggests two significant generalizations. First, that the budget system developed as an instrument of democratic control over the executive (Burkhead, 1956). The power of the purse came to reside in the legislature in order to prevent the executive from imposing willfully and arbitrary tax payments on his subjects. Secondly, the budget system requires the development of active way pattern of responsibility centering on the executive. The first such line of responsibility runs from the executive to the administrative agencies. In this regard, the executive must be responsible for the supervision and control of the administration, for it is only them that it is possible for him to prepare a financial plan and execute it as adopted by the legislative.

2.1.1 The traditional role of the budgets

According to Hofstede (1998), the use of budgets as financial control tools for the business enterprise is historically a rather young phenomenon. It seems to date from a round the 1920s. Generally, organizations objectives are expressed in one or three to five year time frame and are based on its mission and vision. Traditionally objectives are based on financial measures, but increasingly are inclusive of non-financial measures. Strategies are the ways in which the organization expects to achieve success depending on the uncertainty of the environment. Strategies can be developed as a plan or a series of decisions made in a period of time but either way, for a stipulated time period. Their

outcomes are consistent with the organizations objectives in that they are expressed in financial and increasingly, non-financial terms.

Managers develop functional or divisional plans with a certain time horizon that make the strategies operational and which have the effect of coordinating the various parts of the organization in their execution. At the same time, functional or divisional interpretations of the organizations financial and non-financial objectives became part of the plan. Generally, whether the process is top-down or bottom-up, the plan and its objectives are cascaded in increasing detail to lower levels of the organization. The financial detail of the consequences of this combination of cascaded plans is commonly referred as the 'budget'.

At many levels in all divisions or functions of the organization, the budget communicates targets (objectives) and ensures adequate resources are deployed throughout the organizations support functions in order to sustain the organizations anticipated trading volumes. Performance reports are produced by control systems, which are used by management to manage performance and make adjustments to the plan. Information relating to substantial deviations from the plan could result in adjustment of strategies and organizational objectives or feed forward to the setting of objectives and strategies in the next time period.

2.1.2 Contemporary role of the budgets

The need for budgeting, whether in the public or private sector, mainly arises from the simple fact that resources are scarce, when considered in relation to human wants and desires. Both at the organizational and individual levels, mankind operates in a restricted environment as far as resources, financial or otherwise is concerned. This puts a limit to what can be done and introduces the need to choose from among competing alternatives. More often than not, it is through budgeting that these choices are made.

From a management point of view, the budget may be seen as an instrument of policy formulation, controlling and enforcing accountability. The first step of any decision making process should be determination of policy objectives. By adopting a particular policy objective, a given institution inevitably implies a decision on the urgency or

importance of that objective in relation to the competing objectives in that set. Similarly, by choosing that objective, the institution forms a 'notion' of how far it is prepared to sacrifice the attainment of other objectives in pursuit of the chosen one. Such a notion is however vague and imprecise at the policy formulation stage.

As a planning tool, the budgetary process introduces an element of precision into policy objectives, for it is during the planning phase, the decision making process that a 'unified' program that will achieve the most satisfactory compromise among the various objectives of the policy" Green (1987) is formulated. Furthermore, a good budget system requires that program levels are projected several years into the future and, further that an annual examination of the cost and benefits of alternatives to present programs be undertaken in order to plan changes in the programs where necessary. Thus, budgeting should be an annual means for agency heads to re-examine the objectives for their programs and the effectiveness of the means used to accomplish these objectives.

Controlling has been said to be the most important single reason for a budget system. In the absence of adequate means of controlling there spending, Institutions will experience bankruptcy in short spell of time. Through budgeting, each item of the expenditure is planned for in advance and a certain amount of money is set-aside for it. This guard against overspending. Furthermore, such expenditures have to be approved by certain position holders depending on there magnitude in such a way that, the higher the expenditure, the higher the rank of the approving official in the management hierarchy.

These approving procedures also act as control defenses and guard against misappropriation of funds. The budget system has been used as a major instrument of control as early as the 1960's. The budget also serves as a means of enforcing accountability. In true developed democracies, the people hold the legislature accountable through the electoral process. The legislature holds the agencies accountable by reviewing their budgets, setting the appropriate levels the people want and letting state agencies know how the people want their money spent through statements of legislature intent (Burkhead, 1956).

Although we have shown that budgeting in both public and private sector institutions can be broadly used as a tool for shaping and communicating economic policy objectives and also used at management levels as a tool for policy formulation, planning, controlling and enforcing accountability, Wildafsky cited in Smithes (1955), considers the purpose of a budget to be as varied as the purpose of men. In this context, he points out that a budget can be "an expectation, an aspiration, a strategy, a communication network or a precedent".

2.1.3 Budgeting process in the private sector.

Budgeting in the private sector begins at the strategic Business unit (SBU) level. It is usually a twelve-month period exercise but not necessarily starting in January and ending in December. For example in mid-way, the annual budgeting process begins. The chief financial officer (CFO) and the chief strategy officer (CSO) establish the overall after-tax net income target by working backwards for estimates and adjusting for known (but not disclosed) circumstances which will impact the coming year. This target is then reviewed with the chief executive officer (CEO) who informs the business of the overall target.

By early June, the head of each SBU prepares a preliminary forecast for the coming year with input from their business unit heads .The SBU challenge is to present a forecast that is not so ridiculous as to infuriate the ChiefExecutive Officer, but nevertheless has a high probability of being achieved. By late June, the sum of the SBUs forecasts fail to come close to the overall target and the SBUs spend the next month defending their forecasts and explaining why it is impossible to produce a higher net income. By early July, the CEO and SBU heads begin to negotiate the allocation ofthe gap between the forecast and the overall target. Once the SBU targets have been agreed upon, a similar process to set targets for the business units within the SBUs begins. After another month of presentations defending the initial forecasts, the CEO mandates the allocation of the overall SBU target. By September, the final negotiations begin, the SBUs present their business plan for the coming year to the senior management group and in turn the top management presents the coming year's budget to the Board of Directors (BOD) and it is approved.

2.1.4 Budgeting process in the public institutions.

The budgeting process in public institutions is normally a hierarchical process, which starts at the subunit level; say a division and ends up at the apex of the hierarchy, which in the Kenyan case is the Treasury. The term budget cycle is often used to describe the procedural character of budgetary systems of governments which are usually marked by specific phases of a cyclical character of the budget cycle however, varies from country to country depending to some extent on the form of government.

According to Burkhead (1956) the budget system in any government should be characterized by a flow up and a flow back of information on decisions made at the various levels of the budgetary hierarchy. In this context, certain kinds of decisions will be made at the operating levels and their effects communicated up the organizational hierarchy to influence decisions there. At the same time, policy and program decisions will be made at the higher levels and communicated down to operating levels. The people at the sub unit level are usually expected to be 'advocates of increased appropriations'. This means that they are always expected to put up a good case for the allocation of more funds to those projects and programmes under their jurisdiction.

2.1.5 Budgeting process in the non-profit making organizations

The budgeting process in a non -profit making organization normally begins with the managers of the various activities and adding to those costs any further developments of the services that are considered desirable (Drury, 2004). These budgets are coordinated by the accounting department into the overall budget proposal.

The available resources for financing the proposed level public services should be sufficient to cover the total costs of such services. In the case of a municipal authority, the resources will be raised by local taxes and governments' grants. Similar procedures are followed by churches, hospitals, charities and other non-profit making organizations, in that they produce estimates for undertaking the activities and then find the means to finance them, or reduce the activities to realistic levels so that they can be financed from available resources.

According to Drury (2004), one difficulty encountered in non-profit making organizations is that the precise objectives are difficult to define in a quantifiable way, and the action accomplishments are even more difficult to measure. In most cases, outputs cannot be measured in monetary terms.

In profit-oriented organizations, outputs can be measured in terms of sales/revenues. The effect of this is that, budgets in non-profit organizations tend to be mainly concerned with output of resources (i.e. expenditure), whereas budgets in profit organizations focus on the relationship between inputs (expenditure on raw materials) and output (Sales/revenue). In non-profit making organizations there's not the same emphasis on what was intended to be achieved for a given input of resources. The budgeting process tends to compare what is happening in cash inputs terms with the estimated cash outputs. In other words, there is little emphasis on measures of managerial performance in terms of the results achieved. This is so because there's no clear relationship between resource inputs and benefits flowing from the use of these resources.

2.2 People and Budgets.

Both the private and public sector appreciate the budgeting process as involving and initiated at sub unit level. The people in the rest of the tiers normally operate in an environment that imposes severe constraints on what they do. According to Caiden and Wildafsky (1974), all participants face the usual overt political factors involving group pressures, executive legislative cooperation and rivalry, interagency disputes and so on. As they get to learn the budgetary game, they undergo a socialization process in the kind of roles they are expected to play. Ultimately they get, to learn what they can and cannot do. However, even after undergoing this socialization process, there still remains the arduous task of trying to make comparisons among different projects and programs for different people. There is considerable research into various weaknesses of budgeting and people. In regard to the setting of budget targets, Schiff and Lewin (1970) found out that managers may incorporate slack in targets and Williamson (1964) noted that managers may defer achievements to later time periods when they might otherwise fail to achieve targets. Managers may also have achievable targets when personal benefits from being bullish outweigh the consequences of subsequently failing to achieve them (Ottey, 1978).

Budget process creates opportunities for subordinates to become involved in the planning and performance management process that traditionally is the province of the top management. Varying degrees of participation by subordinates in the budget setting process have been found: Merchant Van Der Stade and Zheng (2003) found out that the degree of participation increases with organization size, diversification and decentralization and that participative budgeting has a larger influence on performance in larger organizations. According to Shields and Shields (1998), participative budgeting exists at the organizational level for information sharing and coordination purposes associated with planning and goal setting in circumstances of environmental uncertainty and at the individual level for motivational purposes where there is task uncertainty and for coordination purposes where there is task interdependence. At the individual level, participative budgeting has been found to effect subordinates job satisfaction as well as satisfaction with budgets themselves, particularly where there superior and subordinates have similar dispositions towards authoritarianism.

Budgets systems are based on the premise that managers' should be rewarded for achieving there targets for the period and punished for missing them (Locke, 2001). What every manger knows, but most fail to pay attention to, is the effect that such systems have no incentives. Tell a manager that he or she will get a bonus when targets are realized and two things are sure to happen. First, managers will attempt to set targets that are easily reachable, and once the targets are set, they will do their best to see that the targets are met even if it damages the company to do so.

Budgets play a critical role in coordinating the various parts of the organization so that their actions lead to harmonious interactions, high output, low cost, high quality, low inventories and satisfied customers. According to Jensen, (2003), once a budget-target process that hides and destroys critical information regarding what various parts of the organization can do and how they will do it exists, then the critical coordinating role of budgets is severely hampered. Un-coordinated, chaotic actions that lead to high cost, low quality, missed opportunities and dissatisfied customers are the results.

2.3 Critical Review: People and budgets

Various research reports (Fanning, 2000; Barret, 2000; Pricket, 2003) allude to the widespread dissatisfaction with bureaucratic exercise in cost cutting that budgeting is accused of having become. Budgets are pilloried as being out of touch with the needs of the modern business and accused of taking too long, costing too much and encouraging all sorts of perverse behaviour.

Budgets can stifle the entrepreneurial, risk taking culture that, ultimately, can be responsible for value creation (Gould, 2003). It can for example, force businesses to abandon new projects because the resources for the year have already been allocated. In addition, trying to perfect control systems can lead to an excessively inward focus at the expense of competitive awareness and agility. Budgets are used more often to contribute directly to value creation. They inform strategy implementation, risk management and resource allocation and are generally regarded as an integral part of the business.

Organizational culture is for the best influence on how formal systems and processes operate in practice. According to Locke (2001), fostering the right culture, whatever that may be in the context of individual companies, could lead to success in decentralized budgeting. Commitment at the highest level is crucial to making changes to the process. However, the ever-shortening tenure of an average Chief Executive Officer (CEO) was seen as more of a threat than an opportunity. A new CEO may be in the best position to make radical changes but he/she may be more unwilling to try a new and perhaps more radical approach to performance management and put their reputation on the line. In any case, culture and attitudes take longer than the average time a CEO spends in a job.

Fanning (2000) argues that, pay and reward structures are seen as the biggest influences on people's motivation. Companies have remuneration tied to achievement of budgetary targets, although recognized as a general practice, can result in dysfunctional behaviour. It can also lead to budgeting becoming a way of negotiating pay.

%

New technology has also helped companies move away from organizational cultures characterized by functional divisions. Managers using office spread sheets, for example can end up being connected from other parts of the budgetary process that would impact

on their planning. Furthermore, speed and accuracy enhanced by technology has ensued that the budget holders have more time to focus on activities, which really add value to the business rather than collecting data and ensuring it's integrity.

2.4 Conclusion

In conclusion, budgetary practice is considered to be a management strategy used to reduce the effects of information asymmetry. This is achieved by concentrating the knowledge of employees into budget plans. It's also anticipated that with greater involvement, workers will become more motivated and will consequently improve performance. Jensen (2003) indicates that communication of that information to their superiors would improve their coordination and evaluation of organization activities. Hunt (2003) interviewed managers and found out that increased participation implied accountability for the budget. In addition, employees who have participated have felt that their extra effort deserves some form of compensation. Furthermore they have the opportunity to incorporate slack into the budget in order to enhance their performance evaluation.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Design

This was a sample survey design. Sample survey designs are most appropriate in collecting information from broad spectrum of members of the population and in making comparisons. Sample survey designs have been found to be the most accurate in making comparisons and generalizing results (Mugenda, 1999).

3.2 Population of study

The population of study comprised of heads of accounting and finance in large manufacturing firms in Nairobi. Large manufacturing firms are those employing more than a hundred staff and annual turnover or production level in excess of Ksh 500 million (International Finance Corporation, 2002). As at June 2007, there were 2085 manufacturing firms in Nairobi (GOK, 2006). Of this number, 759 firms were located in Nairobi. They are as classified in Table 3.1 below.

Table 3.1 Sampling Procedures

Category	Total number in category	Proportion (%)	Sample size
Agro processing	226	29.8	10
Pulp and paper	114	15.0	5
Wood and wood products	74	9.7	3
Chemical processing	134	17.7	4
Capital goods and spare parts	28	3.7	1
Ceramics and glass making	62	8.2	2
Iron and steel making	43	5.6	2
Electrical and electronics	24	3.2	1
Construction and equipment	54	7.1	2
Total	759	100	30

3.3 Sample size

A sample size of 30 firms was selected. A disproportionate stratified random sampling method was used to select the sample units described in the sampling procedure (see Table 3.1). This was considered adequate for this study because 30 conforms to the normal distribution and in similar studies on investigating the problems of budgeting and motivation at supervisory level in manufacturing firms in Kenya (Simiyu, 1977), used a sample size of 50 firms.

3.4 Data collection

Data was collected through a structured questionnaire. The questionnaire was developed into two parts. Part I was designed to collect general information of the firm including core activity. Part II contained questions relating to budgeting and attitudes of the participants in the budgeting process. The questionnaire was administered using the "drop and pick" later method. The respondents were heads of accounting and finance functions in the organizations because they have a responsibility to prepare budgets as well as perform other managerial duties.

3.5 Data analysis

A descriptive analysis of proportions, frequencies, means, averages, standard deviations and tables were used. Saunders et al (2000) suggest that the most common strategies for qualitative data analysis as "Analytical induction" and "Grounded theory". Analytical induction is where the researcher seeks universal explanation of the phenomenon by pursuing the collection of data until no cases that are inconsistent with hypothetical explanation (deviant or negative cases) of a phenomenon are found. Grounded theory is theory that is derived from data systematically gathered and analyzed through the research process. Two central features of grounded theory are that, it is concerned with the development of theory and the approach is iterative or recursive, meaning that data collection and analysis proceed in tandem, repeatedly referring back to each other.

I developed a loosely grounded theory in contrasting the extent of behavioral influences of employees among firms over time. This was useful in contrasting the extent of behavioral influence of employees among firms over time. The data was tabulated and organized using tables, charts, frequencies, graphs and percentages. The use of

descriptive statistics, mainly the mean, median and mode was useful in estimating the centrality of the responses. The variance and standard deviations was useful in estimating and explaining the variation within the responses.

CHAPTER FOUR:

4.0 DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter gives a detailed analysis of the data collected and presents the findings. The data was analyzed and presented in form of frequency tables, percentages, means and standard deviations. The first section presents an analysis of the respondent profile in frequency tables and charts. The second part presents an analysis of the extent of behavioral influence of employees in budgeting process. Means scores were used to determine the extent of behavioral influence of employees in the budgeting process on a 5-point likert scale ranging from "very large extent" (1) to "no extent" (5) questions. Standard deviations were used to determine the varying degree of response of the specific influencing factors.

4.2: Profile of firms

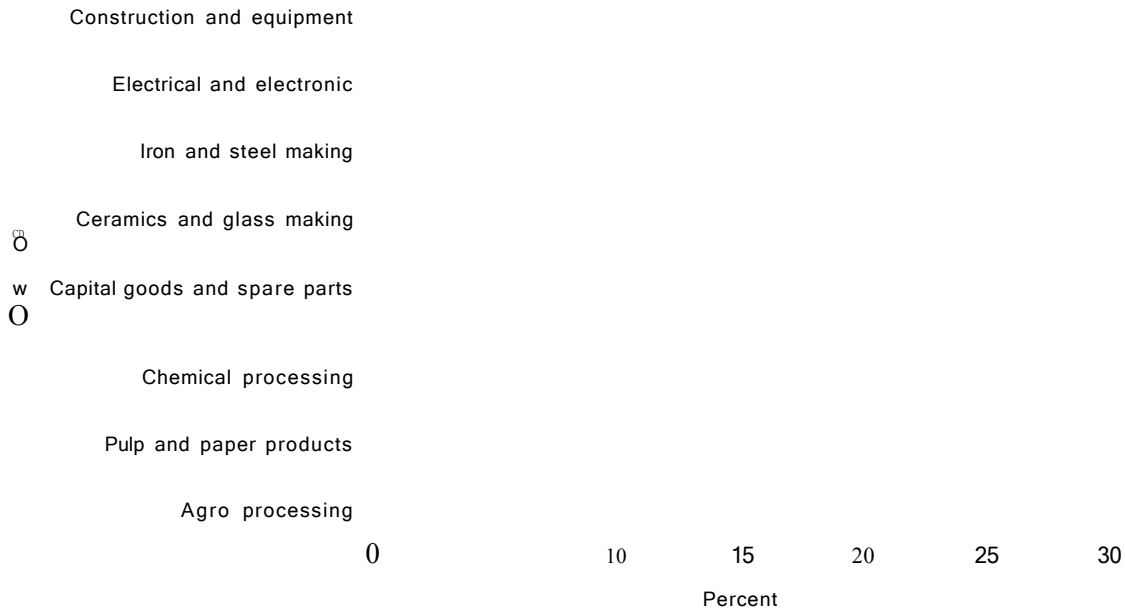
This section analyses the firms' coverage, the annual turnover and the frequency of preparation of budgets. The data was analyzed using frequency tables and charts. The findings are summarized in Table 4.1 and Chart 4.1.

Table 4.1: Profile of firms

Classification	Frequency	Percent
Agro processing	8	26.7
Pulp and paper products	5	16.7
Chemical processing	4	13.3
Capital goods and Spare parts	5	16.7
Ceramics and glass making	1	3.3
Iron and steel making	1	3.3
Electrical and electronics	1	3.3
Construction and equipments	4	13.3
Total	29	96.7
Others	1	3.3
Total	30	100.0

(Source; Survey data)

Chart 4.1: Profile of firms



(Source; Survey data)

Table 4.1 and chart 4.1 shows that, of the surveyed firms 26.7% were in agro processing, 16.7% in paper products and capital goods trading, and 13.3% were in chemical processing and construction respectively. Electrical and electronics, iron and steel making, ceramics and glass making constituted only 3.3%.

4.2.1: Firms annual sales/ turnover

Respondents were asked to indicate the firms' sales/ turnover in Kenyan shillings (kshs). The data was analyzed using a frequency table and the findings are summarized in Table

Table 4.2-Firms annual/ sales turnover

Sales	Frequency	Percentage %
< 1,000,000,000	3	9.9
1,000,000,000<2,000,000,000	9	29.9
2,000,000,000<3,000,000,000	7	23.3
3,000,000,000<4,000,000,000	4	13.3
4,000,000,000<5,000,000,000	3	10.0
>5,000,000,000	4	13.3
TOTAL	30	100.0

(Source; Survey data)

The results showed that, 29.9% of the surveyed firms had an annual turnover of between kshs 1,000,000,000 and kshs 2,000,000,000 and 9.9% of them had an annual sales turnover of less than kshs 1,000,000,000. 46.6% of the firms had an annual sales turnover of between kshs 2,000,000,000 and kshs 5,000,000,000, whereas 13.3% of the surveyed firms had an annual turnover in excess of 5,000,000,000.

4.2.2: Frequency of preparation of budgets.

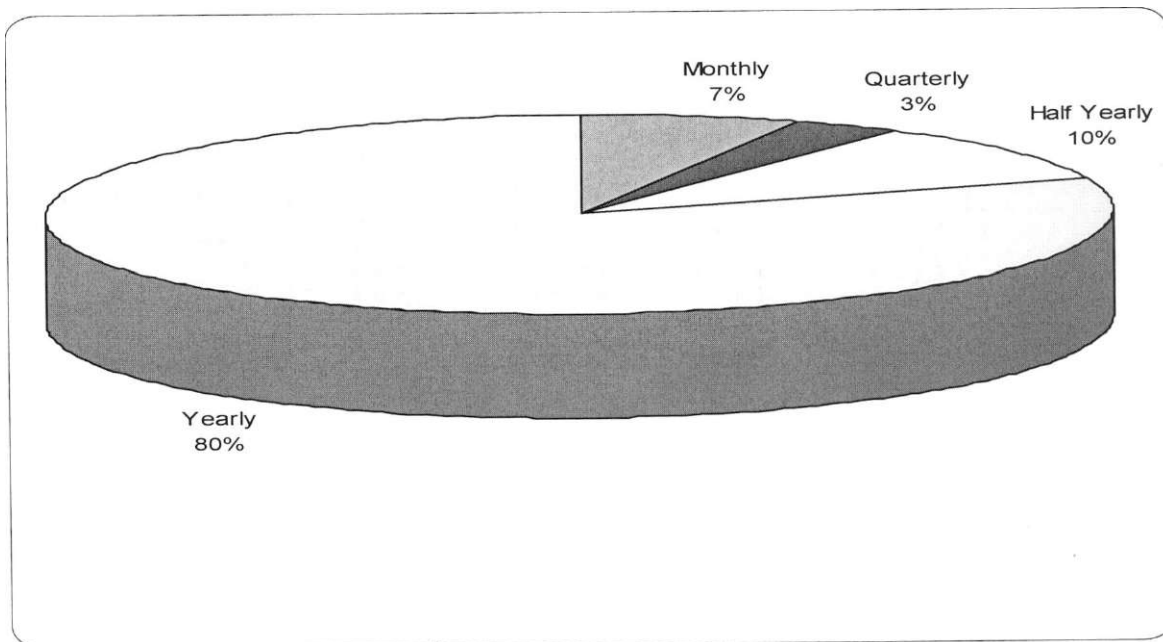
The respondents were asked to indicate the frequency to which the organization prepared the budgets. The findings are summarized in Table 4.3 and Chart 4.2.

Table4.3: Frequency of preparation of budgets

Preparation	Frequency	Percent
Monthly	2	6.7
Quarterly	1	3.3
Half Yearly	3	10.0
Yearly	24	80.0
Total	30	100.0

(Source; Survey data)

Chart4.2: Frequency of preparation of budgets.



(Source; Survey data)

The survey results showed that 80% of the firms prepared the budgets on an annual basis, 3.3 % on an annual basis and 6.7% performed the exercise on a monthly basis.

4.3: Extent of behavioral influence of employees in the budgeting process.

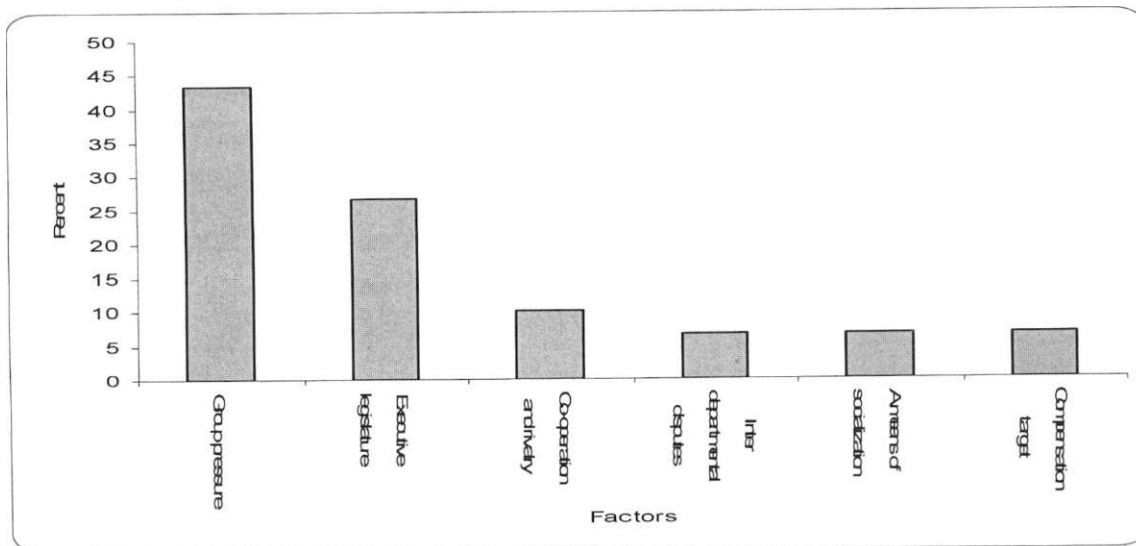
In order to determine the behavioral influence of employees in the budgeting process, respondents identified factors as represented in Table 4.4 and Chart 4.3.

Table 4.4: Factors influencing the budgeting process

Factor	Frequency	Percentage
Group pressure	13	43.3
Executive legislature	8	26.7
Co-operation and rivalry	3	10.0
Interdepartments" disputes		
A means of socialization	2	6.7
Compensation targets	2	6.7
	2	6.7
Total	30	100

(Source; Survey data)

Chart 4.3: Factors influencing the budgeting process



(Source; Survey data)

Group pressure and executive legislative had the most influence on the budgeting process with 43.3% and 26.7% respectively. Cooperation and rivalry had a 10% response whereas interdepartmental disputes, a means of socialization and compensation targets were identified by 6.7% of the respondents respectively.

A 5-point likert scale was used to determine the extent of each of the influencing factors. Data was analyzed using mean scores and standard deviations. The scores "not at all" and "fair extent" represented factors, which had least influence equivalent to 1 to 2.5 on the continuous likert scale ($1 < NA < 2.5$). The scores of "moderate extent" represented factors that were moderately influencing. This was equivalent to 2.6 to 3.6 on the likert scale. ($2.6 < MI < 3.5$). The score of "very great extent" and "large extent" represents factors that greatly influenced the budgeting process. This was equivalent to 3.6 to 5.0 on the likert scale ($3.6 < GI < 5.0$). A standard deviation of between $0 < S.D < 0.9$ indicates an insignificant variation of the responses; $0.95 < S.D < 1.5$ indicates indifference whereas $S.D > 1.6$ indicates a significant variation among the responses. The findings are given in Table 4.5.

Table 4.5: Extent of factors influencing the budgeting process.

Process	Mean Score	Standard Deviation
Socialization	3.67	1.09
Work schedule e.g job rotation	3.27	1.26
Supervisor-employee relationship	3.20	1.06
Group pressure	3.13	1.07
Willingness to learn	2.97	0.928
Compensation and incentive for participation	2.87	1.17
The budget process	2.80	1.24
Benchmark for performance e.g employee appraisal	2.70	1.34
Objectives of the study	2.67	1.45
Organization structure	2.47	1.31

(Source; Survey data)

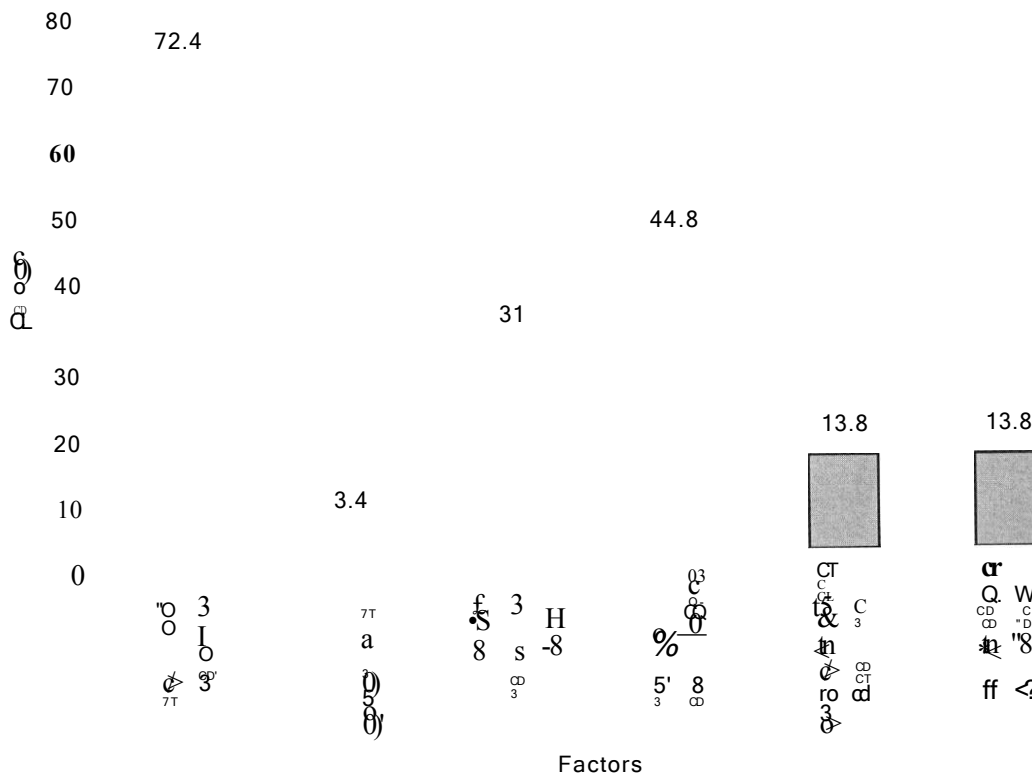
Using the results in Table 4.5, the budget to a greater extent is perceived as a socialization process with a mean score of 3.67. The research findings indicate in

vjm lvm m vanadun among the respondents who had been socialized as an influencing factor. The willingness to learn (2.97), organization directive (2.47), group pressure (3.13), Benchmark for performance (2.70), compensation (2.87), work schedule (3.27), the budget process (2.80), supervisor-employee relationship (3.20) and objective of the budget (2.67) to a moderate extent influence the budgeting process. The results show an insignificant variation among the responses willingness to learn with a standard deviation of 0.928, whereas the responses were in different on the other influencing factors.

4.4: Challenges faced by manufacturing firms in the budgeting process.

The budgeting process is an arduous task and complex. Large manufacturing firms are faced by a number of hindrances during the budgeting process. The findings are given in Chart 4.4

Chart 4.4: Hindrances to the budgeting process



(Source; Survey data)

Chart 4.4 revealed that inefficient employee skills was the most hindrance to the budgeting process (72.4%). 44.8% of respondents indicated the perception towards the budgeting process, 31% of respondents cited lack of top management support, 13.8% of them indicated lack of support to budget systems and their reliability. Lack of financial resources was indicated by only 3.4% of the respondents. Some of the respondents indicated more than one hindrance.

CHAPTER FIVE:

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussions, conclusions, limitations and suggestions for further research. The chapter summarizes the findings of the study in relation to the objectives of the study. The first objective was to establish the extent of behavioural influence of employees in the budgeting process in large manufacturing firms in Kenya. The second objective was to determine the challenges faced by these firms in the budgeting process.

5.2 Discussions

The discussions follow from the data analysis and conclude based on the research objectives. The study revealed that commitment by the top management is crucial in influencing the budgeting process. However, the ever shortening tenure of an average Chief Executive Officer (CEO) is seen as more of a threat on top management commitment, the interviewers said "a new CEO may be in the best position to make radical changes but she/he may be unwilling to try a new and perhaps more radical approach and put their reputation on the line. In any case, culture and attitude take longer to change than the average time a CEO spends in a job".

Benchmark for performance (employee performance) was seen as a moderate influence on people's motivation. Few manufacturing firms had remuneration tied to achievement of budgetary targets. Although this is recognized as common practice, it can result in dysfunctional behavior. This can also lead to budgeting becoming a way of negotiating pay. Typically, subordinates possess better local information than their superiors. In order to incorporate the preferred information to produce more accurate budget, subordinates are encouraged to participate in the budget setting process. The study revealed that to a moderate extent, budget process influenced by superior- employee relationship is said to produce optimal coordination mechanisms with employee's private information. The willingness of information sharing depends on the attitude of the subordinates towards the budget. If the budget serves as the main criterion for performance evaluation (schiff

and Lewin, 1970), and is central to motivation and control of individual achievement, then attitude towards the budget will be considered as high.

Structure is key to operationalisation of the budget. A flatter structure encourages more integration and quicker communications leading to fewer mistakes, efficiency and sense of togetherness. This study revealed that structure had the least influence on the behavior of employees to the budgeting process. A budget as a socialization process was seen as by far the biggest influence on employee's motivation on the budgeting process. Socialization is fostered by the right culture, whatever that may be in the context of individual companies.

The second aim was to identify the challenges faced by manufacturing firms in the budgeting process. Unsurprisingly, this study found out there was a uniform view with the respondents indicating inefficient employee skills and budget process perception. Additionally, the research identified some common underlying hindrances including lack of top management support, unreliable budget systems and lack of support for budget systems.

5.3 Conclusions

Budgeting reveals information about the future. This may arise from looking at the external data; it may also arise from enhanced communication and co-ordination within the organization, which the budgeting process can help to effect. It really requires members in different parts of the organization to coordinate their activities and talk to each other. Budgeting is also designed to give managers an indication of the actions they're supposed to be taking to motivate them to make those actions. It should act as a basis for controlling activities, for example, by only looking at the significant variations of actual performance against budget. Increased participation implies accountability for the budget. In addition employees who have participated have felt that their extra effort deserves some form of compensation. If the less centralized budgeting is to survive, it needs to be supported by a culture of trust and empowerment. The negative attitudes to the consequences of budgeting include bureaucracy, poor culture, and rigidity, causing conflict between realistic and challenging targets.

5.4 Limitations of the study.

The scope of the study was limited to large manufacturing firms located in Nairobi. The scope is limited to generalizing of large manufacturing firms. Secondly, care should be taken in generalizing the results because the sample size is small and therefore lacks representativeness.

5.5 Suggestions for further research.

This study has suggestions for further future research. First, since the sample survey focused on only manufacturing sector, there's need to broaden the study to include other sectors such as the service sector. In addition, future studies should include more sample units or complete enumeration as it was observed to be more revealing. Such an approach is however, more expensive, time consuming and requiring much effort. Second, it would also be interesting to conduct similar studies in public sector budgeting by applying the same analytical framework. Third, since this study focused on employee attitudes towards the budgeting process, the study can be broadened to include the effects of employee participation in the process. Finally, since this study did not focus on spillovers analysis from the budgeting process, it will be interesting for one to conduct a study on budgeting spillover comparisons by original budgeting. This recommendation follows an existing notion that budgeting has spillover effects.

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5.0 APPENDIX I

LETTER TO RESPONDENTS

NICKSON HERBERT ODONGO
P.O.BOX 75957-00200, NAIROBI
TEL (020) 2177318, 0733700789

Dear respondent,

RE: LETTER OF INTRODUCTION

I am a postgraduate pursuing a master of business administration (MBA) degree at the University of Nairobi, school of business. As part of the requirement for the award of the degree, a student is required to carry out and submit a management research project. I am currently conducting a survey on the attitudes of employees on the budgeting process among selected large manufacturing firms located in Nairobi.

The name of your esteemed organization appeared in a list of manufacturing firms in the Ministry of Trade and Industry. I am glad your organization has been selected for this study. The information provided will be used together with similar firms to enable me document and produce the research project.

The information will be treated with utmost confidence and will only be used for the academic research purpose. Should you require the finding of this research, i wont hesitate to provide the information. Your participation is highly appreciated.

Yours faithfully

Nickson Herbert Odongo
MBA Student

C.C: Martin Khoya Odipo
Lecturer, University of Nairobi,
School of Business

5.1 APPENDIX II

QUESTIONNAIRE

Please answer the following questions in the spaces provided. The information provided shall be used in the study and NOT for any other use. Your responses shall be treated as confidential.

Part I: General

1. Name of organization

2. Please tick the classification of your organization

Agro Processing ()

Pulp and Paper products ()

Wood and Wood products ()

Chemical Processing ()

Capital goods and Spare parts ()

Ceramics and Glass making ()

Iron and Steel making ()

Electricals and Electronics ()

Construction and Equipment ()

Other (please specify)

3. Annual sales/turnover Kshs

4. How often are budgets prepared in your organization?

Weekly ()

Fortnightly ()

Monthly ()

Quarterly ()

Half yearly ()

Other (please specify)

Part II: Extent of behavioral influence of employees in budgeting process.

5. Which of the following influences the participants in the budgeting process in your organization?

- Group pressures ()
- Executive legislative ()
- Co-operation and rivalry ()
- Inter departments' disputes ()
- A means of socialization ()
- Compensation targets ()
- Other (please specify)

On a scale of 1 to 5, where 1= very great extent and 5= not at all, indicate the extent to which the following factors influence employees participation in the budgeting process (tick where appropriate).

6.Willingness to learn	(1)	(2)	(3)	(4)	(5)
7. Organization directive	0)	(2)	(3)	(4)	(5)
8. Group pressure	(1)	(2)	(3)	(4)	(5)
9.Socialisation process	0)	(2)	(3)	(4)	(5)
10. Benchmark for performance e.g. employee appraisal	(1)	(2)	(3)	(4)	(5)
11 .Compensation e.g. incentive for participation	(1)	(2)	(3)	(4)	(5)
12.Work schedule e.g. job rotation	(1)	(2)	(3)	(4)	(5)
13.The budget process	0)	(2)	(3)	(4)	(5)
14.Supervisor employee relationship	(1)	(2)	(3)	(4)	(5)
16. Objectives of the budget	0)	(2)	(3)	(4)	(5)

Challenges faced by large manufacturing firms in the budgeting process.

17. Indicate by ticking which of the following factors are hindrances to the budgeting process in your organization.

Insufficient employee skills ()

Lack of financial resources ()

Top management support ()

Budget process perception ()

Unreliable budget systems ()

Support for budget systems ()

Other (please specify) ()

18. In your opinion comment on the behavioral influence of employees in the budgeting process and it's effectiveness of your organization.

5.2 APPENDIX III.

Selected Manufacturing Firms in Nairobi

Bayer East Africa Limited

BOC (Kenya) Limited

Cotton Manufacturers Limited

Crown Rubber Products Limited

D.T.Dobie&CO. (Kenya) Limited

East Africa Cables Limited

General Motors East Africa Limited

Hamid Chemical Industries Limited

Kapa Oil Refineries Limited

Kenpoly Manufacturers Limited

Kens Metal Industries Limited

Kenya Breweries Limited

Kenya Wines Agencies Limited

Mabati Rolling Mills Limited

Metro Plastics Kenya Limited

Nairobi Flour Mills Limited

Nas Plastics Kenya Limited

Nestle Foods Kenya Limited

New Kenya Cooperative Creameries Limited

Proctor and Allan Kenya Limited

Ramji Haribhai Devani Limited

Raj Metal Limited.

Reckitt Benckiser Limited

Sameer Africa Limited

Softa Bottling Company

Subaru Kenya Limited

Toyota East Africa Limited

Twiga Chemicals Limited

Unilever Kenya Limited

Welding Alloys Limited