THE RELATIONSHIP BETWEEN BUDGETARY PARTICIPATION AND FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN KENYA

By

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DECLARATION

Declaration by student

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

Signature: -- Date: 8th NOV 2012 .

Francis Muiruri Kamau

D61/P/8440/2004

Declaration by supervisor

This is to declare that this research project has been submitted for examination with my approval as the university supervisor.

Signed: -- Date: 8/11/12

Dr. Josiah Aduda

DEDICATION

This study is dedicated to my late wife Becky, daughter Carole, my entire family, friends and supervisor, Dr. Josiah Aduda.

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My initial acknowledgement, gratitude and reverence are to the Almighty God for His care, grace and guidance which enabled me undertake this project that was too involving in terms of time and resources.

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ABSTRACT

The topic of budget participation has always received a considerable interest among researchers. There are conflicting findings on the significance of budgetary participation. Most of the previous studies have focused on the USA, the UK and Australia. The objective of this study was therefore to establish the relationship between budgetary participation and financial performance of manufacturing companies. Budgetary participation factors were decomposed into for main variables which are: organizational, interpersonal, individual and organizational commitment variables. Budgetary participation was measured by the degree of involvement at each of the four variables and this created an objective way to consider the degree of participation. The study adopted a descriptive research design. The population for this study was manufacturing companies in Kenya. The study entailed the collection of both primary and secondary data.

The primary data was gathered through a semi-structured questionnaire which was administered by the researcher to facilitate a probing inquiry. The questionnaire had both open and closed ended questions. The questionnaire contained simple questions, which the respondents were able to answer without so much difficulty. Secondary data was collected from the companies' financial statements where need arose. The researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire.

Data analysis used SPSS (version 17) and Microsoft excels percentages, tabulations, means and other central tendencies. Tables were used to summarize responses for further analysis and facilitated comparison. In addition, to quantify the strength of the relationship between the variables, the researcher used a multiple regression analysis. The study found out that Net profit Margin as a financial performance measure was more favorable to the respondents as compared to Return On Investment (ROI). This is shown by a mean of 4.5 as compared to 3.6; the studies also found out that Return on Investments as a performance measure is affected by organizational variables to a great extent as shown by a mean of 4.0. The study concludes that organizational variables, interpersonal variables, individual and motivational variables of budget participation all affect financial performance of the companies but more weight was realized organizational and interpersonal variables. Motivation and individual factors on budget participation had lesser effect to financial performance.

ABBREVIATIONS

CAPEX	-	Capital Expenditure
BP	-	Budgetary Participation
GP (Margin)	-	Gross Profit (Margin)
JIR	-	Job Related Information
KAM	-	Kenya Association of Manufacturers
MAS	-	Management Accounting Systems
MM (Hypothesis)	-	Modigliani-Miller Hypothesis
NP (Margin)	-	Net Profit (Margin)
NSE	-	Nairobi Securities Exchange
OCQ	-	Organizational Commitment Questionnaire
ROA	-	Return On Assets
ROI	-	Return On Investment
R&D	-	Research and Development
SPSS	-	Statistical Package for the Social Sciences
UK	-	United Kingdom
USA	-	United States of America
WC	-	Working Capital
WIP	-	Work In Progress

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A budget is a plan that outlines an organization's financial and operational goals. It forms a standard against which the actual performance can be compared and measured. Budgets are used to communicate top management's expectations to managers and employees. The budget process provides for coordinated planning among different functional areas (Bremser, 1998). Budgets require management to specify expected sales, expenses, cash inflows and outflows and other costs expected within a period, usually an year. They also provide a mechanism for effective planning and control in organizations (Flamholtz, 1993). While a budget can occur at any time, for many businesses, planning a budget is an annual task where the past years budget is reviewed and budget projections are made for the next three or even five years. There are various types of budgets; Master budgets, Operating Budgets (for income statement items comprising of revenues and expenses), Financial Budgets (for balance sheet items), Cash Budgets, Static Budgets (fixed), Flexible Budgets (variable), CAPEX Budgets (capital expenditure) and Program Budgets (appropriations for specific activities such as R&D and advertising). Apart from planning, coordinating and controlling activities, budgets are also useful in translating strategic plans into action, improving communication with employees, improving resource allocation and also as an archive and record of organizational activities.

Participation is a concept used to describe the extent to which a subordinate is allowed to select his own course of action. However the term has been defined in a variety of ways while being applied to various phenomena. According to Becker and Green (2000) it is "a process of joint decision making by two or more parties in which the decision has future effects on those making them." They also define it as "a process in which a manager is involved with, and has influence on, the determination of his or her budget." Brownell (1982) defines it as the process of involving subordinates in influencing various elements of budgets.

Participation is a process that is used for planning and goal setting when there is environmental uncertainty, for motivating subordinates when there is task uncertainty and for coordination when there is task interdependence. Participation in budgeting yields benefits through a great exchange of information, better coordination of activities and the development of team spirit.

Very few studies have been conducted on the effects of budget adequacy, organizational commitment and role ambiguity on the relationship between budget participation and performance. Nouri and Parker (1998) studied the intervention effect of budget adequacy and organizational commitment on the relationship between budget participation and job performance. Whereas Chenhall et al. (1998) studied the intervention effect of role ambiguity on the relationship between budget participation and job satisfaction and job performance. Budget adequacy for example has been hypothesized as an important variable in the budgeting process, as it is perceived by employees as an adequate resource to fulfill their job requirements and in accomplishing their tasks (Nouri & Parker 1998), subsequently increase their bonding and commitment with the organization and thus enhances their job performance.

According to Hopwood (1992), budget participation is measured from the following factors; the ability for the subordinates to influence the design of the budget, to what extent the superior manager contacts the subordinates, how easy it is for the subordinates to propose alterations in the budget process, to what extent the subordinates participate in the budget's follow-up phase.

Nouri and Parker (1998) argue that allowing subordinates to participate in the budget setting process may result in them disclosing "private information" which would result in more realistic plans and more accurate budgets. Subordinates have better information about the level of budgetary support required to perform the subordinate's task than do the superiors. Participatory budgeting allows subordinates to incorporate this information into the budget.

1.1.1 Budgetary Participation (BP)

Participation in the budgeting process has been of great interest to management accounting researchers because they want to examine the link between participation in the budget setting process and organizational performance (Merchant 1981).

The importance of subordinates' budgetary participation as a means of improving performance has been studied extensively in the behavioral accounting literature (Brownel 1981, 1982, 1986; Chenhall et al. 1998; Nouri & Parker 1998). It is argued that the act of participation in the budgeting process serves as a function by inducing subordinate to accept and commit to their budget goals (Hofstede 1998; Merchant 1981). Nouri and Parker (1998), further suggested that budget participation also serves an informational role whereby subordinates can gather, exchange and disseminate job-relevant information to facilitate their decision making process and to commit their private information to organizational decision makers.

It has been argued that negative behavior at work might be tied to the manner in which work is designed and the manner in which people are managed. Management choices concerning work system will have strong effect on the level of motivation, performance and loyalty towards the organization. Hence, it could be said that the effectiveness and efficiency of budget administrative procedures and practices and supervision by highly committed budget personnel within well-executed work systems, would provide a vital role in determining the successful implementation and maintenance of the budget administrative system. A committed employee's desire to maintain organizational membership could have a clear relationship to the motivation to participate in and be receptive to change. Normally the productivity and work quality of the individual employee would also increase (Beer 1984). Therefore, the issues that can be associated with the performance of budget expenditure are the efficiency and productivity of budget administration system that have a direct effect on the adequacy of the budget, commitment and clarity of the people involved in implementing the agreed budget.

1.1.2 Organizational Performance

A firm's performance is the measure of standard or pre-prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance. Performance also refers to the metrics relating to how a particular request is handled, or the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. It is the outcome of all of the organization's operations and strategies. It is also the extent to which an individual meets the expectations regarding how he should function or behave in a particular context, situation, job or circumstance. Oaklander et al (1999) are of the view that performance is what people do in relation to organizational roles.

The financial performance of organizations is usually measured using a combination of financial ratios analysis, benchmarking (cross-sectional, industrial or pro-forma analysis), measuring performance against a budget, time series or a mix of these methodologies. The common assumption, which underpins much of the financial performance research and discussion is that increasing financial performance is as a result of improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for institutions. These are the institution's size, its asset management and the operational efficiency and effectiveness.

1.1.3 Manufacturing Companies

This is a term that is used to define the classification of companies that are involved in the conversion, mostly in a large scale, of raw materials to finished goods by the use of machinery and other human and capital resources. The output of manufacturing companies may used as final products or as inputs to other organizations. Manufacturing companies can be extractive, intermediary or end user producer depending on their position in the value creation chain. Common aspects of manufacturing companies are costing and planning, inventory and production control and selling. Due to the complex nature of manufacturing companies operations i.e. procurement and usage of various raw materials, conversion of work in progress (W.I.P.) and costing of the same, labor and overhead absorption, selling and administrative costs, research and development (R&D), debtors and creditors control etc, the control of cash and working capital (W.C.), planning and coordination is pivotal to the smooth operation of any manufacturing company. The huge values and volumes involved and the continuous conversion requires close monitoring and control to facilitate timely development of solutions when problems/variations are revealed (Lucey T. 1985). The manufacturing process is also time consuming and therefore the necessity to ensure efficiency and effectiveness along the whole process from initial raw material input to final finished goods output. Interventions for capturing external information are also a vital element of manufacturing companies. This enables the company to react swiftly to changes in its operating environment and hence limiting adversities.

1.2 Statement of the Problem

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

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

Other studies, however, lead one to conclude that, although budgetary participation is seen as being rather "politically correct", it may be that its value is situation-specific: there may be some organizations in which it is not necessarily a major motivational force. For example, Cherrington and Cherrington's (1999) study found that the "top down" imposition of budget targets led to higher performance amongst the recipients as opposed to those managers who, more or less, set their own targets. Also, contrary to current popular belief, the setting of budget targets and budgetary control does not always lead to autocratic managerial behavior DeCoster and Fertakis

(1998). Additionally, existing research acknowledges the difficulty in observing systematic relationships between organizational characteristics and budgetary variables due to findings of different studies not being consistent (Chenhall, 2003) and therefore unclear.

Locally, studies have also been conducted on budgeting. Simiyu (1979) carried out a research on participatory budget setting and budget commitment which was a study of manufacturing personnel. Muleri (2001) carried out a survey of budgeting practices among the major British non governmental organizations in Kenya and found that most organisations have adopted budgeting approaches and philosophies that are modern and can act to reduce financial mismanagement. Budgets are used to achieve cost effectiveness, in planning, for operations, co-ordinating activities, motivating performance, communicating plans and operations and in evaluation and audits, while Kadondi (2002) carried out a survey of budgeting techniques used by companies listed at the Nairobi Stock Exchange. The study found that majority of the companies listed in the NSE employ various budget techniques due to their difference in setting and formation. This ensures that they are well oriented to handle their programs and investments efficiently. More recently Ndiritu (2007) conducted a case study on the effectiveness of cash budgeting at Telkom Kenya, which is a public institution. He found that cash budgeting in the organization is a major financial predictor for the success of the organizations performance. The literature on budget practices focuses on the relevance and applications of budgets to large, complex and manufacturing organizations. Furthermore, there is also a lot of research involving surveys of budgetary practices in developing countries. Most of the research in this area has focused on the USA, the UK and Australia. The gap created by the above contradictory findings justifies the need to carry out a research to establish the relationship between budget participation and organizational financial performance. This study intends to answer the question: Is there a relationship between budgetary participation and financial performance of manufacturing companies? If there is, what is its nature?

1.3 Objective of the Study

To establish the relationship between budgetary participation and financial performance of manufacturing companies.

1.4 Significance of the Study

The findings of this study will be of benefit to the following stakeholders in making their economic decisions: The accounting department in an organization could find the results of the study useful in planning and allocating resources in such a manner that there will be improved performance at minimum costs and maximum satisfaction of employees in the organization.

An organization's senior management could find the study useful in making strategic decisions with regard to formulation, implementation and evaluation of goals and long term strategic plans. They will also be able to coordinate the numerous departments and activities within the organization.

The human resource department in an organization in collaboration with the accounting department will use the findings of the study in motivating employees for instance, by tying rewards with performance which plays a big role in improving productivity and growth in any organizational setting. It will also go a long way in assisting the human resource department in identifying skill gaps that it may need to address while determining the training requirements of the various staff levels within the organization.

Scholars could find the study beneficial as a basis for further research into the relationship that exists between budgeting and performance in an organization. They could use the methodology applied in this study in carrying out a similar study in a different environment for comparison purposes.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical foundation and empirical reviews. Budgetary participation variables have been widely divided into three categories: organizational, interpersonal and individual variables.

2.2 Theoretical Review

2.2.1 Stakeholder Theory

The firm has been defined as a system of stake holders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stake holders by converting their stakes into goods and services'. This view is supported by Blair (1995) who proposes that the goal of directors and management should be maximizing total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialized inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders.

Consistent with this view by Blair to provide 'voice' and 'ownership-like incentives' to 'critical stakeholders', recommendations were made to US policy makers that they should 'encourage long-term employee ownership' and 'encourage board representation by significant customers, suppliers, financial advisers, employees, and community representatives'. It was also recommended that corporations 'seek long-term owners and give them a direct voice in governance' (i.e. relationship investors) and to 'nominate significant owners, customers, suppliers, employees, and community representatives to the board of directors'.

In larger enterprises, the high degree of detail in budget planning is also 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 resource consumption occurs every time negotiating partners loop through the planning cycle until they finally approve the annual operating budget. Large firms usually commit 75 per cent to 95 per cent of their total controlling capacity to operational planning during the time they are engaged in budget preparation. Unfortunately, top management seldom considers the high cost involved relative to the meager benefit derived from such detailed instruments. It then is no wonder that cost, product, and strategic controlling often get little attention in the process.

2.3 Organizational Variables

This category of variables will include factors such as organizational culture, organizational structure, environmental stability, technology, task uncertainty and communication channels. These are budgetary participation variables that are as a result of organization-wide factors.

2.3.1 Organizational Culture

Organizational culture is a belief of set way of doing things which has been repeated overtime and accepted as the best to attain stated objectives, whether tested or not. Coch and French (1948) in their study at the Harwood Manufacturing Company in Virginia tested three possible schemes of employee participation in production budgeting. The results revealed the relative desirability of the three schemes. The group subjected to the usual company procedure experienced resignations in the first forty days and significant deteriorations in productivity. The group subjected to the partial participation experienced no resignations in the first forty days but slow improvement in productivity while the group in the total participation condition provided the greatest productivity improvement. French, Israel and As (1960) repeated the experiment at a footwear factory in Norway. This time, an increase in budgetary participation did not bring about significant changes in performance. French, et al. speculated that the strength of the union ties among Norwegian workers in general may have produced an attitude on the part of the footwear factory workers that "a more legitimate pattern of participation is through union representatives rather than direct participation". Strauss et al (1976) refers to this as "legal" systems of participation inspired by socialist ideology.

2.3.2 Organizational Structure

Bruns and Waterhouse (1975) hypothesized and found that in structured but decentralized organizations, the quantity of budget-related behavior was higher than in centralized organizations. Specifically, managers in decentralized organizations perceive themselves as having more influence, they participate more in budget planning and appear to be satisfied with budget related activities. In contrast, managers in centralized organizations are granted less responsibility, report less involvement in budget planning, experience superior initiated pressure, and see budgets as being less useful and limiting their flexibility. Swieringa and Moncur (1972) investigated the budget-related behavior of a sample of managers in various branches of an international bank. Included in their study were several organizational level variables such as branch size and position in the organization. However, the results were inconclusive. The results and suggestions from the literature, both in organizational behavior and in accounting appear to consistently indicate that participation offers some organizational advantages only in some circumstances. Organizations in unstable environments, faced with dynamic technology and high levels of task uncertainty appear to be particularly well suited to participation and influence of lower level organizational members. In contrast, centralization, providing little, if any, opportunity for lower level participation (without overlooking the continuing need for adaptability to change) may be a sounder response to stable, homogeneous environments and technology, associated with low to moderate levels of task uncertainty.

2.3.3 Environmental Stability

Lawrence and Lorsch (1967) attempted to answer the basic question of what kind of organization it takes to deal effectively with various environmental, economic and market conditions. These industries were represented as being located on a continuum of environmental stability with plastics firms facing the most turbulent and dynamic environment and container firms the most stable environment. Effective response to environmental conditions was defined by Lawrence and Lorsch in terms of the appropriate amounts of differentiation and integration. They found that successful firms in the plastics industry were most highly differentiated and at the same time, most successfully integrated. Formality of structure was low, there were fewer levels in the organizational hierarchy, less frequent performance evaluation and fewer objective performance criteria. Of relevance in the present context was the finding that successfully integrated firms were characterized by lateral rather than vertical flows of information, a much lower and broader locus of decision-making authority and a higher degree of knowledge needed for decision making was typically located at lower levels.

Consistent with these findings is the view that involvement and participation of organizational members at lower levels is desirable when the organization faces a dynamic environment. Even within the organization the locus of influence in decision-making varied depending on the sub-environment faced by major functional divisions. Boundary-spanning divisions such as marketing were characterized by a much broader base of decision-making influence and control than, for example, in production which is relatively buffered from the external environment.

In contrast, successful firms in relatively stable environments were characterized by much lower levels of differentiation and integration, many more hierarchical levels and a far greater level of formal structure. The locus of influence in decision-making and control was high in the organization and information, authority and responsibility flows were vertical rather than horizontal. Indeed, it was observed that in the poorest performing firm in the container industry, organizational members at lower levels in the hierarchy felt they had considerably more influence in decision-making than their counterparts in the high performing container industry. The locus of knowledge to make sound decisions was apparently elsewhere in the organization. The implications and findings for the role of budgetary participation is clear: the effectiveness of participation depends, at least in part, on the environmental demands facing an organization as a whole and its individual functional units viewed separately.

2.3.4 Technology

A major factor at the organizational level is technology. It has been defined as "a technique or complex techniques to alter 'materials' in an anticipated manner" Perrow (1965). Burns and

Stalker (1961) investigated this aspect and its relationship to organization design. In a study of British companies they found that where the rate of technical innovation was low, successful firms were managed with "mechanistic" systems characterized by functional specialization and detailed definitions of duties and responsibilities. On the other hand, rapid technical innovation was associated with firms which had "organic" systems of management with more flexible organizational arrangements, more consultation and participation and less rigorously specified tasks. Woodward (1965), in another study of British industry, used four main groupings of production processes found in the surveyed organizations to characterize a technology continuum. In increasing order of technological sophistication the groupings were unit production, small batch, mass-production and continuous process. She found that firms in the middle of the technical continuum tended to be most "mechanistic" while firms at the extremes were more "organic", characterized, notably, by high degrees of authority and responsibility delegation and much more permissive participative management styles.

Technology manifests itself in the nature of the types of interdependence: pooled interdependence, where organizational units are separate and do not interact (but where failure of any one renders the organization harm); sequential interdependence, where one unit is the supplier of another; and reciprocal interdependence, where units supply one another. Corresponding to each of these types of unit interdependencies there exists an appropriate organizational structure providing for co-ordination of activities. For pooled interdependence, co-ordination is best achieved by standardization of rules and routines which are set down for the behavior of all units. Where interdependence is sequential, co-ordination is by planning and the establishment of schedules for the interdependent units, and, finally, for reciprocally interdependent units, co-ordination is by mutual adjustment and communications. It is clear that participation and lower-level influence in decisions are increasingly appropriate as characteristics of co-ordination as we move from pooled through sequential to reciprocal interdependence.

For repetitive, easily programmable production activities, a more hierarchical structure with upward information flows and downward authority flows appears appropriate. Non-repetitive, short production run, custom type production activities are not so amenable to programmed controls and are probably better managed with use of individual supervision with small spans of control.

2.3.5 Task Uncertainty

Galbraith (1977) defines uncertainty as the difference between the amount of information required and the amount possessed by the organization and he views the amount required as being a function of the diversity of outputs, diversity of inputs and the level of goal difficulty. As an organization becomes more complex and faces a greater need for information, it can engage in either of two strategies. It can either reduce its need for information through strategies such as the creation of slack resources and the creation of self-contained tasks (i.e. the break-down of interdependence), or, it can increase its information handling capacity by investing in vertical information systems and by creating lateral relations. The latter of these information handling strategies is particularly relevant in the context of participation. Galbraith, when referring to the creation of lateral relations, has in mind the idea of reducing the number of decisions referred upwards in the organization and bringing the "decision point" down to the "action point" where the information exists. In other words, increased influence of lower level organization members in decision-making is one key organizational strategy used to deal with uncertainty and the attending level of informational handling capacity expansion.

In order for this response to task uncertainty to work effectively, Galbraith points to several conditions which must be satisfied. Information required for decision-making must be accessible at the level at which the lateral relations are created, participants in lateral relationships must have the authority to commit their organizational sub-unit, and influence must be a function of knowledge and information. Status barriers unaccompanied by commensurate informational differences will be dysfunctional according to Galbraith.

2.3.6 Communication Channels

The existence of suitable communication channels has also been sighted as a major determinant on the level of budgetary participation by Tannenbaum et al (1974). This evidence reinforces Galbraith's view.

2.4 Inter-personal Variables

The variables identified under this classification are leadership style, time pressure, work structure and design, work group size and span of control, goal specificity, trust level by supervisor, breakdown of work group interdependencies (coordination) and homogeneity of within-group skills and abilities.

In his study, Argyris (1952) isolated at least four major problems of a behavioral nature with budgets participation: Budget pressure tends to unite employees against management and tends to place the factory supervision under tension; Budget staff can obtain feelings of success only by finding fault with factory people; The use of "needlers" by top management tends to make the factory supervisors see only the problems of their own area of concern and Supervisors use budgets as a way of expressing their own patterns of leadership.

2.4.1 Leadership Style

Specifically motivated by Argyris' fourth conclusion listed above, Fertakis (1967) and DeCoster and Fertakis (1998) presented results of an investigation of the amount of budget pressure induced by the leadership styles of consideration and structure initiation. They hypothesized that a greater amount of pressure would result from leadership styles high on the structure initiating dimension and low on consideration than where structure initiation was low and consideration high. Their findings were interesting. In the case of both leadership styles, budget pressure resulted, although the relationship may have been stronger in the case of structure initiating style.

In a closely related investigation, Hopwood (1971, 1992) attempted to ascertain whether different amounts of job-related tension were experienced by cost center managers evaluated by supervisors using "budget constrained" styles versus "profit conscious" styles. The findings suggested that greater tension was experienced by managers evaluated by supervisors whose style was budget constrained. Hopwood reports that his two dimensions are not completely independent however, and, as a result, construct validity of his measures can be questioned. He had attempted to capture the "consideration" and "structure initiating" dimensions mentioned earlier and these are conceived as being completely independent. Related to this point is an interesting finding in Hopwood's study. Only where a distinct imbalance in leadership style exists in the structure initiating (budget constrained) direction is the tension result significant. The same absolute amount of budget constrained behavior combined with a similar amount of profit conscious behavior was not found to be tension producing. The last result of Hopwood begins to explain the surprising results of DeCoster and Fertakis who found consideration and structure initiation equally associated with felt budget pressure. This phenomenon of one leadership style actually moderating the effect of the other was first reported in the literature by Fleishman and Harris (1962). They concluded that under conditions of high consideration, structure may be perceived by subordinates as supportive and helpful, whereas under low consideration the same structuring behavior may be seen as restrictive and threatening. This interpretation has been shown to be consistent with data from many other studies like Fleishman and Ko (1973); Misumi and Toshiaki (1965); Beer (1984) and Dessler (1972) for such criterion variables as group motivation, satisfaction, grievances, turnover, and even performance. However, evidence that this effect may be restricted to certain levels in the organization is provided by House et al (1971) who suggested that consideration may be an important moderator of structure-satisfaction relationships only for lower-level organizational members.

"The critics and proponents of participative management would do well to direct their efforts toward identifying the properties of situations in which different decision-making approaches are effective rather than wholesale condemnation of one approach." (Vroom, 1970, pp. 239-240). This contingency or situation-specific view of leader behavior has been investigated by Heller (1971) and by Vroom and Yetton (1973). Keller hypothesized and found that the degree of “power sharing and influence” afforded to subordinates in decision making depends on the importance of the decision to the company, the extent of agreement between superior and subordinate as to skill differences between them, the extent of agreement as to the amount of training required to elevate subordinates to the superior's level, the span of control of the superior, and the locus of information availability. Vroom and Yetton, investigating the same question, found that leadership style depended on the importance of a high quality decision, the extent to which the leader possesses sufficient information and expertise to make a decision alone, the extent to which the problem is structured versus unstructured (deterministic versus stochastic), the extent to which acceptance or commitment is critical to effective implementation of the decision, the extent to which subordinates are likely to disagree over the preferred solution and the extent to which a speedy decision is necessary.

These two organizational behavior studies are two major, recent expositions of the need for a contingent view of appropriate leadership style and hence appropriate participation levels. Many other studies in organizational behavior have addressed this issue, however, and have uncovered several important moderating variables.

2.4.2 Time pressure

Halpin (1954) found that pressure (in the form of time urgency, task demands, inter-unit stress or physical danger) affected satisfaction of military platoon members with structuring leadership styles. Structure was found to be resented by the platoon members in low pressure situations, such as training, while it was positively related to satisfaction in high pressure situations, such as combat. Oaklander and Fleishman (1999) extended this result and concluded that source of pressure was the critical moderator variable. Where the source was seen to be external, structuring behavior was preferred, while considerate behavior was found to be more helpful in dealing with intra-unit pressure.

2.4.3 Work Structure and Design

Task characteristics have also been shown to moderate the leadership-criterion relationship, although there is disagreement as to the precise nature of the relationship. House, Filley and Kerr (1971) concluded that when work was not intrinsically satisfying, increased resentment seemed likely to occur as the imposition of structure increased. House (1972) elaborated on this conclusion by suggesting that performance, in contrast to satisfaction, would benefit from structuring leader behavior where routine, structured tasks were involved. Hunt and Liebscher (1 973) confirmed this conclusion. However, Ritchie (1976) suggests that the relationship is likely to be the same for both performance and satisfaction and that, in the case of intrinsically rewarding but unstructured situations, subordinates actually seem to prefer a more directive, structured role by their superior. Other evidence tends to confirm House's, (1972) suggestion that structure is preferred at lower levels and resented at higher levels (Stogdill and Coons, 1957; Hill and Hunt, 1973; Bradshaw, 1970). However, Hunt and Liebscher (1973) and Hunt, Hill and Reaser (1971) report few or no important differences attributable to job-level. While there may be disagreement about the nature of the moderating effect of job-level, there does seem to be unanimity on the point of the existence of job-level type of moderator.

2.4.4 Work group Size and Span of Control

Work group size has also been found to affect the relationship. Meyer (1972) found that in small work groups, supervisors tended to behave more like technical specialists exhibiting supportive, considerate behavior, while supervisors with large spans of control tended to emphasize administrative functions and to exhibit more structuring behavior. The upward influence of the superior is another variable which has been found to moderate the leadership-criterion relationship. Time spent by superiors with organizational staff or higher management as an "advocate" for subordinate interests may be more important from the subordinate's view than time spent by the superior with subordinates themselves. The use of more structured, less personal leader style, where this is due to significant amounts of time spent by the superior with higher level management, was found by Meyer (1972) to please subordinates. Herold (1972) also found superior's upward influence, and the associated subordinate independence, to be a powerful subordinate satisfier.

Other factors that have been identified under this classification include goal specificity, Korten (1968), the quality of leader-member relations, Fiedler (1967), the degree of trust exhibited by the superior, Zand (1972), breakdown of work group interdependencies and the homogeneity of within-group skills and abilities, Mulder (1971).

2.5 Individual Variables

The major variables which have been studied under this category are job performance and satisfaction, reward structure and favorableness of feedback, task difficulty, duration of tenure, motivation and personality traits (seniority, maturity and age). Commitment has been dealt with in depth separately as it has elicited a lot of study and works by various authors.

2.5.1 Job Satisfaction

Self report measures of job satisfaction are easy to obtain and hence a considerable number of studies has investigated the role of participation as it affects job satisfaction. In a field study of industrial supervisors, Milani (1975) developed and used an instrument to measure participation and assess its relationship to job satisfaction, attitudes towards the company and performance. He found a significant relationship between the level of participation and the satisfaction and attitude variables but his results for performance were weak. Vroom (1970) found that managers who felt they were consulted on their operating budgets and that their suggested changes were given proper consideration reported high job satisfaction.

However, an interesting contrast was found by Carroll and Tosi (1973) who failed to report improved attitudes and job satisfaction levels resulting from participation. They suggested that the effects of participation on job satisfaction are conditioned by the perceived legitimacy of participation and the extent to which participative management practices are spread throughout the organization. This suggests a problem in the approach of systematically varying the level of participation in different organizational subunits, a strategy which Heller (1971) explicitly endorses. Cherrington and Cherrington (1999), in their laboratory study of participative budgeting, uncovered another moderating variable. They found that the reward structure has a major impact on the relationship between participation and job satisfaction. Subjects in their "group-based" budget condition (corresponding to high participation) reported high satisfaction where reward was based, at least in part, on achieving the budget (the "budget" and "output-budget" conditions).

2.5.2 Reward Structure and Favorableness of feedback

Demski and Feltham (1978) provide a theoretical view of the need for budget-based reward structures. They conclude that in the event that effort and skill levels of budget participants are not fully observable (a form of market incompleteness) by a risk-averse management, budget-based reward structures are superior to other reward structures. The role of participation in achieving commitment of organizational members to budget goals is seen as an important one. Foran and De Coster (1974) employed a laboratory setting to investigate whether the degree of favorableness of feedback (concerning the extent of acceptance of subordinate recommendations) influenced commitment to goals. Their results were positive in the predicted direction. French, Kay and Meyer (1966) found little difference between the level of goal commitment of "high" and "low" participants and suggested that threat levels may condition the response of "high" participants. Stedry and Kay (1965) performed a similar type of investigation in the field and although the results are inconclusive (due to a small number of subjects) they do suggest that, except for extremes of goal difficulty, more difficult goals are more motivating (as evidenced by performance rather than as directly measured). Shapira's (1976) results are similar but more interesting in that they indicate that the nature of the reward structure is also critical. Where reward is extrinsic and independent of performance, chosen levels of goal difficulty will be lower than where reward is intrinsic. This result further confirms the importance of reward structure as discussed above in connection with the Cherrington and Cherrington (1999) study.

2.5.3 Task Difficulty

Other studies which have shown a direct relationship between participation and aspiration levels associated with more difficult goals include Raia (1965), Locke (1968) and Carroll and Tosi (1973). Some interesting moderating factors emerge from these studies. Raia suggested that seniority influenced the extent to which difficult goals were motivating. Carroll and Tosi suggest that maturity and self-assurance are also important conditioning variables, and Stedry and Kay (1965) and Swieringa and Moncur (1972) both noted the importance of age. It is likely that these variables are highly correlated.

2.5.4 Duration of Tenure

Collins (1978) additionally suggested the importance of tenure with the company as a variable which moderated the participation-attitudes relationship. He found that a stronger positive association existed for low-tenure (less than five years) organizational members than for high-tenure (more than fifteen years) members. Studies which have directly assessed the motivational impact of participation are few and far between. Yet references to motivation abound due to the inference that performance and motivation are positively related. That remains an empirical question even though our priors might be strong. Hofstede (1998) attempted to measure a concept he referred to as motivation by developing an instrument based on the curious combination of attitudes toward the budget and relevance of the budget. Again, these may be correlated with motivation but the empirical question remains. Hofstede found that among many variables, participation explained the greatest proportion of observed variance in motivation, as he measured it. But he noted that past levels of participation were important. Where these are high, the effect on motivation is observed, while where they are low, participation has little effect. Meyer, Kay and French (1965) reached a similar conclusion.

2.5.5 Motivation

Maslow's (1954) "hierarchy of needs" formed the basis of a revised hierarchy produced by Alderfer (1999) identifying the core needs of existence, relatedness and growth. Core learned and culturally sensitive needs of achievement, power and affiliation were proposed by McClelland (1975) as explaining motivation. However, it is fair to say that such needs, and hence their effect on motivation, are different for different people and, indeed, can vary over situations and time.

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

Merchant (1981) hypothesized that higher levels of motivation, in particular the intrinsic component, would be associated with high participation. Using Hackman and Porter's (1968) motivation measure and a construct for participation factor-analytically derived from Fertakis' (1967) Budget-Related Behavior Questionnaire, the hypothesis was confirmed for measures of both intrinsic and extrinsic motivation.

2.5.6 Personality Traits

Finally, personality and individual differences have been subject to some limited study in the area of participation. Perhaps the best known contribution is Vroom's (1960). He showed that individuals high on authoritarianism were unaffected by the opportunity to participate while those low on the measure showed a distinct preference to participate. Vroom (1964) also suggested the relevance of ego-involvement in the same context. Foran and DeCoster (1974) were unable to replicate Vroom's findings concerning authoritarianism but manipulation was suspected in Foran and DeCoster's study. Hofstede found that attitude toward the budget was significantly and positively correlated with participation only for high authoritarians. Separately, he reported that attitude toward the budget correlated significantly, and negatively, with job satisfaction. Although the direct correlation between participation and job satisfaction was not reported for each of his three "authoritarianism" groups, it seems reasonable to conclude that the Vroom result was replicated.

Need for independence, French, Kay and Meyer (1966) and self-esteem, Carroll and Tosi (1973) are also suggested as important personality differences which will condition the effects of participation. Age, as an individual difference variable, was found by Alutto and Acito (1974) to moderate the participation - performance relationship.

2.6 Organizational Commitment

Organizational commitment is a mind set or psychological state involving feelings of beliefs concerning the employees' relationship with an organization. This psychological state reflects a desire, a need or an obligation to maintain membership in an organization. It is argued that the absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behavior. As such, budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance (Quirin et al, 2001).

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

2.6.1 Measures of Organizational Commitment

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

2.7 Financial Performance

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

The most commonly used financial performance ratios are Gross and Net Profit Margins (G.P. and N.P. respectively). Overall operational effectiveness is measured using the Return on Investment (R.O.I.) and the Return on Assets (ROA). Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. It is a subjective measure of how well a firm can use its assets to generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation, Lucey, T. (1985). There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

2.8 Empirical Studies

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

A survey conducted by Ambetsa (2004) of budgeting practices by Commercial airlines operating at Wilson Airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in the preparation of the budget and lack of top management support. He further concludes that airlines operate and use budgets to plan, implement and evaluate their businesses' performance. All enterprises make plans using budgets some in a systematic and formal way, while others in an informal manner, but still have some form of budgeting and budgetary control practice. Therefore, the issue is not whether to prepare a budget, but rather how to do it effectively (Ambetsa, 2004).

Muleri (2001) in his survey of budgeting practices among the major British non- governmental development organisations in Kenya, asserts that most organisations have adopted budgeting approaches and philosophies that are modern and can act to reduce financial mismanagement. Budgets are used to achieve cost effectiveness, in planning, for operations, co-ordinating activities, motivating performance, communicating plans and operations and in evaluation and audits (Muleri, 2001). One early study had tackled problems associated with budgeting in manufacturing firms (Simiyu, 1979). This study investigated the relationship between budgetary participation in the companies listed in the NSE in particular as no previous study has dwelt on them.

2.9 Operationalization

An operational framework is a framework that shows the relationship between the variables and the statistics aimed at investigating the relationship between the dependent variable, the parameters and the statistics of the study. In investigating the factors that show the relationship between budgetary participation and financial performance of manufacturing companies, the study will consider the different aspects of the variables (parameters) identified. Therefore, the aspects of these parameters are indicated in the operational framework as the statistics. The statistics act as the guidelines for the investigation into factors that show the relationship between budgetary participation and financial performance of manufacturing companies.

2.10 Chapter Summary

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

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

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter involves the methods the researcher used to collect the data for the study. These were: 3.2 The Research design, 3.3 The population, 3.4 is data collection, 3.5 Pilot Testing 3.6 Data analysis procedures.

3.2 Research design

Mugenda and Mugenda, (2003) defines research design as a conceptual structure within which research is conducted. Descriptive research design was employed because it determines and reports the way things are. Furthermore, descriptive research enables the study to generalize the results of the findings to a bigger population. According to Nachamias and Nachamias (1996) descriptive research design is suitable where the study seek to describe and portray characteristics of an event or situation.

3.3 Population

The population for this study was all the manufacturing companies within Kenya, whether listed or not. A total sample of thirty (30) manufacturing companies was selected from the Nairobi Securities Exchange and the Kenya Association of Manufacturers list of manufacturing companies.

3.4 Data collection

The study entailed the collection of both primary and secondary data for the purpose of analyzing the factors that show the relationship between budgetary participation and financial performance of manufacturing companies.

The primary data was gathered through a semi-structured questionnaire which was administered by the researcher to facilitate a probing inquiry. The questionnaire had both open and closed ended questions. The questionnaire contained simple questions, which the respondents were able to answer without so much difficulty. The method proved to be most effective and reliable since it did not involve the researcher taking too much time to talk to the respondents. It was also inexpensive compared to other data collection methods, Ngechu (2004). Nevertheless, the study also used secondary data which was collected from the companies' financial statements where need arose.

3.5 Pilot Testing

The researcher carried out a pilot study to pretest the validity and reliability of the data collected using the questionnaire. According to Berg and Gall (1989) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept.

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

The researcher selected a pilot group of 5 individuals from the target sample to test the reliability of the research instrument. The clarity of the instrument items to the respondents was necessary so as to enhance the instrument's validity and reliability. The aim was to correct inconsistencies arising from the instruments, which ensured that they measure what is intended. The pilot data was not included in the actual study.

3.6 Data Analysis

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

The descriptive statistical tools helped the researcher to describe the data and determine the extent used. The findings were presented using tables and charts. The Likert scale was used to analyze the mean scores and standard deviations. This helped in determining the extent to which the four budgetary participation variables affect financial performance of the manufacturing companies. Data analysis was employed by the use of SPSS (version 17) and Microsoft excels percentages, tabulations, means and other central tendency measures. Tables were used to summarize responses for further analysis and to facilitate comparison. In addition, to quantify the strength of the relationship between the variables, the researcher used a multiple regression analysis. This was used to measure, quantify and operationalize budgetary participation and the financial performance of the manufacturing companies in Kenya. The regression equation used was:

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

Whereby Y = Financial performance

X_1 = Organizational Structure

X_2 = Leadership Style

X_3 = Motivation

X_4 = Commitment

ε = error term

These four variables were selected from each of the four classification presented earlier in the Literature review. These were: Organizational variables (structure), Interpersonal variables (Leadership), Individual variables (motivation) and organizational commitment.

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

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis, findings and discussion of the study as set out in the research methodology. The study findings are presented to establish the relationship between budgetary participation and financial performance of manufacturing companies. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.2 Data Analysis, Results and Discussion

4.2.1 Response Rate

The study targeted thirty (30) manufacturing companies in Kenya by collecting data with regard to establishing then relationship between budgetary participation and financial performance of manufacturing companies. From the study, 30 out of the 30 sample respondents filled-in the questionnaires making a response rate of 100%. This reasonable response rate was made a reality after the researcher made visits and personal calls to remind the respondent to fill-in and return the questionnaires.

4.2.2 Demographic Information

Duration of time the company has been in Existence

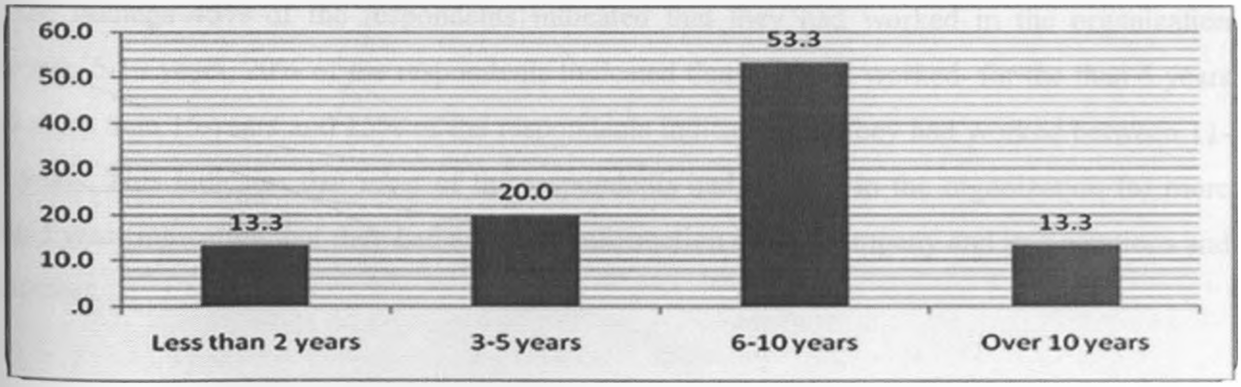

Figure 4. 1: Duration of time the company has been in Existence

The study sought to find out the duration of time the company has been in Existence. From the findings, 53.3% of the companies had been in existence for 6-10 years, 20% of the companies had been in existence for 3-5 years, 13.3% of the companies had been in existence for 10 years and above, while only 13.3% of the companies had been in existence for less than 2 years.

Duration of employment

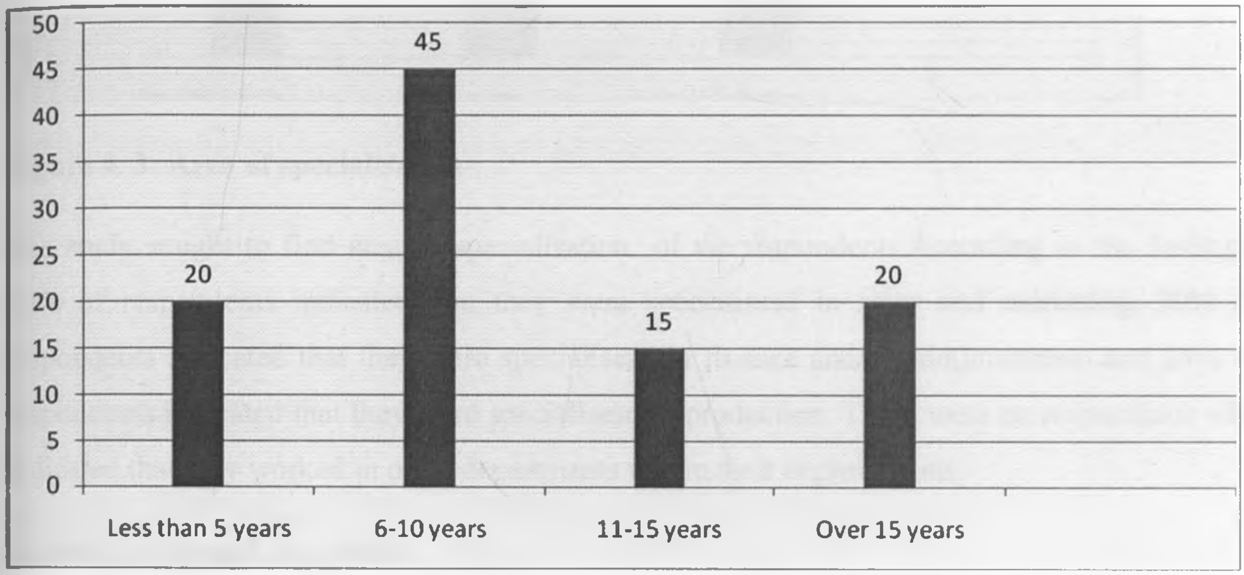

Figure 4. 2: Duration of employment

The study sought to find out the duration respondents had worked in the organization. According to the findings 45% of the respondents indicated that they had worked in the organization between 6-10 years, 20% of the respondents indicated that they had worked for the than 5 years and more than 15 years and 15% of the respondents indicated that they had worked between 11-15 years. This indicates that most of the respondents had worked in the organization for more than 5 years indicating that they had adequate information on the company and its operations and processes.

Area of specialisation

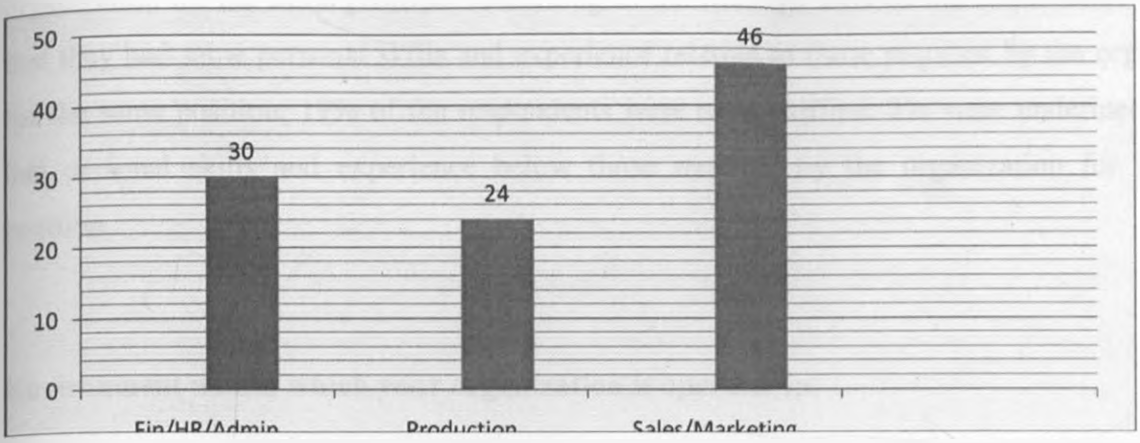

Figure 4. 3: Area of specialisation

The study sought to find area of specialisation of the respondents.According to the findings, 46% of respondents indicated that they were specialisesd in sales and marketing, 30% of respondents indicated that they were specialisesd in finance and/or administration and 24% of respondents indicated that they were specialisesd in production. There were no respondents who indicated that they worked in other departments within their organisations.

Personal skills and experience

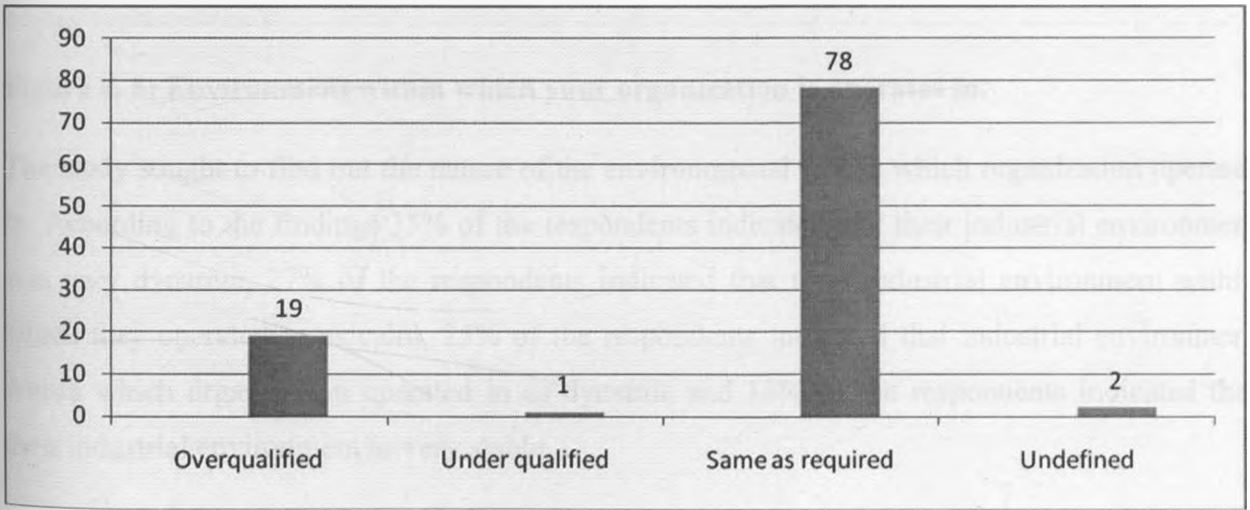

Figure 4. 4: Personal skills and experience

The study sought to find personal skills and experience relative to those required by the organization for the same position. According to the findings 78% of the respondents indicated that they had same personal skills and experience relative to those required by the organization for the same position, 19% of the respondents were overqualified, 2% were undefined and 1% had personal skills and experience below those required by the organization for the same position.

Environment within which your organization is operates in.

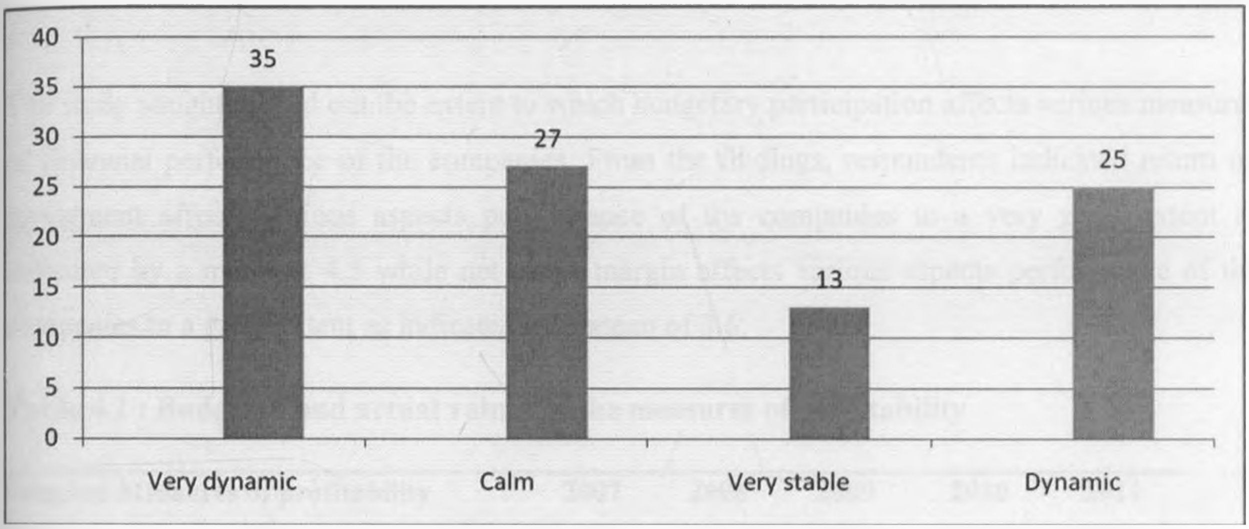

Figure 4. 5: Environment within which your organization is operates in.

The study sought to find out the nature of the environmental within which organization operates in. According to the findings 35% of the respondents indicated that their industrial environment was very dynamic, 27% of the respondents indicated that their industrial environment within which they operated in as calm, 25% of the respondents indicated that industrial environment within which organization operated in as dynamic and 13% of the respondents indicated that their industrial environment as very stable.

4.2.3 Results, findings and Discussion

Table 4.1 : Extent to which budgetary participation affects various measures of financial performance of the companies

	Very great extent	Great extent	Moderate extent	Little extent	No extent	Mean	Std Deviation
Return on Investment	30.6	31	16.3	12.2	10.2	3.6	**0.2**
Net Profit Margin	40.8	31	16.3	8.2	4.1	4.5	0.3

The study sought to find out the extent to which budgetary participation affects various measures of financial performance of the companies. From the findings, respondents indicated return on investment affects various aspects performance of the companies to a very great extent as indicated by a mean of 4.5 while net profit margin affects various aspects performance of the companies to a great extent as indicated by a mean of 3.6.

Table 4.2 : Budgeted and actual values of the measures of profitability

Budgeted Measures of profitability	**2007**	**2008**	**2009**	**2010**	**2011**
Return on Investment	56.98	54.98	50.54	55.87	60.34
Net Profit Margin	17.56	16.96	18.93	23.67	20.75

Actual Measures of profitability	**2007**	**2008**	**2009**	**2010**	**2011**
Return on Investment	46.15	45.65	49.43	52.98	56.65
Net Profit Margin	15.21	15.45	17.43	19.62	19.98

The study sought to find out the budgeted and actual values of Return on Investment and Net Profit Margin as measures of profitability. According to the findings respondents indicated that the budgeted Return on Investment from 2007-2011 was 56.98%, 54.98%, 50.54%, 55.87% and 60.34%; respondents indicated that the actual Return on Investment from 2007-2011 was

46.15%, 45.65%, 49.43%, 52.98% and 56.65%. Respondents indicated that the budgeted Net Profit Margin from 2007-2011 was 17.56%, 16.96%, 18.93%, 23.67% and 20.75% respectively while actual Net Profit Margin was 15.21%, 15.45%, 17.43%, 19.62% and 19.98% respectively.

Table 4.3 : Extent to which the Organizational Factors Affect the Level of Budgetary Participation Expected of an Employee

Factor	Very Great extent	Great extent	Moderate extent	Little extent	No extent	Mean	Std Deviation
Attachment to the workers union or other related association	65.3	22	4.1	6.1	2.0	4.5	0.3
Dynamicity of the Economic and Industrial environment	40.8	35	8.2	14.3	2.0	4.0	0.2
Organizational structure	55.1	29	8.2	6.1	2.0	4.3	0.3
Level of technology and innovation	34.7	29	14.3	18.4	4.1	3.7	0.3
Level of authority, responsibility and delegation	46.9	22	10.2	12.2	8.2	3.9	0.3
Interdependence of organizational units	8.2	16	16.3	34.7	24.5	2.5	0.2
Communication Channels	10.2	10	12.2	20.4	46.9	2.2	0.3
Clarity of the corporate strategy, mission and vision	14.3	33	32.7	14.3	6.1	3.3	0.2

The research sought to find out extent to which the organizational factors affect the level of budgetary participation expected of an employee. According to the findings respondents indicated that Attachment to the workers union or other related association affect the level of budgetary participation expected of an employee to a great extent as indicated by a mean of 4.5; Dynamicity of the Organizational structure, dynamicity of the economic and Industrial environment, Level of authority, responsibility and delegation , Level of technology and innovation affect the level of budgetary participation expected of an employee to a great extent as indicated by a mean of 4.3, 4.0, 4.0 and 3.7 respectively; Clarity of the corporate strategy, mission and vision, Interdependence of organizational units affect the level of budgetary participation expected of an employee to a moderate great as indicated by a mean of 3.3 and 2.5 respectively; Communication Channels affect the level of budgetary participation expected of an employee to a little extent as indicated by a mean 2.2. This relates to the literature review by Bruns and Waterhouse (1975) who hypothesized and found that in structured but decentralized organizations, the quantity of budget-related behavior was higher than in centralized organizations. Further Swieringa and Moncur (1972) found out that organizations in unstable environments, faced with dynamic technology and high levels of task uncertainty appear to be particularly well suited to participation and influence of lower level organizational members.

Table 4.4 : Level of how important purposes of budget are relevant in the financial performance of the company

Importance of budgets	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Std Deviation
To forecast the future	62.3	19	4.5	4.5	7.0	4.7	0.3
As a functional co-ordination tool	38.8	33	9.2	14.7	4.9	4.1	0.2
As a communication tool to all the levels of department	50.1	30.9	5.2	6.8	3.1	4.2	0.3
As a means of performance evaluation	34.7	29	14.3	18.4	4.1	3.9	0.3
To motivate employees	46.9	22	10.2	12.2	8.2	3.7	0.3
Budgets are used to fine tune the strategic plan	8.2	16	16.3	34.7	24.5	2.5	0.2
Budgets help to co-ordinate inter-departmental activities	10.2	10	12.2	20.4	46.9	1.9	0.3
They are used to assign responsibilities to managers	14.3	33	32.7	14.3	6.1	1.8	0.2
To control performance by calculating/investigating variances	26.5	39	12.2	12.2	10.2	3.7	0.3

The research sought to find out Level of how important purposes of budget are relevant in the financial performance of the company. According to the findings respondents strongly agreed the purpose of forecasting the future is relevant in the financial performance of the company as indicated by a mean of 4.7; respondents agreed that budget purposes as a functional co-ordination tool, as a communication tool to all the levels of department, as a means of performance evaluation, motivation to employees are relevant in the financial performance of the company as indicated by a mean of; 4.2, 4.1, 3.7and 3.9 respectively; respondents were neutral on budget purposes to fine tune the strategic plan, co-coordinating inter-departmental activities and as a sign of responsibilities to managers as indicated by a mean of 2.5, 1.9 and 1.8 respectively. This relates to the literature review by Ambetsa (2004) who found out although organizations institute budgeting formats in different ways, all organizations benefit from its use, and budgeting functions perform an important mechanism in a firm's organizational architecture-corporate and business success depends on it.

Table 4.5 : Extent of agreement to the statements that relate to budgeting in a company

Statements about budgeting process	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Std Deviation
When processes are routine and repetitive, budgets could be used effectively to achieve organizational coordination	65.3	22	4.1	6.1	2.0	4.4	0.7
Budgeting and variance analysis can be positive tools, if the accounting information process is functioning appropriately	40.8	35	8.2	14.3	2.0	4.0	0.5
Budget could be more useful if the leadership and approach was more consideration-oriented rather than structure-oriented	55.1	29	8.2	6.1	2.0	4.3	0.3
Achieving maximum motivational benefits from the budgetary process is contingent to the use of tight, yet attainable targets	34.7	29	14.3	18.4	4.1	3.7	0.2
Participating in the budget process improves employee commitment to their goals and allegiance to organization	73.5	16	6.1	2.0	2.0	4.6	0.1

The research sought to find out extent of agreement to the statements that relate to budgeting in a company. According to the findings respondents strongly agreed that Participating in the budget process improves employee commitment to their goals and allegiance to organization as indicated by a mean of 4.6; respondents agreed that when processes are routine and repetitive, budgets could be used effectively to achieve organizational coordination, Budget could be more useful if the leadership and approach was more consideration-oriented rather than structure-oriented, Budgeting and variance analysis can be positive tools, if the accounting information process is functioning appropriately and that achieving maximum motivational benefits from the budgetary process is contingent to the use of tight, yet attainable targets as indicated by a mean of 4.4, 4.3, 4.0 and 3.7 respectively. This relates to the literature review by Coch and French (1948) in their study at the Harwood Manufacturing Company in Virginia tested three possible schemes of employee participation in production budgeting. The results revealed the relative desirability of the three schemes. The scholars found out as its quoted "The group subjected to the partial participation experienced no resignations in the first forty days but slow improvement in productivity while the group in the total participation condition provided the greatest productivity improvement "

Table 4.6 : Extent to which budgeting process is affected by individual aspects in institutions

Effects of employee motivation on budgeting process	Very great extent	Great extent	Moderate extent	Little extent	No extent	Mean	Std Deviation
Employee skills and experience	36.7	27	12.2	12.2	12.2	3.6	0.3
Reward structure and favorable feedback from superiors	30.6	31	16.3	12.2	10.2	3.4	0.2
Personal traits like age, attitude etc.	40.8	31	16.3	8.2	4.1	4.5	0.3
Membership to workers unions	22.4	33	26.5	8.2	10.2	2.4	0.1

The research sought to find out extent to which budgeting process is affected by individual aspects in institutions. According to the findings respondents indicated that personal traits like age, attitude etc. affects budgeting process to a very great extent as indicated by a mean of 4.5; employee skills and experience affects budgeting process to a great extent as indicated by a mean of 3.6; reward structure and favorable feedback from superiors affect budgeting process to a moderate extent as indicated by a mean of 3.4 and Membership to workers unions affects budgeting process as indicated by a mean of 2.4.

Table 4.7 : Extent of agreement to the statements about the performance evaluation and financial performance of the company

Budgetary participation and performance evaluation	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Std Deviation
Sound cost management practices focuses on process management	65.7	27	3.9	6.7	2.1	3.1	0.4
Budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes	40.8	35	8.2	14.3	2.0	3.4	0.5
Budgets control the activities but not the costs	55.1	29	8.2	6.1	2.0	4.3	0.8
Budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit	34.7	29	14.3	18.4	4.1	3.7	0.2
Different cost allocation methods result in different estimates of a product's cost	73.5	16	6.1	2.0	2.0	4.6	0.6

The research sought to find out extent of agreement to the statements about the performance evaluation and financial performance of the company according to the findings respondents strongly agreed that different cost allocation methods result in different estimates of a product's cost as indicated by a mean of 4.6; respondents agreed that budgets control the activities but not the costs, budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit as indicated by a mean of 4.3 and 3.7 respectively; respondents were neutral that budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes, Sound cost management practices focuses on process management as indicated by a mean of 3.4 and 3.1 respectively. This leads to the literature review by Weisenfeld and Tyson (1990), in a sample of 68 US managers from two companies, found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately.

Table 4.8: Extent to which factors contribute to challenges of budget control within the Company.

Causes of budgeting challenges	Very great extent	Great extent	Moderate extent	Little extent	No extent	Mean	Std Deviation
Interference from the budget committee	20.9	7.8	32.2	19	21.1	2.1	1.3
Delays in receiving required information	9.5	21.9	20	10.5	18.1	2.5	0.5
Rigidity in Budget application	27.5	10.0	22.5	20	20	3.4	0.7
Budget Funding	4.3	10.7	15	45	25	4.8	0.3
Lack of budget manuals	25.9	11.1	23	25	15	4.4	0.8
Inter-departmental Feuds	3	40	34.9	2.1	20	3.9	1.4

The research sought to find out extent to which factors contribute to challenges of budget control within the Company, according to the findings, respondents indicated that that budget Funding contribute to challenges of budget control within the Company to a very great extent as indicated by a mean of 4.8; respondents indicated that lack of budget manuals, Inter-departmental Feuds contribute to challenges of budget control within the Company to a great extent as indicated by a mean of 4.4 and 3.9 respectively; delays in receiving required information contribute to challenges of budget control within the Company to a moderate extent as indicated by a mean of 2.5 and Interference from the budget committee contribute to challenges of budget control within the Company to a little extent as indicated by a mean 2.1.This relates to the literature review by Ambetsa (2004) who conducted a survey of budgeting practices by Commercial airlines operating at Wilson Airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in the preparation of the budget and lack of top management support.

Table 4.9 : Rating the effect of factors in budgetary participation experienced in the budgeting process that may affect the financial performance of the company

Factor	Very great extent	Great extent	Moderate extent	Little extent	No extent	Mean	Std Deviation
Pressure, task demands and inter departmental stress	56.2	23	3.4	4.3	9.0	4.6	0.5
Work group size	28.8	38	9.1	13.7	10.5	4.3	1.7
Coordination & communications across departments	47.3	30.5	3.8	7.8	5.1	3.4	0.4
Competition for resources and hence politics	30.7	31	14.9	19.7	3.1	4.4	0.5
Poor or lack of modern performance evaluation	45.5	18	10.7	8.0	12.8	4.0	0.8
Rigid application of the Budget	17	8.9	33.1	17.5	26.3	2.2	1.3
Lack of homogeneity within group skills and abilities	10.4	15	13.8	25.7	50.1	2.0	0.1
Availability of budget related and accounting information on an effective (accurate) and efficient (fast) manner.	16.7	35	31.0	15.9	6.9	1.6	0.6

The research sought to rate the effect of factors in budgetary participation experienced in the budgeting process that may affect the financial performance of the company. According to the findings, respondents indicated that pressure, task demands and inter departmental stress affect the financial performance of the company to a very great extent as indicated by a mean of 4.6; Competition for resources and hence politics, Work group size, Poor or lack of modern performance evaluation affect the financial performance of the company to a great extent as indicated by a mean of 4.4,4.3 and 4.0 respectively; Coordination & communications across departments affect the financial performance of the company to a moderate extent as indicated by a mean of 3.4; respondents also indicated that rigid application of the Budget, Lack of homogeneity within group skills and abilities, availability of budget related and accounting information on an effective (accurate) and efficient (fast) manner affect the financial performance of the company to a moderate extent as indicated by a mean of 2.2 ,2.0 and 1.6 respectively. In his study, Argyris, (1952) isolated at least four major problems of a behavioral nature with budgets participation: Budget pressure tends to unite employees against management and tends to place the factory supervision under tension; Budget staff can obtain feelings of success only by finding fault with factory people; The use of "needlers" by top management tends to make the factory supervisors see only the problems of their own area of concern and Supervisors use budgets as a way of expressing their own patterns of leadership.

4.3 Regression Analysis

In addition, the researcher conducted a linear multiple regression analysis so as to test the relationship among variables (independent) on the financial performance. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.897[a]	.880	.133	.3195

Source: Research, 2012

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Financial performance) that is explained by all the four independent variables (Organizational structure, Leadership style, Budget motivation, and Commitment).

The four independent variables that were studied, explain only 88% of the financial performance as represented by the R^2. This therefore means that other factors not studied in this research contribute 12% of the financial performance. Therefore, further research should be conducted to investigate the other factors (12%) that affect financial performance.

Table 4.11 : ANOVA

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	11.534	5	2.878	52.400	.0073
	Residual	186.555	27	2.129		
	Total	198.089	32			

The significance value is .0073 which is less than 0.05 thus the model is statistically significant in predicting the influence of Organizational structure, bbudget pressure, motivation, Performance evaluation and Commitment. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 52.400), this shows that the overall model was significant.

Table 4. 12: Coefficient of determination

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.657	1.033		0.787	0.255
	Organizational Structure	1.654	0.107	0.159	1.091	0.002
	Leadership Style	0.568	0.097	0.145	0.97	0.013
	Budget motivation	0.988	0.139	0.085	0.687	0.005
	Commitment	0.444	0.069	0.210	0.349	0.032

Source: Research, 2012

The researcher conducted a multiple regression analysis so as to determine the relationship between financial performance and the four variables. As per the SPSS generated table 4.11, the equation ($\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$) becomes:

$Y= 1.654X_1+ 0.988X_2+ 0.568\ X_3+ 0.444\ X_4 +3.657$

Where Y is the dependent variable (Financial performance), X_1 is the Organizational Structure variable, X_2 is Leadership style variable, X_3 is Budget motivation activities and X_4 is Commitment. The regression equation ($Y = \beta0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$)

According to the regression equation established, taking all factors into account (Organizational structure, Leadership style, Budget motivation and Commitment) constant at zero, financial performance will be 3.657. The data findings analyzed also show that taking all other independent variables at zero, a unit increase in Organizational structure variables will lead to a 0.451 increase in Financial performance; a unit increase in Leadership style will lead to a 0.27 increase in Financial performance, a unit increase in Budget Motivation will lead to a 0.15

increase in Financial performance and a unit increase in Commitment will lead to a 0.121 increase in Financial performance.

At 5% level of significance and 95% level of confidence, Organizational structure had a 0.002 level of significance; Leadership style showed a 0.005 level of significant, Budget Motivation showed a 0.013 level of significant, Commitment had a 0.032 level of significant, hence the most significant factor is Organizational structure.

4.4 Summary and interpretation of the findings

The study found out that return on investment as a measure of financial performance was more effective as compared to net profit margin as indicated by means of 4.5 and 3.6 respectively. The study also found out that the budgeted Return on Investment from 2007-2011 was 56.98%, 54.98%, 50.54%, 55.87% and 60.34%; the actual Return on Investment from 2007-2011 was 46.15%, 45.65%, 49.43%, 52.98% and 56.65%. Also the study found out that the budgeted Net Profit Margin from 2007-2011 was 17.56%, 16.96%, 18.93%, 23.67% and 20.75% respectively while actual Net Profit Margin was 15.21%, 15.45%, 17.43%, 19.62% and 19.98% respectively.

The study also found out that attachment to the workers union or other related association affect the level of budgetary participation expected of an employee to a great extent as indicated by a mean of 4.5; Dynamicity of the Organizational structure, dynamicity of the economic and Industrial environment, Level of authority, responsibility and delegation, Level of technology and innovation affect the level of budgetary participation expected of an employee to a great extent as indicated by a mean of 4.3, 4.0, 4.0 and 3.7 respectively; Clarity of the corporate strategy, mission and vision, Interdependence of organizational units affect the level of budgetary participation expected of an employee to a moderate great as indicated by a mean of 3.3 and 2.5 respectively; Communication Channels affect the level of budgetary participation expected of an employee to a little extent as indicated by a mean 2.2. This relates to the literature review by Bruns and Waterhouse (1975) who hypothesized and found that in structured but decentralized organizations, the quantity of budget-related behavior was higher than in centralized organizations. Further Swieringa and Moncur (1972 found out that Organizations in unstable environments, faced with dynamic technology and high levels of task uncertainty appear to be particularly well suited to participation and influence of lower level organizational members.

Further the study found out that respondents strongly agreed that the purpose of forecasting the future is relevant in the financial performance of the company as indicated by a mean of 4.7; respondents agreed that budget purposes as a functional co-ordination tool, as a communication tool to all the levels of department, as a means of performance evaluation and motivation to employees are relevant in the financial performance of the company as indicated by a mean of; 4.2, 4.1, ,3.7 and 3.9 respectively ; respondents were neutral on budget purposes to fine tune the strategic plan, co-coordinating inter-departmental activities and as a sign of responsibilities to managers as indicated by a mean of 2.5, 1.9 and1.8 respectively. This relates to the literature review by Ambetsa (2004) who found out although organizations institute budgeting formats in different ways, all organizations benefit from its use, and budgeting functions perform an important mechanism in a firm's organizational architecture-corporate and business success depends on it.

Additionally the study found out that respondents strongly agreed that participating in the budget process improves employee commitment to their goals and allegiance to organization as indicated by a mean of 4.6. Respondents agreed that when processes are routine and repetitive, budgets could be used effectively to achieve organizational co-ordination. Budget could be more useful if the leadership approach was more consideration-oriented rather than structure-oriented. Budgeting and variance analysis can be positive tools if the accounting information process is functioning appropriately and that achieving maximum motivational benefits from the budgetary process is contingent to the use of tight, yet attainable targets as indicated by a mean of 4.4, 4.3, 4.0 and 3.7 respectively. This relates to the literature review by Coch and French (1948) in their study at the Harwood Manufacturing Company in Virginia where they tested three possible schemes of employee participation in production budgeting. The scholars found out that "The group subjected to the partial participation experienced no resignations in the first forty days but slow improvement in productivity while the group in the total participation condition provided the greatest productivity improvement"

Finally the research found out that that budget funding contribute to challenges of budget control within the Company to a very great extent as indicated by a mean of 4.8; respondents indicated that lack of budget manuals, Inter-departmental Feuds contribute to challenges of budget control within the Company to a great extent as indicated by a mean of 4.4 and 3.9 respectively; delays in receiving required information contribute to challenges of budget control within the Company to a moderate extent as indicated by a mean of 2.5 and Interference from the budget committee contribute to challenges of budget control within the Company to a little extent as indicated by a mean 2.1. This relates to the literature review by Ambetsa (2004) who conducted a survey of budgeting practices by Commercial airlines operating at Wilson Airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in the preparation of the budget and lack of top management support. Also the study found out pressure, task demands and inter departmental stress affect the financial performance of the company to a very great extent as indicated by a mean of 4.6; Competition for resources and hence politics, Work group size, Poor or lack of modern performance evaluation affect the financial performance of the company to a great extent as indicated by a mean of 4.4,4.3 and 4.0 respectively; Coordination & communications across departments affect the financial performance of the company to a moderate extent as indicated by a mean of 3.4; respondents also indicated that rigid application of the Budget, Lack of homogeneity within group skills and abilities, availability of budget related and accounting information on an effective (accurate) and efficient (fast) manner affect the financial performance of the company to a moderate extent as indicated by a mean of 2.2 ,2.0 and 1.6 respectively. In his study, Argyris, (1952) isolated at least four major problems of a behavioral nature with budgets participation: Budget pressure tends to unite employees against management and tends to place the factory supervision under tension; Budget staff can obtain feelings of success only by finding fault with factory people; The use of "needlers" by top management tends to make the factory supervisors see only the problems of their own area of concern and Supervisors use budgets as a way of expressing their own patterns of leadership.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study aimed at establishing the relationship between budgetary participation and financial performance of manufacturing companies.

It has established that to the respondents, employees, net profit margin is a more relevant and indicative measure of financial performance than return on investment as indicated by their respective means of 4.5 ad 3.6.

In summary, the study has shown that of the four variable classifications that had been considered, that is, organizational variables, interpersonal variable, individual variable and organizational commitment, their respective effect on the financial performance was as indicated below.

The study has found out that interpersonal variables such as workers union or other related association affect the level of budgetary participation expected of an employee to a great extent. Organizatonal variables such as the Organizational structure, dynamicity of the economic and Industrial environment, Level of authority, responsibility and delegation, Level of technology and innovation affect the level of budgetary participation expected of an employee to a lesser extent than interpersonal variables.

As much as respondents agreed that the purpose of forecasting the future is relevant in the financial performance of the company, a functional co-ordination tool, as a communication tool to all the levels of department, as a means of performance evaluation and motivation to employees, it was suggestive that this was a secondary activity as the budget comes in handy but these activities must have a primary set up to influence them and the budget to come in secondarily. Same conclusion can be said of the purposes to fine tune the strategic plan, co-coordinating inter-departmental activities and as a sign of responsibilities to managers.

Challenges of budget funding, lack of budget manuals, Inter-departmental Feuds contribute were found to have a moderate influence on financial. This relates to the literature review by Ambetsa (2004) who conducted a survey of budgeting practices by Commercial airlines operating at Wilson Airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in the preparation of the budget and lack of top management support.

5.2 Conclusion

The study concludes that the organizational structure, budget pressure and leadership style relating to budget participation affect the financial performance of companies to a very great extent. This means that financial performance is better where employees have structures that are clear and well defined. Leadership style has been found out to be more influential meaning that individual variables will be more dependent on the kind of leadership that the employees get rather than the inate qualities of an employee. These shows that manufacturing organizations should be more concerned with variables that create relations between various employees or work groups to operate seamlessly. Leadership will involve the levels and correlation between these variable. These shows that management should strive to invest more on such areas within a manufacturing environment that will enhance interpersonal value addition more than individual value addition. The study also concludes that budgets are used to forecast the future; as a communication tool to all the levels of department; and as a functional co-ordination tool; that budgets overcome potential bottlenecks before they occur; that budget participation motivate employees; co-ordinates the activities of the entire organization by integrating the plans and objectives of the various parts; as a means of performance evaluation.

5.3 Policy Recommendations

Since departments participate in budgetary control process, organizations should use budgets to motivate employees to do better, forecast the future, to assist in control, as a means by which management communicates to other levels of department and as a means of performance appraisal. This will in turn improve the financial performance of the organizations. Employees should be allowed to participate in the budget process since it improves employee commitment to their goals and allegiance to organization. Where processes are routine and repetitive, budgets should be used effectively to achieve organizational coordination. Leadership and approach should be more consideration-oriented rather than structure-oriented to make the budget be more useful.

Further, the study recommends that budgeting approaches and philosophies that are modern should be adopted since they reduce financial mismanagement. Budgets are used to achieve cost effectiveness, in planning, for operations, co-ordinating activities, motivating performance, communicating plans and operations and in evaluation and audits (Muleri, 2001) , budgetary participation should be used as interventions to increase organizational commitment and consequently firm performance since absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behavior (Quirin et al, 2001).

Finally the study recommends that managers should be allowed to participate in the budgetary process, since it enhances higher organizational (affective) commitment and this in turn, leads to improved job performance. Nouri and Parker (1998).Also the study recommends that top management support, clear and realistic goals, influence of external environment on availability of resources and the strategic plan should be the key factors to consider when preparing budget processes. Further motivation of employees and participation by all staff in the budgeting process should be considered (Obulemire, 2006).

5.4 Limitations of the study

Manufacturing companies in Kenya have greatly reduced within the last decade. This study was therefore limited to the few that could be available which means that it was regionally representative but globally limited.

The study did not consider the scale of operations which would have influenced the results especially in situations where a manufacturing concern has operations across a number of countries.

When considering the return on investments and the net profit margins, real values were considered. The effect of time value of money was not incorporated as all the manufacturing concerns had not incorporated this in their accounting presentation and results.

Most of the respondents could have withheld information pertinent to our research as could be seen by them not answering to sections where they were to give any other information.

5.5 Suggestions for Further Studies

This study has investigated the relationship between budgetary participation and financial performance of manufacturing companies. To this end therefore, a further study should be carried out to assess the influence of budgetary participation on financial performance in the service industry.

A similar study should be carried out within the government ministries and authorities to show the relationships. This would be interesting because the performance measure within government is not the return on investment but service delivery.

I suggest a study be carried out to investigate the challenges facing budgetary participation in the manufacturing industry and more so as influenced by the ownership structure.

Further research could also be carried out where a number of respondents from the same organization will be considered and therefore eliminate information inconsistencies from the same manufacturing company and therefore give more realistic findings.

Budgeting as a management function can never be complete without looking at the follow up that an organization does and it is my suggestion that further studies be carried out on variance analysis and follow up which follows up and the success rate of such activity.

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APPENDICES

Appendix I: Letter of Introduction to Respondents

……………………Ltd,

P.O Box……………

Nairobi.

Dear Sir / Madam,

RE: REQUEST TO COLLECT DATA FOR MBA RESEARCH PROJECT

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

Pursuant to the pre-requisite course work, I would like to conduct a research project on **THE RELATIONSHIP BETWEEN BUDGETARY PARTICIPATION AND FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES.** The focus of my research will be the manufacturing companies in Kenya and this will involve use of questionnaires administered to members of the management team.

I kindly seek your authority to conduct the research in this company through questionnaires and use of relevant documents. I have enclosed an introductory letter from the University.

Your assistance is highly valued. Thank you in advance.

Yours faithfully,

Francis Kamau

Appendix II: Questionnaire

Kindly answer the following questions by filling the spaces provided.

SECTION A: GENERAL INFORMATION

1. Name of the Company and Nature of final product (Answer at least one)

   ....

2. How long has this company been in existence? (Tick as applicable)

   Less than 5 years [ ] 11-15 years [ ]

   6-10 years [ ] Over 15 years [ ]

3. How long have you worked for this organisations? (Tick as applicable)

   Less than 5 years [ ] 11-15 years [ ]

   6-10 years [ ] Over 15 years [ ]

4. What is your general area of specialization within your organization? (Tick as applicable).

   Fin/HR/Admin [ ] Sales/Marketing [ ]

   Production [ ] Others [ ]

5. How would you rate your personal skills and experience relative to those required by the organization for the same position? (Tick as applicable).

   Overqualified [ ] Same as required [ ]

   Under qualified [ ] Undefined [ ]

6. How would you best consider the industrial environmental within which your organization is operates in? (Tick as appropriate)

Very dynamic [ ] Dynamic [ ]

Calm [ ] Very stable [ ]

SECTION B: BUDGETARY PARTICIPATION & FINANCIAL PERFORMANCE

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

Measures of profitability	**1**	**2**	**3**	**4**	**5**
Return on Investment					
Net Profit Margin					
Others (Specify)					

2. Please indicate the budgeted and actual values of the measures of profitability mentioned above for the last five (5) years.

Budgeted Measures of profitability	**2007**	**2008**	**2009**	**2010**	**2011**
Return on Investment					
Net Profit Margin					
Others (Specify)					

Actual Measures of profitability	**2007**	**2008**	**2009**	**2010**	**2011**
Return on Investment					
Net Profit Margin					
Others (Specify)					

3. Rate the extent to which the following organizational factors affect the level of budgetary participation expected of an employee. Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent.

Factor	**1**	**2**	**3**	**4**	**5**
Attachment to the workers union or other related association					
Dynamicity of the Economic and Industrial environment					
Organizational structure					
Level of technology and innovation					
Level of authority, responsibility and delegation					
Interdependence of organizational units					
Communication Channels					
Clarity of the corporate strategy, mission and vision					
Others (Specify)					

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

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

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

Statements about budgeting process	**1**	**2**	**3**	**4**	**5**
When processes are routine and repetitive, budgets could be used effectively to achieve organizational coordination					
Budgeting and variance analysis can be positive tools, if the accounting information process is functioning appropriately					
Budget could be more useful if the leadership and approach was more consideration-oriented rather than structure-oriented					
Achieving maximum motivational benefits from the budgetary process is contingent to the use of tight, yet attainable targets					
Participating in the budget process improves employee commitment to their goals and allegiance to organization					

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

Effects of employee motivation on budgeting process	**1**	**2**	**3**	**4**	**5**
Employee skills and experience					
Reward structure and favorable feedback from superiors					
Personal traits like age, attitude etc					
Membership to workers unions					

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

Budgetary participation and performance evaluation	**1**	**2**	**3**	**4**	**5**
Sound cost management practices focuses on process management					
Budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes					
Budgets control the activities but not the costs					
Budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit					
Different cost allocation methods result in different estimates of a product's cost					
Others (Specify)					

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

Causes of budgeting challenges	**1**	**2**	**3**	**4**	**5**
Interference from the budget committee					
Delays in receiving required information					
Rigidity in Budget application					
Budget Funding					
Lack of budget manuals					
Inter-departmental Feuds					
Other (specify...)					

9. Below are some specific factors in budgetary participation experienced in the budgeting process that may affect the financial performance of the company? Rate the effect of each using a scale of 1 to 5 where 1 is to a very great extent and 5 is to extent.

	1	2	3	4	5
Pressure, task demands and inter departmental stress					
Work group size					
Coordination & communications across departments					
Competition for resources and hence politics					
Poor or lack of modern performance evaluation					
Rigid application of the Budget					
Lack of homogeneity within group skills and abilities					
Availability of budget related and accounting information on an effective (accurate) and efficient (fast) manner.					
Other (specify……………………..……………………………..)					

APPENDIX III : List of Manufacturing Companies

Bamburi Cement Limited

Birch Investments

Blue Ring Products

B.O.C Kenya Limited

California Link EPZ Limited

Canaud Metalbox

Carbacid Investments Limited

Colgate-Palmolive (East Africa) Limited

East African Cables Limited

Ecolab (K) Limited

Eveready East Africa Limited

General Printers Kenya Limited

George Williamson Kenya

Glaxosmithkline

Henkel Polymer

Indigo Garments Limited

Johnson & Johnson Agents

Kapa Oil Refineries

Kapchorua Tea Company Limited

Kenya Knit Garments Limited

Kenya Litho Limited

Nairobi Bottlers Limited (Coca Cola)

Nestle Foods Kenya Limited

Orbit Chemicals

Proctor & Gamble

Rhone Poulenc Kenya

Teita Tea Estate

Unga Limited

Unilever Kenya Limited

Zeal Soft Products Limited