

**THE EFFECT OF BUDGETING PROCESS ON THE FINANCIAL
PERFORMANCE OF TOP 100 SMALL AND MEDIUM FIRMS IN
KENYA**

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**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENT FOR THE AWARD OF A MASTER OF SCIENCE IN
FINANCE SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

DECEMBER, 2017

DECLARATION

This project report is my original work and has never been submitted for a degree in any other University.

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DEDICATION

This project report is dedicated to my husband and my children for their support and encouragement throughout the project.

ACKNOWLEDGEMENT

Many thanks to my supervisors **Mr. Ronald Chogii** and **Dr. Kennedy Okiro** whose commitment enabled me complete my project.

I wish also to express my gratitude to the Almighty God for granting me wisdom and understanding while doing my project.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBD	Central Business District
GDP	Gross Domestic Product
NGOs	Non-Governmental Organizations
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on Investment
RoK	Republic of Kenya
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences

ABSTRACT

The study sought to determine the effect that budgeting process has on the financial performance of top 100 SMEs in Kenya. The primary data was collected from the SMEs owners and managers using semi-structured questionnaires. The study adopted a descriptive technique in analysing data. The study use techniques such as standard deviations and mean. The study findings were presented in figures and tables. In this study, 100 questionnaires were sent to the owners of top 100 SME firms in Kenya. The response rate was 83%. The reliability statistics recorded a Cronbach's Alpha co-efficient of 0.708 which implied that the questionnaire was internally consistent. The study found out that Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process have all been implemented to a great extent. This indicates that the top 100 SME firms in Kenya have adopted all the processes of budgeting. The study concluded that there is a strong(R-value = 0.721) relationship between financial performance and budgeting processes, with financial performance accounting for 49% of the total variance in top 100 SME firms financial performance. Further, the study concluded that budget planning, budget control, budget coordination, budget communication and budgetary evaluation process have a positive effect which is significant on the top 100 SME firms' financial performance. The study recommends that SMEs that have not adopted budgeting process should do so in order to enjoy the benefits that accrue. The study faced various challenges. The top 100 SMEs considered their information as confidential and legally privileged. This is why the respondents were slow in availing the information for fear of the information being used to create negative public image and the competitors using the information to have a competitive edge over them. The researcher had to use an introduction letter from the university to prove that the data was being sought to fulfil academic requirements and that it would be would be treated with utmost confidentiality. Further, the researcher didn't have control over the accuracy of the data. However, it provided a good opportunity for the researcher to seek clarification over any contentious issues. The researcher handled the challenge by consulting the respondents on any issues were deemed not clear.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations use budgets in setting priorities through assigning limited resources to those events and activities that are most crucial to the organization's operations, thus effective management of the firm's budget ensures effective allocation of resources (Goldstein, 2005). Among SMEs, budgeting is used as a planning tool (Flamholtz, 2014). There is a high rate of failing by small and medium firms soon after they are established. Poor budgeting process is given as one of the major reasons causing this phenomenon. According to Warue and Wanjira (2013), since the budgets indicates the plan of action the firm is taking, firm managers ought to maintain proper, updated and reviewed budgets lack of which make their firms remain small, stagnant and even close down.

The theories on which this study is anchored include; Budget Incremental theory, the Priority-Based theory of budgeting and the Risk Based theory of theory. The Budget Incremental theory suggests that the firm's future budget allocations should be based on its current allocations to enhance efficiency and improvement in performance (Wildavsky, 1966). The Priority-Based Budgeting theory has an underlying assumption of priority-driven budgeting (Kavanagh, Johnson & Fabian, 2011). This affect the firm investment decision hence performance. Risk Based Budgeting theory alternatively suggests that when budgeting, the managers also consider the risks (Maillard, Roncalli & Teiletche, 2010).

In Kenya, small and medium firms operate in all sectors and subsectors ranging from cottage enterprises to those registered as small-scale businesses. They account for more than 50 percent of the new jobs created in the country (Economic Survey, 2006). Thus their performance matters a lot and should be monitored closely since it may affect the performance of the sectors hence the entire economy (Celice, Chando & Sekioua, 2012). The rate of failure of small and medium firms in Kenya is high, for instance the Ministry of Tourism Report (2012) suggests that through the support by the ministry financially, 921 small and medium firms were established in 2007/2008 but later in 2011 only 445 had remained active. This indicates a failure rate of about 52 percent which is very high.

Waweru (2007) attributes this high failure rate to lack of budgeting and financial discipline among small and medium firms. What motivates this study is to determine whether the high rate of failure can be attributed to poor budgeting processes.

1.1.1 Budgeting Process

A budget is collection of interrelated plans which define the firm's expected future operations quantitatively (Horngren, 2002). This implies that budgets establish firm performance objectives for each of the firm's activities in terms of costs and revenues. Budgeting is defined as a set of activities that involve forecasting of the firm's financial demands (Garisson, et al., 2003). Budgeting process is the procedure the firm plans to use to build its budget (Foley, 2009). A good procedure should engage all that are responsible for adhering to the budget and also implement the firm's objectives when creating the budget. A good budgeting process should also integrate the strategic planning initiatives and anticipate for income before expenses.

Although budgeting process steps and timing may vary across organizations, common steps include; assessing the variance between the budgeted and the actual amount; ascertaining and prioritizing business objectives and needs of the approaching period; projecting and evaluating components such as, current trends in the business environment, incoming revenues and the risks involved; ensuring that the funding proposal align with the firms strategic objectives and that approaches and procedures are put in place for plan execution and monitoring; then lastly wrapping and communicating the requests for funds to the board responsible for reviewing and approving the budget (Schmidt, 2016).

Kelly (2015) suggested that the firm's budgeting process can motivate employees through ensuring the participation of managers in the whole process and by providing enticements to managers to focus on and attain the objectives and goals of the business. Budgeting process also enhances communication between different levels of management in the firm. The process also provides valuable information which can be used to evaluate the performance of managers and reward good results. It also minimizes confusion through making plans and anticipations clear and also creates a kind of joint language

(Kelly, 2015). A study by Waweru (2007) found that lack of budgeting and financial discipline among SMEs that were studied led to poor performance and even failure of SME's. A study by Diamond and Khemani (2006) found that most businesses in the developing countries especially in Africa use manual systems that are supported by very old softwares, applications and hardware that are mostly inadequately maintained.

Budgeting process steps and timing varies across organizations and activities. However, common budgeting process steps include; planning, coordinating, controlling, communication and evaluation. The planning process involves; identifying the objectives to be achieved, formulation of the strategies to achieve them, implement and monitor progress and is done before implementation of projects (Dunk, 2001). Coordinating process involves consolidating the actions or resources and different parts of the firm together or into a common plan. Budgetary control process involves developing a spending plan which should be used for periodic comparison with the actual expenditures to determine if it needs changes or if it is fine (Hancock, 2009). Communication in budgeting is also important since it ensure everyone understands clearly the role they should play to ensure budgeting process compliance. Budget evaluation on the other hand ensures that the entire process is effectiveness and transparency through ensuring everyone is actively involved (Hancock, 2009).

1.1.2 Financial Performance

Performance is the quality of results achieved from firm activities (Frich, 2009). Financial performance refers to an entity's financial condition in a given time (Bien, 2002). It is also a measure of how well a firm can use its resources to generate revenue of achieve its set financial objectives. According Bien (2002) measures used to measure the organization's financial performance are divided into accounting and market based measures. The accounting based measures are measures that are derived from calculations while market based are measures which are derived from the financial markets where the organization's financial assets are traded.

Firms measure their financial performance for different reasons but the most common include; to increase effectiveness and efficiency and to improve the ability of the firm to deliver goods or services and retain customer satisfaction (Kaplan & Norton, 2001). Others measure performance for continuous improvement. Gunasekaran and Kobu (2007) assert that firms measure financial performance: to identifying success, to identify if and when customer needs are met, to better understand processes and bottlenecks, to identify waste, to detect problems and improvement opportunities. Different firms use different parameters to measure their financial performance. Most firms use; return on investment, ROA and the ROE because these results can be easily calculated (Liargovas & Skandalis, 2004). This study involve the measurement of the financial performance of the top 100 small and medium firms in relation to budgeting process. The study employ parameters such as; Return on Investment (ROI), Market share growth, Total cost reduction and Sale growth.

1.1.3 Budgeting Process and Firm Performance

This area of knowledge has received much attention with some scholars claiming that budgeting process affect firm performance positively while others suggest a negative relationship. A study by Yang (2010) asserts that formal budgeting process increases firms profit through growth in sales revenues especially among SMEs. The general findings of the research were that the found that capital budgeting techniques is important in the growth of MFIs from Mombasa County. Menya and Gichinga (2013) also established in their study that budgeting techniques play a critical role in the micro-finance enterprises' growth.

Some authors distinctly criticize the budgeting process claiming that the budgets make the management do anything to achieve the expectations thus it should be eliminated. This may include turning a ignoring potential unethical behavior which in the long term may affect the organizational performance (Carreras, Mujtaba & Cavico, 2011). Other scholars disagree with the budgeting process claiming; everyone knows it is a joke (Jensen, 2001); Hope & Fraser (2003) claims that budgeting should be abolished among

firms. Baum (2011) suggests that managers regard it as outdated and believe that it causes more damage than benefits.

Carreras, Mujtaba and Cavico (2011) disagrees with budgeting process by claiming that it is; time consuming, too rigid and narrow, expensive, protects costs and not reducing it, conducive to unethical behavior, it rewards negotiation not performance and that it makes the employee focus on meeting the budget rather than shareholder value. According to Mulani et al. (2013), the firm's budgeting plan affects the sales growth of firms especially SMEs more than the budgetary control aspect but over time the effect wears out. Budgeting process involves huge investments which when the SMEs go for, they increase their expenses which in turn reduces their profits hence performance. This study however, seeks to put the record straight through investigating the relationship between budgeting process and firm performance.

1.1.4 Top 100 Small and Medium Firms Sector In Kenya

SMEs in Kenya are classified by the number of employees as stipulated in the Sessional Paper No. 2 which talks about SMEs and Jua Kali development in Kenya (Republic of Kenya, 1992). It provides that firms with less than 5 employees are known as micro enterprises, those with between 5-49 workers known as small scale while those with between 50-99 workers are medium scale enterprises. Large scale enterprises consist of the firms that engage over 100 workers. According to RoK (2010), the small and medium sector in Kenya is described by the employment of between 50 to 200 workers. In the industry still, most firm are characterized by capital assets of a about Ksh. 2 million when properties are excluding. Most firms in the SME industry are family-owned and depend on low cost raw materials, energy, labor, technology and capital.

Since different participants in business in Kenya define SMEs differently, there is still no exact standard for SME definition. The SMEs in Kenya are typically defined as businesses with 6 to 50 employees. In terms of annual revenues, SMEs are firms with annual revenues that is less than 50 million Kenyan shillings. There are about 2.2 million micro, SMEs in Kenya of which 88% are non-registered (SME Banking Sector Report, 2007). SMEs in Kenya depend majorly on the technical aspect of the individuals thus

they are labor intensive. This has made small and medium firms make a great contribution to the growth of the economy. Despite the increasing importance of the SMEs in improving the lives of many citizens, it is estimated that 75% of the small and medium firms fail within the first two years after commencing their operations. This failure is attributed to challenges such as lack of financing and inadequate budgeting (The Kenya Chamber of Commerce and Industry, 2010).

The top 100 SMEs in Kenya are part of the over 800,000 small, medium and microenterprises in Kenya that channel out \$3.2 billion per year and absorb about a quarter of the labour force in the market (Business daily, 14, 2009). Due to the increasing growth the SMEs in Kenya, financial institutions have started structuring their operations to suit this ever growing trend. According to the Onyango (2009), the Kenyan Top 100 SMEs continue to grow in stature and attract greater participation from companies and industries across the entire country and not just Nairobi. Among the top 100 SMEs in Kenya are promising firms such as Mellech Engineering that started in 2003 and has managed to grow its turnover to over Sh500 million. The firm also has subsidiaries in Sudan, Uganda (Sambu, 2009).

Budgeting among the top 100 SMEs in Kenya has been suggested to be very crucial without which can make the SMEs remained stagnant with some of them even going out of business. Studies such as Waweru (2007) and Warue and Wanjira (2013) have attributed these stagnation and closure of business to the fact that many SMEs in Kenya manually execute their budgets and other accounting processes or are sometimes supported by outdated and old software applications and hardware that are mostly inadequately maintained. A study by Karanja (2015) to establish the budgeting practices adopted by the top 100 SMEs in Kenya established that some of the top 100 SMEs do not use the formal budgeting processes but rely on their own judgment and that this has affected their performance slightly. Waweru (2007) suggest that budgeting has been spotted as one of the factors that cause high rate of SME failure in Kenya despite the context that it is done. This is because lack of efficient budgeting and financial discipline among some SMEs has led to failure or poor performance in Kenya. This study therefore

purposes to determine the effect of budgeting process on the financial performance of the top 100 SMEs in Kenya.

1.2 Research Problem

Theoretically, budgeting prompts a chain of activities and attains multiple goals and objectives in a firm for instance planning, coordinating, communication control and evaluation (Yang, 2010). Wildavsky (1996) in his work on the incremental theory suggested that budgeting process should start with the projected amount of the current year so as to know the areas of improvement which enhance firm performance. Other scholars such as Maillard, Roncalli & Teiletche (2010) suggest for the inclusion of risk in the entire process for it to be effective and enable the firm to achieve the set objectives. This suggests that the firms' budgeting process has a positive relationship on its performance although other scholars such as Hope & Fraser (2003) disagree with this suggestion.

The uniqueness of the top 100 SMEs as the context of this study was reached at for various reasons. Majority of literature on budgeting process and firm financial performance revolves around governments and large corporations and not top 100 SMEs. The uniqueness of the top 100 SME's sector also arises from the fact that, SMEs in Kenya play an important role in the country's quest for social and economic advancement (Business daily, 14, 2009), however, there is a high risk of the SMEs collapsing soon after they are established (Kenya Chamber of Commerce and Industry report, 2010) and poor budgeting process is said to be one of the causes of this phenomenon especially in SMEs (Warue & Wanjira, 2013). At the Top 100 SMEs conference, the IFC (International Fund Corporation) expanded its Global Trade Finance Programme to \$3 billion to support the top 100 SMEs in Kenya (Business daily, 14, 2009). However, despite all the investments and support the SMEs get to grow and develop, particularly the top 100 SMEs, they are still others that are stagnant. Some authors such as Waweru (2007) attribute this to the poor budgeting techniques and processes among the SMEs. Literature has however not exhaustively determined the effect of these budgeting processes on the top 100 SMEs' financial performance in Kenya.

Studies have been done on this area of knowledge for instance, Yang (2010) examined how budgeting process affects performance among SMEs in China. Mulani, Chi and Yang (2015) carried out an exploratory study to examine the effects that budgetary process has on the performance of SME's in India. Locally, Maritim (2013) evaluated the relationship between budgeting processes and the financial performance of commercial and manufacturing Parastatals in Kenya. The studies however did not review budgeting process on financial performance of top 100 SMEs in Kenya. Yang (2010) Mulani and Chi and Yang (2015) reviewed their studies on other contexts other Kenya thus their studies could not be used to represent the same in Kenya due to the difference in market structures. This brings a gap in knowledge that this study seeks to fill by answering the following question; what is the effect of budgeting process on the financial performance of top 100 small and medium firms in Kenya?

1.3 Objective of the Study

To determine the effect of budgeting process on the financial performance of top 100 small and medium firms in Kenya

1.4 Value of the Study

This study will be of significant to parties such as; the government and other regulators, the SMEs and other organizations interested in budgeting, and to researchers and academicians. To the Small and Medium Firms and other organizations interested in budgeting, the findings will shed light on the impact that the budgeting process has on firm performance thus enable them to make budgetary decisions that enhance their performance for survive and grow.

To the government and other regulators of operations of the Small and Medium Firms in Kenya, this study will enlighten them on setting effective policies that would not only control the operations of the firms in the sector but also enable the industry to grow which in turn contribute to economic development.

To the researchers and academician, the findings of this study will contribute to both theoretical and practical knowledge on the impact of budgeting process on the performance of SMEs. This study also form a basis for future research on the impact of budgeting process on the performance of top 100 SMEs in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this section, the literature which forms the basis of this study is presented to help identify the gaps in knowledge. The literature, both theoretical and empirical is examined by examining different theories and empirical studies on the impact of budgeting process on the performance of small and medium firms.

2.2 Theoretical Literature Review

Theories that inform the study's findings include; the Budget Incremental theory, the Priority-Based Budgeting theory and the Risk Based Budgeting theory

2.2.1 Incremental Budgeting Theory

This theory was developed from the work of Aaron Wildavsky in the 1960s. This theory suggests that budgeting should be done basing on the previous period budget. This theory is based on expenditures increases or reductions depending on economic growth and not from resource redistribution. According to Wildavsky (1966) budgets should start with the projected amount of the current financial year then add or subtract increments accommodate budget increases or cut for the coming year. With the absence of projected amount of the current financial year, the firm may use provisional accounts of actual expenditure in the previous financial year. Incremental Budgeting is the most reorganized description of how budget process works. Many scholars and participants prefer it as the prescription of how the budgeting process should work (Schick, 2014). According to this theory, SMEs like other firms should start budgeting with the projected amount of the current year then add or subtract increments according to their objectives.

This approach is used mostly by Northern Ireland and the UK among other countries. The countries carried forward the previous year's budget to the next annual budget than do some adjustment to them for known factors for instance; additional resources, new legislative requirements, change in priorities, service developments or anticipated inflation (Pidgeon, 2010). This theory is criticized on the grounds that the allocation of

resources is based on the existing patterns thus when the activities are changed significantly, it brings a problem. This implies that the Incremental budgeting model discourages developing new programs since it fails to consider change in circumstances (Pidgeon, 2010). The model is also attributed to the assumption that the funding level that exists is right although it may be too low or high to sustain the firm activities. The Incremental Budgeting theory is relevant to this study for its suggestion that adjusting the firm or country's projected amount of the current year budget for factors such as additional resources, change in priorities, new legislative requirements, among others enhances the budgeting process which makes an effective budget.

2.2.2 Priority-Based Budgeting Theory

This theory was developed from the work of Kavanagh, Johnson and Fabian (2011). This theory suggests that resources should be allocated according to the priorities of corporate events to meet the firm's objectives. This theory is a modification of the Zero-Based approach and focuses on firm priorities and allocations to enhance growth and savings in budgeting. The theory is based on thorough review of services that the budget is intended. This involves the review of; the objectives of the service; several thresholds at which the service can operate and the standards that the service is to attain (Pidgeon, 2010). The services are then categorized as important, essential/highly desirable/beneficial then the information is presented to the firm's decision makers.

Priority-Based Budgeting theory suggests that SMEs, just like other firms should prioritize when budgeting to ensure effective budgeting and also let their budgeting process to be guided by proper funding, accountability and transparency at all firm levels. This theory is relevant to this study for trying to explain how prioritization affects budgeting.

2.2.3 Risk Based Budgeting Theory

This theory was developed from the work of Maillard, Roncalli and Teiletche (2010) who suggests that the risk aspect should be included in the budgeting process. According to Maillard et al. (2010) budgeting for risk involves decomposing the portfolios' combined

risk into smaller risks on a quantitative basis. This ensures diversification in the investment process which reduces the risk involved in budgeting for the investments. A risk-based investment also reduces variation in returns because including the risk ensures that the risk involved is carefully addressed.

Risk Based budgeting theory argues that SMEs just like other entities should include risk in budgeting process to address the risks involved in the investments so that they reduce variations in returns. This theory is relevant to this study for its suggestion that that every firm should include the aspect of risk when budgeting so as to reduce variations in different aspects of their budgets which enhance firm performance.

2.3 Determinants of Firm Financial Performance

Determinants of firm financial performance are divided into firm specific (Internal) factors and external factors. Firm specific factors that affect firm performance include; firm risk, asset quality, liquidity management, firm size, leverage, growth rate, asset tangibility, capital adequacy, management efficiency. External factors on the other hand include; taxes, the country's Gross Domestic Product (GDP), macroeconomic policy stability, interest rate, political instability and inflation

2.3.1 Liquidity Management

Liquidity is the firms' ability to fulfill its financial obligations. According to Ross (2014), liquidity management are of two forms; ability to trade assets on the market for instance bonds or stocks at their current prices; or meeting the cash obligations without sustaining considerable losses. Liquidity management is an important aspect of the firm's performance. According to Dang (2011) when a firm maintains an adequate level of liquidity, it was profitable hence perform well since firm liquidity is positively associated with its profitability. Scholars such Olagunju et al. (2011) on their study on Nigerian banks suggest that effective liquidity management in a firm enhances the firm profitability hence performance. Agbada and Osuji (2013) also suggested there being a positive relationship which is significant to efficient liquidity management and firm performance.

2.3.2 Firm Size

Firm size is a very significant determinant of a firm's performance (Core, Guay & Rusticus, 2005). Firm size can be measured in various ways for instance the number of employees, the total assets owned by the firm or the market share acquired by the firm. The association between firm size and performance gives mixed results. Scholars on one hand suggest that the size of the firm positively and significantly effects on the performance of firms while others on the other hand suggest a negative relationship. Some scholars even imply that there is no relationship. Large firms are said to be more diversified and with smaller chances of bankruptcy which is suggested to has a positive relationship between their sizes and profitability hence general performance (Titman & Wessels, 1988). Rajan and Zingales (1995) on the contrary assert that that there is less asymmetrical information about the larger firms and associates this with a negative relationship between firm size and performance.

2.3.3 Leverage

Leverage refers to money borrowed to invest in securities. A study by Weill (2003) on leverage and firm performance established that the relationship is not generally positive or negative but depends on the country or firm of reference. This conclusion was drawn from the study's findings that firm in Italy were found to show a significantly negative relationship while those in France and Germany were found to a significantly positive relationship. A study by Majumdar and Chhibber (1999) who also assessed the association between leverage and corporate performance of companies in Indian, established a negative relationship. Firm leverage is given by $\frac{\text{long term debt} + \text{current portion of long term debt}}{\text{total assets}}$ (Khanna & Tice, 2005).

2.3.4 Management Efficiency

Management Efficiency is also important in determining the profitability hence performance of firms. Management Efficiency is however complex to capture using financial ratios. Common ratios used to measure managerial efficiency include, loan growth rate, total asset growth and earnings growth rate. Other firms also use operational

efficiency to measure the efficiencies of its management. The management's ability and capability to efficiently deploy the firm's resources efficiently to ensure that they maximize their revenue and also reduce their operating costs can also act as a measure of management efficiency (Ongore & Kusa, 2013). Performance of management in many instances is qualitatively expressed by a subjective evaluation of firm aspects such as, the quality of the staff, systems for instance the management systems control and among others aspects. Management efficiency also determine the decisions managers make for instance financial structure adopted by the firm (Hart & Moore, 1995).

2.3.5 Macro Economic Factors

Macro-Economic Factors on the other hand include; taxes, the country's Gross Domestic Product (GDP), macroeconomic policy stability, interest rate, political instability and inflation. If the country's taxes are high, they affect the firm performance negatively. The country's trend of GDP growth also affects the performance of firms through shifting the firms demand and availability of credit (Athanasoglou et al., 2005). Ayanda et al. (2013) suggested that a country's GDP growth rate and Inflation Rate does not significantly affect the firm's profitability. The stability of a country's macroeconomic policies also determines firm performance. The relationship between inflation level and banks performance has remained unclear although money supply has a significant positive relationship with firm profitability. Interest rates also affect the firm performance in that they raise or lower the cost of borrowing (Dinh, Malesky, To & Nyuyen, 2013). Political instability negatively affects firm performance through either increasing or reducing the risk of doing business.

2.4 Empirical Literature Review

The empirical review is based on international and local studies. Gupta and Jain (2016) examined capital budgeting practices among SME'S in Haryana. The study established that only 12.5% of units in SMEs registered as private/public limited companies prepared capital budgets for taking long-term investment decisions. The researchers also established that majority of the surveyed units did not make much investment in fixed assets after starting the business and the remaining units that considered some aspects of

capital budgeting did not prepare (technically) proper capital budgets. It was also established that 80% of the SMEs prepared capital budgets basing the priority of the projects as fixed on the basis of the category - postponable and not postponable projects. Of the SMEs reviewed, three quarters used the PBP method while the rest a quarter used the ARR method for evaluating capital budgeting projects.

Isaboke and Kwasira (2016) determined how budgeting process influences the County Government of Nakuru's financial performance. The study's independent variable was financial capacity while the dependent variable was firm financial performance. The research design used by the researchers was a descriptive survey. The staff of the Nakuru county government was the study's target population. The researchers used structured questionnaire to collect primary data. The study found that financial capacity strongly influenced the county government's financial performance. The study then recommended that the county government should enhance its financial capacity in the budget process in order to improve its financial performance.

Maduekwe and Kamala (2016) reviewed the use of budgets by SMEs in Cape Metropolis, South Africa. The study focused on determining the types of budgets and the extent to which SMEs in the Cape Metropolis use budgets. The study used questionnaires to collect data which was then examined using both inferential and descriptive statistics. The established that most of the SMEs reviewed used budgets most of which included; purchases budgets, the sales budgets and cash budgets. The researchers also established that the fixed budgeting was the most frequently used budgeting method and that lack of qualified personnel and lack of top management support were the major factors affecting the effective use of budgets by SMEs.

Kimunguyi (2015) evaluated the way budgetary process affected the financial performance of health sector NGOs in Kenya. The study applied the Priority Based Budgeting theory. The researcher found that that budgetary process had important impact on the NGO financial performance. The study concluded that budgetary management practices that were good effected the NGOs financial performance positively. The researcher then recommended that the government together with the management of

NGOs should examine and implement regulations and policies that enhance the budgetary management which in turn improve the financial performance of NGOs.

Rabiu, Goni, Alhaji and Aliyu (2015) examined the role of budgetary control on the performance of Tahir Guest House, Kano State in Nigeria. The researchers employed both primary and the secondary data. The study used questionnaire to collect primary data. The study acquired the secondary data through Tahir Guest Palace financial statements for the period 2007-2012. The study found that factors such as target budget setting, budget administration and budget process play a significant role in influencing the firm's performance. The researchers thus recommend that top level management in organizations need to maintain appropriate standards when preparing and administering budgets and budget process.

Salva and Jayamaha (2013) assessed whether the budgetary Process of Apparel Industry in Sri Lanka had a significant impact on organizational performance. The researchers used variables such as planning, coordination, control, communication and evaluation to assess the budgetary Process of apparel industry. The study used Return on Assets to evaluate the performance of apparel industry in Sri Lanka. From the data extracted from the financial statements, the researchers established that the budgetary process of firms a significant relationship with the firm's performance. The researcher further concluded that apparel companies maintain an effective budgetary process which improves their performance levels.

Mulani, Chi and Yong (2013) examined the effects of the budgetary process on the performance of SME's in India. The researcher adopted an exploratory study. The study used a sample of 268 SME firms selected from three districts of Mumbai, Pune and Solapur. The study also employed a questionnaire. The researchers established that the budgeting process effects the performance of the firm positively. The study also found that that performance of SMEs in India is affected by the characteristics of the budget goals. The researchers also found that employee motivation to participate and also achieve budgeting objectives is also improved by tight but achievable firm goals which

also improve the performance of SMEs in India. It was also established that formal and tight budgetary process control mechanism increases the performance of SMEs in India.

Warue and Wanjira (2013) determined the budgeting process in hospitality industry SMEs in Nairobi. A descriptive research design was adopted by the researchers. The study's target population was 98,608 registered small enterprises located within the CBD from which a sample of 526 SMEs was taken. The study found that computerized accounting system make the highest contribution to the budgeting process, followed by firm Size, Participation of workers, Skills and Powers of Managers and then ownership structure. The study then recommended that workers should be involved at all levels of budgeting.

Jindrichovska (2013) empirically reviewed financial management among the SMEs in the Czech Republic. The main goal of the study was to review recent studies on critical issues of financial management in SMEs. The study established that the main decisions that that face financial managers include; financial decisions, capital budgeting decisions and working capital management decisions and that all the three decisions have a direct and significant effect on the firm's profitability and performance in general. The researcher also established that poor budgeting and poor financial management in general are major problems that face SMEs.

Maritim (2013) evaluated the relationship between budgeting processes and the financial performance of commercial and manufacturing Parastatals in Kenya. The study used a descriptive research design. The study adopted questionnaires which were administered to collect data. The study established that the budgeting practices that are common among manufacturing Parastatals in Kenya include; budget planning, budget participation and budgetary sophistication. The researcher also established that budgeting process participation by employees enhanced the success in the actualization of the budget plans. The study then recommended that there is a need for a participatory budgeting process whereby all cadres of staff through their sectional heads are involved and their views are incorporated in the budget process.

2.5 Critique of the Existing Literature

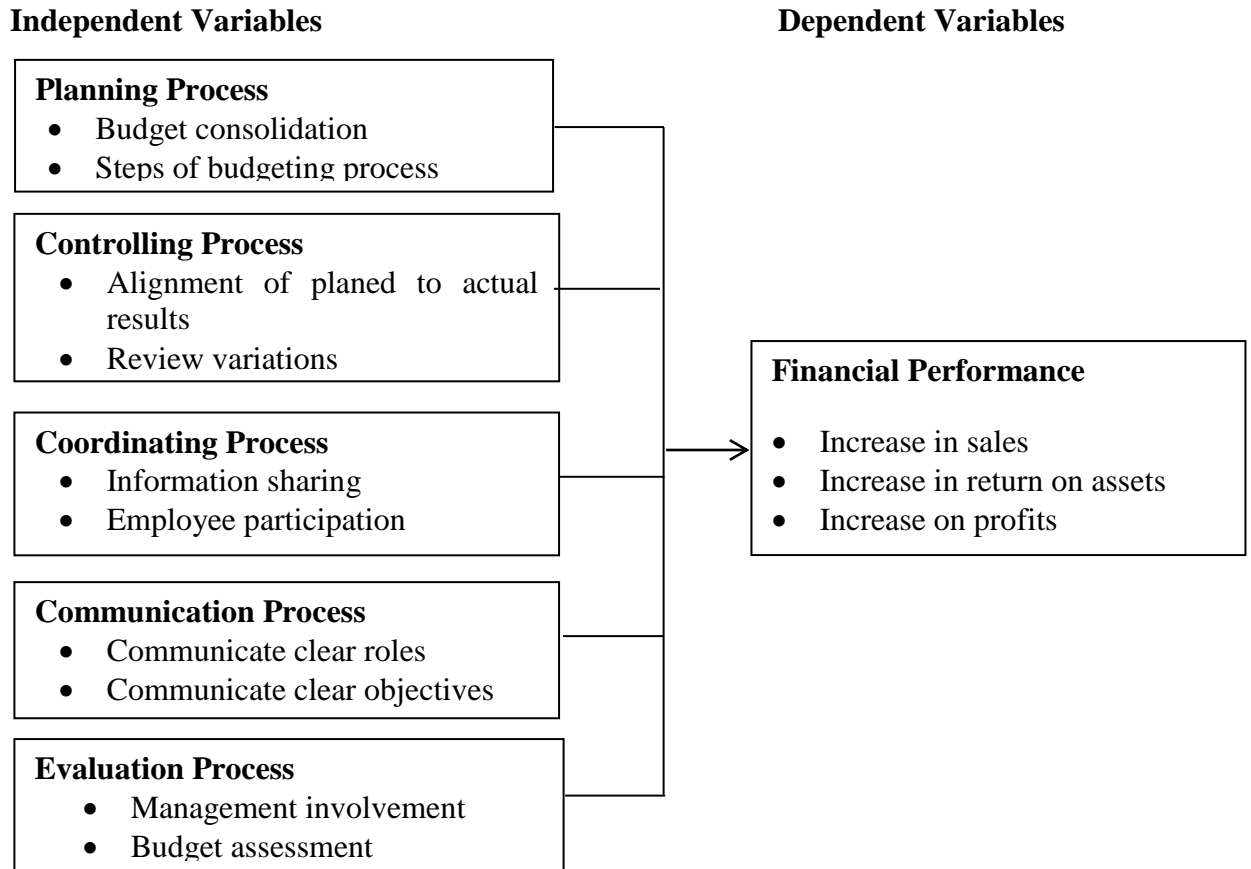
In theoretical review, the theories reviewed have basically different perceptions and focus on budgeting and firm financial performance. For instance, the Budget Incremental theory focuses on the basis for budgeting. The Priority-Based Budgeting theory focuses on the allocation of resources in budgeting. The Risk Based Budgeting theory on the other hand focuses on the need to include the risk aspect in the budgeting process. Thus the theoretical review is critiqued on the grounds of lacking a common understanding on budgeting and firm financial performance. This is also attributed to the theories not viewing the budgeting process as affecting firm financial performance through one single aspect such as the procedures involved, the priority of tasks and resources or the risk involve which brings a conflict between them.

The literature reviewed is also criticized on the basis of not bringing out well the how budgeting process affects the performance of organizations since each study employs distinct budgeting process to the other. The studies reviewed are also criticized for focusing mostly on large corporations such as parastatals and other organizations found in developed economies many of which obviously have effective budgeting processes in place.

2.6 Conceptual Framework

This study's conceptual framework made up of the independent and dependent variables. The performance of top 100 small and medium firms in Kenya constitutes the study's dependent variable while the procedures that form the budgeting process constitute the independent variables. These are; the planning process, coordinating process, controlling process, communication process and evaluation process. Theoretically the whole budgeting process involving; the planning process, coordinating process, controlling process, communication process and evaluation process is anticipated to have a positive impact on the financial performance of the top 100 SMEs in Kenya.

Figure 2.1: Conceptual Framework



2.7 Summary of Empirical Review

Chapter two covered literature reviewed on the effect of budgeting process on the performance of top 100 SME firms. The study reviewed three theories which include; the Budget Incremental theory, the Priority Based Budgeting theory and the Risk Based Budgeting theory. The theories however lack a common understanding on budgeting and firm financial performance. Based on the literature reviewed, there are five steps of budgeting process. These include, planning process, coordinating process, controlling process, communication process and evaluation process. It can also be summarized that there is no single approach to budgeting that applies to all businesses. From the empirical literature, it can be summarized that budgeting process has a positive effect on the financial performance of organizations.

Some of the empirical studies examined are based on other countries and not Kenya which cannot be used to conclude the same on Kenya due to the difference in factors such as market forces and the country's economic performance. For instance; Jindrichovska (2013) based her study on Czech Republic, Mulani, Chi and Yong (2013) based their study on India, Salva and Jayamaha (2013) based their study on Sri Lanka, Rabiou et al. (2015) focused on Nigeria while Maduekwe and Kamala (2016) is based on South Africa. Most of the local studies are based on different contexts of Kenya for instance Kimunguyi (2015) focused on NGOs in health sector in Kenya while Isaboke and Kwasira (2016) focused on County Government of Nakuru and not on the context of this study which is the top 100 SMEs in Kenya. This brings a gap in knowledge that this study seeks to bridge through determining the effect of budgeting process on the performance of top 100 small and medium firms in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the research methodology which was used in the data collection, data processing and also analysis of the data. The chapter was divided into the following sections: research design, target population, data collection, data analysis, analytical model and test of significance.

3.2 Research Design

Research design refers to the general plan to be used in order to obtain answers to the questions posed by the research and also how to tackle the difficulties that may arise (Polit & Beck, 2003). This study used a descriptive research design in order to describe how budgeting process affects the performance of top 100 SME firms in Kenya. Descriptive research design is suitable since it allows generalization of sample findings to the entire population of the study. To obtain information that describes the state of the performance of the top 100 SMEs this research design was used.

Descriptive research design is very useful in identifying research variables and the hypothetical constructs that are used to test the theories on which the study is anchored. According to Babbie (2002), descriptive research design involves gathering data that describes an event, organizing the data, tabulating it and portraying it. Cooper and Schindler (2000) argue that descriptive research design is very effective for discovering and measuring the cause and effect relationships among variables of the study.

3.3 Target Population

A target population is defined as the researcher's total number of respondents in the population of interest (Kothari, 2004). It is also defined by Mugenda and Mugenda (2003) as a homogenous group to which a researcher wants to generalize the study's findings. This study's population consisted of the top 100 SMEs that registered in the Kenya directorate of SMEs and industrialization.

3.4 Sample Size

A sample size of 10% of the total population is cited to be the adequate representative sample for a descriptive study (Mugenda & Mugenda, 2003). Neuman (2003) however considers 10% - 20% as being an adequate sample for a descriptive study. On the other hand, Borg and Gall (2003) recommend at least 30% of the total population as being an adequate representative. Thus, 30% of the accessible population is sufficient for the sample size.

Since the target population is small (only 100 SMEs), this study was a census where all the firms stand an equal and unbiased chance of being selected to participate in the study. Therefore, the researcher administered a total of 100 questionnaires.

3.5 Data Collection

The study used primary and secondary data. Semi-structured questionnaires were used to gather primary data. These were administered through “drop-and-pick-up later”. This method ensured that the respondents have adequate time to give their response to the questions. The study was targeting SMEs owners or managers.

The structure of the questionnaire comprises of four sections which are as follows: Section A have questions on general information; Section B comprise questions on extent of budgeting within top 100 SMEs; Section C comprise questions on the organizational performance of top 100 SMEs while section D contain questions on the challenges faced by top 100 SMEs during the budgeting process. Secondary data was collected form the company websites and annual financial reports for the last four years (2013-2016).

3.6 Data Analysis

After collection, the researcher checked the questionnaires to ensure that are complete and then serialized them in preparation for coding and entry. After coding, the questionnaires responses was keyed into a statistical package and analyzed. The data is analyzed through descriptive statistics such as standard deviation, mean scores and frequency distribution. The extent of budgeting, organizational performance and

challenges faced when budgeting was evaluated using means and standard deviations. The study findings was presented using bar charts, pie charts and frequency tables.

3.6.1 Conceptual Model

According to Valacich (2007), conceptual data model is a mathematical representation of interrelationships among data. The conceptual model for this study takes the following form of mathematical function:

$$Y = f(X_1, X_2, X_3, X_4, X_5)$$

Where

Y - Dependent variable

X - Independent variables

The dependent variable of the model was financial performance of top 100 SMEs in Kenya while the independent variable was the budgeting process of the top 100 SMEs in Kenya.

On the expected theoretical relationship between the independent and dependent variables, a positive relationship is expected between the financial performance and budgeting process as evidenced by the review of studies by Mulani, Chi and Yong (2013) and Kimunguyi (2015). The studies established a positive relationship between budgeting process and financial performance.

3.6.2 Analytical Model

The study employed the multiple regression analysis to test the effect of budgeting process on the performance of top 100 SMEs in Kenya. The researcher used the following regression model to examine the relationship between budgeting process and financial performance:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where:

Y – Financial Performance (Dependent variable) (as measured by return on assets).

X₁- X₅ – The independent variables (These variables were quantified through factor analysis and then be saved as dummy variables for use in regression).

X₁- Budget Planning (evaluation and projection of the budgets future revenues and expenses)

X₂- Budget Control (ensuring there is accuracy and honesty when budgeting)

X₃- Budget Coordination (obtaining and organizing the needed resources, personnel equipment to carry out the budget activities)

X₄- Budget Communication (providing information to different stakeholders of the budget)

X₅- Budgetary Evaluation Process (the procedure for assessing the budget activities)

β_0 - Is the constant of the model

β_1 - β_5 – Are the regression coefficients

ε – Stochastic error term estimate

The independent variables are measured as follows. Planning Process is measured by the level of budget consolidation and the number of steps through which the budgeting process goes through. Controlling Process is measured by the level of alignment of planned to actual results and also the review of variations. Coordinating Process is measured by the level of information sharing and level of employee participation. Communication Process is measured by whether clear rules and objectives are communicated during budgeting Evaluation Process is measured by the level of management involvement and level of budget assessment.

3.6.3 Diagnostic Tests

T-tests were used to assess the statistical significance of the relationship between budgeting process and financial performance. The computations were done at 95% confidence interval. Therefore, the p-value was tested at 5%. Analysis of Variance

(ANOVA) using significance level of 5% was done to determine the regression model's goodness of fit.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The analysis of the data collected from the top 100 SME firms in Kenya is presented in this chapter. The study sought to establish the effect of budgetary process on the financial performance of SME firms. Semi-structured questionnaire were sent to respondents who were the owners of top 100 small and medium firms in Kenya while secondary data was obtained from the financial statements of the firms.

Descriptive techniques such as means and standard deviations were employed to analyse the data and the emerging findings were presented using figures and tables. In order to determine how the budgetary process affects firm financial performance, regression analysis was done. Diagnostic tests were carried out to test the suitability of the research instrument and the data collected.

4.2 Response Rate

The researcher administered 100 questionnaires to the owners of top 100 small and medium firms in Kenya and managed to receive 83 duly filled questionnaires. This amounted to 83% response rate and this was considered an adequate representation according to Edwards, Clarke and Kwan (2002) who recommends a response rate of 80% and above. The table below shows the results response rate.

Table 4.1: Response Rate

Response Rate	Frequency	Percentage
Filled and Returned	83	83.33%
Not Filled	17	26.67%
Total	100	100%

Source: Research Findings (2017)

4.3 Budgeting Process

The results of the study revealed that all the top 100 small and medium firms had a well-structured budgeting process. In this section, the study focused on determining the extent to which various budgeting processes (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process) have been implemented by the top 100 small and medium firms in Kenya.

The statements were rated on a Likert scale of 1-5 where: 1= No Extent; 2= Little Extent; 3= Moderate Extent; 4= Great Extent; 5=Very Great Extent. The responses given were analysed using means and standard deviations as discussed in the subsequent section. The mean scores recorded were interpreted using the following interpretation scale: 1-1.49 No Extent; 1.5-2.49 = Little Extent; 2.5-3.49 = Moderate Extent; 3.5-4.39 = Great Extent; 4.3-5.0 = Very Great Extent.

4.3.1 Budget Planning

The study focused on determining the extent to which top 100 firms in Kenya practice budget planning. The results are shown in Table 4.2

Table 4.2: Budget Planning

Budget Planning	Mean	Std. Deviation
Line managers budget for their individual departments which are then combined to form the master budget	4.57	0.471
The budget plan stipulates the steps that should be taken in the budgeting process	4.53	0.534
The top management communicate the budget plans to those preparing the budget plan	4.33	0.522
Past data is used as a starting point to develop budget plans	4.22	0.645
The budget plan specify the allowances and variance that should be made to the various parameters	3.99	0.552
Aggregate Mean	4.39	0.545

Source: Research Findings (2017)

Top 100 firms in Kenya practice budget planning to a great extent as evidenced by the aggregate mean of ($M=4.39$, $SD= 0.545$). To a very great extent, Line managers budget for their individual departments which are then combined to form the master budget and

The budget plan stipulates the steps that should be taken in the budgeting process as indicated by mean scores of ($M=4.57$, $SD= 0.471$) and ($M=4.53$, $SD= 0.534$) respectively. To a great extent, the top management communicate the budget plans to those preparing the budget plan and use past data as a starting point to develop budget plans as evidenced by mean scores of ($M=4.33$, $SD= 0.522$) and ($M=4.22$, $SD= 0.645$). The budget plan specifying the allowances and variance that should be made to the various parameters was the least rated with a mean of ($M=3.99$, $SD= 0.552$) which implies that it is also practices to a great extent. The standard deviations recorded indicate that the respondents had a difference of opinions in regard to the extent to which Budget Planning is practiced by top 10 SMEs in Kenya.

4.3.2 Budget Control

The study focused on determining the extent to which top 100 firms in Kenya practice budget control. The results are as shown in Table 4.3.

Table 4.3: Budget Control

Budget Control	Mean	Std. Deviation
The budgets control starts from the lowest levels upwards	4.27	0.626
Budget control helps in understanding budget variance which help in dismissing some aspects and concentrate on important issues	3.95	0.714
Budget operational control in the firm involves evaluating the actual cost expenses against the plan and taking the corrective measures necessary	3.89	0.950
Budgeting control helps link the firm strategic planning and operational control	3.88	0.722
Budgeting control enables the managers to align the actual results to the plan	3.84	0.741
Aggregate Mean	3.97	0.751

Source: Research Findings (2017)

The study revealed that top 100 SME firms in Kenya practice budget control to a great extent as indicated by the aggregate mean of ($M=3.97$, $SD= 0.751$). The most highly rated statements were “The budgets control starts from the lowest levels of management and is refined and coordinated at the higher levels” and “Budget control helps in understanding

budget variance which help in dismissing some aspects and concentrate on important issues” with mean scores of ($M=4.27$, $SD= 0.626$) and ($M=3.95$, $SD= 0.714$) respectively. This indicates that they were rated to a great extent. Also rated to a great extent was the statement that “Budget operational control in the firm involves evaluating the actual cost expenses against the plan and taking the corrective measures necessary” with a mean score of ($M=3.89$, $SD= 0.950$). The least rated statement was that “Budgeting control enables the managers to align the actual results to the plan” with a mean score of ($M=3.84$, $SD= 0.741$). The standard deviations recorded indicate that the respondents had a difference of opinions in regard to the extent to which budget control is practiced by top 10 SMEs in Kenya.

4.3.3 Budget Coordination

The study focused on determining the extent to which top 100 firms in Kenya practice budget coordination. The results are as shown in Table 4.4

	Mean	Std. Deviation
The organization emphasizes on exchanging and sharing information among all levels of management	4.35	0.500
The firm makes use of computers to assist in the coordination of the budgeting process.	4.17	0.640
The firm ensures budgeting process participation by employees enhance the success of budgeting	3.73	0.682
Aggregate Mean	4.12	0.608

Source: Research Findings (2017)

The aggregate mean of ($M=4.12$, $SD= 0.608$) indicates that the top 100 SMEs in Kenya practice budget coordination to a great extent. The organization emphasizes on exchanging and sharing information among all levels of management to a great extent ($M=4.35$, $SD= 0.500$) while they make use of computers to assist in the coordination of the budgeting process also to a great extent ($M=4.17$, $SD= 0.640$). The least rated was that the firms ensures employee participation in the budgeting process enhance the

success of budgeting with a mean of ($M=3.73$, $SD= 0.682$) which suggests that it was also rated to a great extent. The difference in the respondents’ opinion in regard to the extent to budget coordination among top 100 SMEs in Kenya is shown by the standard deviations recorded.

4.3.4 Budget Communication

The study focused on determining the extent to which top 100 firms in Kenya practice budget communication. The results are as shown in Table 4.5.

Table 4.5: Budget Communication

Budget Communication	Mean	Std. Deviation
The firm communicate the outcome of budget decisions to all the relevant stakeholders	4.50	0.462
The managers have a clear understanding of the roles they should play in ensuring effective budgeting process	4.33	0.549
The management makes use of the budget to communicate the firm objectives and goals to enhance understanding and co-ordination	4.30	0.715
The firm enhance communication at the time of budgeting	4.18	0.783
The firm gives reasons for the budget decisions they make	3.72	0.668
Aggregate Mean	4.31	0.635

Source: Research Findings (2017)

The aggregate mean of ($M=4.31$, $SD= 0.635$) indicates that the top 100 SMEs in Kenya practice budget communication to a great extent. To a very great extent, “the firms communicate the outcome of budget decisions to all the relevant stakeholders” and “the managers have a clear understanding of the roles they should play in ensuring effective budgeting process” as indicated by mean scores of ($M=4.50$, $SD= 0.462$) and ($M=3.53$, $SD= 0.549$) respectively. The least rated statements were that “The firm enhance communication at the time of budgeting” and that “the firms gives reasons for the budget decisions they make” with mean scores of ($M=4.50$, $SD= 0.462$) and ($M=3.53$, $SD= 0.549$) respectively which implies that they were rated to a great extent.

4.3.5 Budgetary Evaluation Process

The study focused on determining the extent to which top 100 firms in Kenya practice budgetary evaluation process. The results are as shown in Table 4.6

Table 4.6: Budgetary Evaluation Process

Budgetary Evaluation Process	Mean	Std. Deviation
The firm assesses the budget implementation and its impact	4.59	0.467
The assessment of whether resources have been appropriately and effectively	4.37	0.499
The managers are actively involved in the evaluation and monitoring of the budgetary process	4.38	0.503
Assessment is done by a body that is independent of the organization and have sufficient resources and capacity to do so	3.61	0.867
Aggregate Mean	4.34	0.584

Source: Research Findings (2017)

Lastly, the study revealed that top 100 SME firms in Kenya practice budgetary evaluation process to a great extent. This is shown by an aggregate mean of ($M=4.34$, $SD= 0.584$). The study found out that to a very great extent, the firms assesses “the budget implementation and its impact” and “whether resources have been appropriately and effectively” as indicated by mean scores of ($M=4.59$, $SD= 0.467$) and ($M=3.57$, $SD= 0.499$) respectively. The least rated statement was that “Assessment is done by a body that is independent of the organization and have sufficient resources and capacity to do so” with a mean score of ($M=3.61$, $SD= 0.867$) which indicates that it was still rated to a great extent. The standard deviations recorded indicate that the respondents had differing opinions in regard to the extent to which top 100 firms in Kenya practice budgetary evaluation process.

4.4 Diagnostic Test

The researcher carried out reliability analysis to test the internal consistency of the questionnaire. A Cronbach’s Alpha co-efficient equal to or greater than 0.7 was used as a threshold of internally consistent questionnaire. The reliability test analysis results are as shown in Table 4.7.

Table 4.7: Reliability Analysis

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.708	0.725	22

Source: Research Findings (2017)

The reliability results indicated that the questionnaire had a Cronbach's Alpha coefficient of 0.708 which implies that the study questionnaire was internally consistent and therefore it measures what it purports in measure in regard to the effect of budgetary process on the financial performance of the top 100 small and medium firms in Kenya.

4.5 The Budget Process and Financial Performance of SMEs

The study employed regression analysis to establish the association between the independent variables budgeting processes (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process) and dependent (financial performance).

4.5.1 Results of Models Goodness of Fit Test

To determine the association, dependent variable (financial performance) was regressed against the independent variables budgeting processes (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process). The model summary is as shown in Table 4.8.

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.721 ^a	.520	.488	.14917	2.319

a. Predictors: (Constant), Budget Planning, Budget Control, Budget Coordination, Budget Communication, Budgetary Evaluation Process

Source: Research Findings (2017)

The results from the regression analysis suggest there being a strong relationship between budgeting processes (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process) and financial performance as evidenced by an R-value of 0.721. The results further revealed that budgeting processes accounts for 48.8% of the total variance in top 100 SME firms financial performance as indicated by an adjusted R-square value. A durbin-watson statistic of 2.319 indicated that the regression model residuals were not serially correlated since the recorded durbin-watson statistic of 2.319 was greater than 1.5.

4.5.2 Analysis of Variance

Analysis of Variance (ANOVA) was carried out to test the regression model's goodness of fit. ANOVA recorded a significance level of 0.8% which implies that the analytical model has goodness of fit and therefore reliable in establishing the relationship between budgeting processes (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process) and financial performance of top 100 SME firms in Kenya. The results are as shown in Table 4.9.

Table 4.9: Analysis of Variance (ANOVA^a)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.654	5	.131	3.359	0.008 ^b
Residual	3.076	78	.039		
Total	3.730	83			
a. Dependent Variable: Financial Performance					
b. Predictors: (Constant), Budget Planning, Budget Control, Budget Coordination, Budget Communication, Budgetary Evaluation Process					

Source: Research Findings (2017)

4.5.3 The Estimated Model

The regression coefficients indicated that at 95% confidence level, Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process have a combined positive effect on the financial performance of top 100 SME firms in Kenya. The results are as shown in Table 4.5.3.

Table 4.10: Regression Coefficients

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	.024	.007		3.429	.001
Budget Planning	.351	.087	.260	4.034	.000
Budget Control	.321	.081	.225	3.962	.000
Budget Coordination	.279	.091	.222	3.066	.003
Budget Communication	.298	.083	.262	3.590	.001
Budgetary Evaluation Process	.253	.086	.221	2.942	.004

a. Dependent Variable: Financial Performance

Source: Research Findings (2017).

The study found out that budgeting processes (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process) had a positive and statistically significant effect on the Financial Performance of top 100 SME firms in Kenya as evidenced by high t-values and p-values of less than 0.05. The p-values recorded were: Budget Planning (t= 4.034, p= 0.000), Budget Coordination (t= 3.066, p= 0.003), Budget Control (t= 3.962, p= 0.000), Budgetary Evaluation Process (t= 2.942, p= 0.004) and Budget Communication (t= 3.590, p= 0.001).

The constant value of 0.024 indicates that if budgeting processes was not there, the financial performance of the top 100 SME firms in Kenya would be meagre at only 0.024. For the purpose of estimating the regression equation, the researcher estimated the stochastic error term of the model was zero. If budget planning, budget control and budget coordination were each increased by one unit each, financial performance of the top 100 SME firms in Kenya would increase by 0.024, 0.351 and 0.321 respectively. Further, if budget communication and budgetary evaluation process were each increased by one unit, financial performance of the top 100 SME firms in Kenya would increase by 0.298 and 0.253 respectively.

4.6 Correlation Analysis

The researcher further carried out Pearson product-moment correlation analysis to test whether the study variables were correlated. A p-value of 0.05 or less was used to indicate significant correlations. The results of the study are as shown in Table 4.11.

Table 4.11: Correlation Analysis

		Y	X1	X2	X3	X4	X5
Y	Pearson Correlation	1					
	Sig. (2-tailed)						
X1	Pearson Correlation	.297*	1				
	Sig. (2-tailed)	.013					
X2	Pearson Correlation	.305**	.380**	1			
	Sig. (2-tailed)	.000	.216				
X3	Pearson Correlation	.128*	.451**	.113	1		
	Sig. (2-tailed)	.016	.124	.219			
X4	Pearson Correlation	.315**	.101	.089	.078	1	
	Sig. (2-tailed)	.000	.107	.614	.217		
X5	Pearson Correlation	.228	.122	.328**	.279	.108*	1
	Sig. (2-tailed)	.000	.116	.536	.316	.212	
		*. Correlation is significant at the 0.05 level (2-tailed).					
		**. Correlation is significant at the 0.01 level (2-tailed).					

Source: Research Findings (2017).

The study found out that there were positive and statistically significant correlations between Budget Planning ($r = .297$, $p = .013$), Budget Control ($r = .305$, $p = .000$), Budget Coordination ($r = .128$, $p = .016$), Budget Communication ($r = .315$, $p = .000$) and Budgetary Evaluation Process ($r = .228$, $p = .000$) and financial performance of top 100 SME firms in Kenya. However, the study never recorded any significant correlation among the independent variables (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process). This implies that there was not multi-collinearity among the independent variables and therefore they can be used as determinants of commercial banks financial performance in regression analysis.

4.7 Discussion of Results

The study sought to determine the effect of budgetary process on financial performance. Descriptive techniques such as standard deviations and means were used to establish the extent to which budgeting process was implemented by the SMEs while the relationship between budgetary process and financial performance was tested using regression analysis. In this study, 100 questionnaires were sent to the owners of top 100 SME firms in Kenya. The response rate was 83%. The reliability statistics recorded a Cronbach's Alpha co-efficient of 0.708 which implied that the questionnaire was internally consistent.

The study found out that Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process have all been implemented to a great extent. This indicates that the top 100 SME firms in Kenya have adopted all the processes of budgeting. The study concluded that there is a strong ($R\text{-value} = 0.721$) relationship between financial performance and budgeting processes, with financial performance accounting for 49% of the total variance in top 100 SME firms financial performance. Further, the study concluded that budget planning, budget control, budget coordination, budget communication and budgetary evaluation process have a positive effect which is significant to the financial performance of the top 100 SME firms in Kenya.

The findings of the study corroborated the findings of previous studies. Isaboke and Kwasira (2016) sought to determine the influence of budgeting process on the financial performance of the County Government of Nakuru and found out that budgeting process strongly influenced the county government's financial performance. Kimunguyi (2015) evaluated the way budgetary process affected the financial performance of NGOs in health sector in Kenya and found out that budgetary management practices had a positive effect on the NGOs financial performance in Kenya. Rabi, Goni, Alhaji and Aliyu (2015) examined the role of budgetary control on the performance of Tahir Guest House, Kano State in Nigeria and found out those budgetary factors such as target budget setting, budget administration and budget process played a significant role in influencing the firm's performance. Mulani, Chi and Yong (2013) examined the effects of the budgetary

process on the performance of SME's in India and found out that the performance of SMEs in India is affected by the characteristics of the budget goals.

4.8 Chapter Summary

This chapter presented the data analysis, findings and discussions of the results. The chapter was divided into various sections. These included: response rate, budgeting process, diagnostic test, the budget process and financial performance of SMEs, model summary, analysis of variance and the estimated model. Under budgeting process, the chapter discussed the extent to which SMEs in Nairobi have implemented budgeting processes such as budget planning, budget control, budget coordination, budget communication and budgetary evaluation process.

The chapter also discussed correlation analysis, discussion of results and chapter summary. Under correlation analysis, the study sought to establish how the variables were relating to each other. Under discussion of results, the study discussed the study's key findings and related those findings with the findings of similar previous studies.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter shows the summary, conclusion and recommendations of the study. The study objective was to determine the effect of budgeting process on the financial performance of top 100 small and medium firms in Kenya. The chapter also show the recommendations for policy and practice as well as suggestions for further research.

5.2 Summary of Findings

The study sought to determine how the budgeting process affects the financial performance of the top 100 SME firms in Kenya. The study employed descriptive techniques such as standard deviations and means to analyse data. The findings were presented in figures and tables. In order to establish the relationship between budgeting processes (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process) and financial performance, regression analysis was done using Statistical Package for Social Sciences (SPSS Version 23). The study recorded 83% response rate and a Cronbach's Alpha co-efficient of 0.708 which implied that the questionnaire was internally consistent.

On the extent of budgeting process implementation by the top 100 small and medium firms in Kenya, the study found out that Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process have all been implemented to a great extent. However, the respondents had differing opinions in regard to the extent to which budget control is practiced as was indicated by the recorded standard deviations recorded. This indicates that the top 100 SME firms in Kenya have adopted all the processes of budgeting.

On the association between budgeting processes and financial performance the study found out that there is a strong relationship ($R\text{-value} = 0.721$) between financial performance and budgeting processes with budgeting processes accounting for 48.8% of the total variance in top 100 SME firms financial performance. Further, the study

established that budget planning, budget control, budget coordination, budget communication and budgetary evaluation process have a positive effect which is significant on the financial performance of the top 100 SME firms in Kenya. Analysis of Variance (ANOVA) revealed that the analytical model had goodness of fit was therefore reliable in establishing the relationship between financial performance and budgeting processes.

5.3 Conclusion

In regard to the effect of budget planning on the financial performance of the top 100 SME firms in Kenya, the researcher concludes that budget planning has a positive effect that is statistically significant to the financial performance of the top 100 SME firms in Kenya. Concerning the effect of budget control on the financial performance of the top 100 SME firms in Kenya, the researcher established that budget control has a positive effect which is statistically significant to the financial performance of the top 100 SME firms in Kenya.

On how budget coordination influences the financial performance of the top 100 SME firms in Kenya, the study found out that budget coordination has a positive and statistically significant effect on the financial performance of the top 100 SME firms in Kenya. On how budget communication influences financial performance of the top 100 SME firms in Kenya, the study found out that budget communication has a positive effect which is statistically significant to the financial performance of the top 100 SME firms in Kenya.

In regard to the effect of budgetary evaluation process on the financial performance of the top 100 SME firms in Kenya, the study found out that budgetary evaluation has a positive effect which is statistically significant to the financial performance of the top 100 SME firms in Kenya. The researcher also concluded that there is a strong association between the financial performance and budgetary process of top 100 SME firms in Kenya where the latter accounting for 48.8% of the total variance in top 100 SME financial performance.

5.4 Recommendations for Policy and Practice

The researcher established that budgeting processes (Budget Planning, Budget Control, Budget Coordination, Budget Communication and Budgetary Evaluation Process) has a positive effect which is significant to the financial performance of the top 100 SME firms in Kenya. The researcher recommends that SMEs that have not adopted budgeting process should do so in order to enjoy the benefits that accrue.

This study also established that budgeting is a process and not a one shot occurrence. Therefore, the study recommends that Small and Medium Enterprises in Kenya should pay a close attention to each step of the budgeting process i.e. budget planning, budget control, budget coordination, budget communication and budgetary evaluation process as each step influences the firms performance and failure in one step might affect the subsequent steps and therefore make the firms to make losses or operate inefficiently.

The study found out those budgeting processes only accounts for 48.8% of the top 100 SME firms financial performance. The management of these firms are therefore being advised to stay alert and identify the other factors that affect their financial performance as this will enable them to identify new threats and opportunities in the ever dynamic business environment. The management should also consider engaging consultants who are well versed on determinants of firm's financial performance as this will help them to deal with them on time.

5.5 Limitations of the Study

The top 100 SMEs considered their information as confidential and legally privileged. This is why the respondents were slow in availing the information for fear of the information being used to create negative public image and the competitors using the information to have a competitive edge over them. The researcher had to use an introduction letter from the university to prove that the data was being sought to fulfill academic requirements and that it would be treated with utmost confidentiality.

A common problem of using primary data is that the researcher doesn't have control over the accuracy of the data. However, it provides a good opportunity for the researcher to seek clarification over any contentious issues. In this study, the researcher faced the challenge and consulted the respondents on any issues she deemed not clear.

Further, the study faced the challenge of time and resources. The study had to be completed within the stipulated academic deadlines yet the researcher was also working. Further, the researcher had to spend a lot of money travelling to get the questionnaires filled, print several copies of the project for the supervision, moderation and defense. All these constraints delayed the data collection process but the researcher met the academic deadline

5.6 Recommendations for Further Research

The study's scope was narrowed to the top 100 SME firms in Kenya. This thus suggests that the study's findings are limited to SMEs and therefore cannot be generalised to bigger firms such as commercial banks and manufacturing firms. In future, a study should be replicated among large firms in order to understand how their budgeting processes affect their financial performance. This will enable the researcher to compare the effect of budgeting process among big firms and SMEs.

The study found out that budgeting processes accounts for 48.8% of the total variance in top 100 SME firms financial performance. This implies that there are other key factors that influence the financial performance of top 100 SME in Kenya other than budget planning, budget control, budget coordination, budget communication and budgetary evaluation process, therefore, doing further research to determine other factors that affects firm financial performance is essential.

Lastly, this study never looked at the challenges faced by the top 100 SME firms in Kenya during budget planning, budget controlling, budget coordination, budget communication and budgetary evaluation process. This implies that there is a need for future researchers to investigate these challenges. This will allow the researchers to get a proper insight in regard these challenges and therefore be able to recommend appropriate solutions for the challenges.

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APPENDIX I: RESEARCH QUESTIONNAIRE

The questionnaire is designed to establish the effect of budgetary process on the financial performance of top 100 small and medium firms in Kenya. This is in partial fulfillment of the Masters Degree in the University of Nairobi. All responses was treated with utmost confidentiality and the information was used for academic purposes only.

SECTION 1: GENERAL INFORMATION

1. Gender:

Male () Female ()

2. Your age bracket

20-25 years () 26-30 years () 31-35 years () 36-40years ()
)
Above 40 years ()

3. How long have you been working with the organization?

1-5 years () 6-10 years () 11-15 years () 16-20 years () above 20 years ()
)

4. Highest level of education

Primary Level () Secondary Level () College Level ()
University Level () Other (specify).....

5. Does your organization have a well structured budgeting process?

Yes () No ()

SECTION B: BUDGETING PROCESS

5. To what extent has your organization practiced the following budgeting processes? Tick as appropriate using the following Likert scale of 1-5 where: 1= No Extent; 2= Little Extent; 3= Moderate Extent; 4= Great Extent; 5=Very Great Extent.

Budgeting Process		Respondents Ratings				
A	Budget Planning					
	Line managers budget for their individual departments which are then combined to form the master budget	(1)	(2)	(3)	(4)	(5)
	The top management communicate the budget plans to those preparing the budget plan	(1)	(2)	(3)	(4)	(5)
	Past data is used as a starting point to develop budget plans	(1)	(2)	(3)	(4)	(5)
	The budget plan specify the allowances and variance that should be made to the various parameters	(1)	(2)	(3)	(4)	(5)
	The budget plan stipulates the steps that should be taken in the budgeting process	(1)	(2)	(3)	(4)	(5)
B	Budget Control					
	Budgeting control enables the managers to align the actual results to the plan	(1)	(2)	(3)	(4)	(5)
	Budgeting control helps link the firm strategic planning and operational control	(1)	(2)	(3)	(4)	(5)
	Budget operational control in the firm involves evaluating the actual cost expenses against the plan and taking the corrective measures necessary	(1)	(2)	(3)	(4)	(5)
	The budgets control starts from the lowest levels upwards	(1)	(2)	(3)	(4)	(5)
	Budget control helps in understanding budget variance which help in dismissing some aspects and concentrate on	(1)	(2)	(3)	(4)	(5)
C	Budget Coordination					
	The firm ensures budgeting process participation by employees enhance the success of budgeting	(1)	(2)	(3)	(4)	(5)
	The organization emphasizes on exchanging and sharing information among all levels of management	(1)	(2)	(3)	(4)	(5)
	The firm makes use of computers to assist in the coordination of the budgeting process.	(1)	(2)	(3)	(4)	(5)
D	Budget Communication					
	The managers have a clear understanding of the roles they should play in ensuring effective budgeting process	(1)	(2)	(3)	(4)	(5)

	The management makes use of the budget to communicate the firm objectives and goals to enhance understanding and	(1)	(2)	(3)	(4)	(5)
	The firm gives reasons for the budget decisions they make	(1)	(2)	(3)	(4)	(5)
	The firm enhance communication at the time of budgeting	(1)	(2)	(3)	(4)	(5)
	The firm communicate the outcome of budget decisions to all the relevant stakeholders	(1)	(2)	(3)	(4)	(5)
E	Budgetary Evaluation Process					
	The managers are actively involved in the evaluation and monitoring of the budgetary process	(1)	(2)	(3)	(4)	(5)
	The firm assesses the budget implementation and its impact	(1)	(2)	(3)	(4)	(5)
	Assessment is done by a body that is independent of the organization and have sufficient resources and capacity to do	(1)	(2)	(3)	(4)	(5)
	The assessment of whether resources have been appropriately and effectively	(1)	(2)	(3)	(4)	(5)

SECTION C: FIRM FINANCIAL PERFOAMNCE

6. During the last four years, how did your firm perform in terms of the following parameter?

Performance Parameters	Percentage (%)			
	2013	2013	2014	2016
Return on Asset (ROA)				

Kenya Top 100 SMEs- 2015

1. Atlas Plumbers And Builders
2. Tropikal Brands Afrika
3. Keppel Investments Ltd
4. Shian Travel
5. Rupra Construction Co.
6. Powerpoint Systems (E.A) Ltd
7. Chemical And School Supplies
8. Satguru Travel And Tours
9. Radar Ltd
10. Kentons Ltd
11. Avtech Systems Ltd
12. Sai Pharmaceuticals Ltd
13. Kunal Hardware And Steel
14. Coninx Industries Ltd
15. R & R Plastic Ltd
16. Capital Colours C. D Ltd
17. Asl Credit Ltd
18. Kandia Fresh Produce Suppliers Ltd
19. Furniture Elegance Ltd
20. Muranga Forwarders Ltd
21. BBC Auto Spares Ltd
22. Digital Den Ltd
23. Xrx Technologies Ltd
24. Nairobi Garments Enterprise Ltd
25. Charleston Travel Ltd
26. Spice World Ltd
27. Master Power Systems Ltd
28. Software Technologies Ltd
29. Kenbro Industries Ltd
30. Skylark Creative Products Ltd
31. Ganatra Plant & Equipment Ltd
32. Security World Technology Ltd
33. Specialized Aluminium Renovators Limited
34. Wines Of The World Ltd
35. Virgin Tours Ltd
36. Aramex Kenya Ltd
37. Canon Aluminium Fab Ltd
38. Panesar's Kenya Ltd
39. Tyre Masters Ltd
40. Lantech Africa Ltd
41. Warren Enterprise Ltd
42. Africa Tea Brokers Ltd
43. Meridian Holdings Ltd
44. Dune Packaging Ltd
45. The Phoenix Ltd
46. Fairview Hotel Ltd

47. Specicom Technologies Ltd
48. Punsani Electricals & Industrial Hardware Ltd
49. Biselex (K) Ltd
50. Victoria Furnitures Ltd
51. Gina Din Corporate Comm
52. Amar Hardware Ltd
53. Melvin Marsh International
54. Lanor International Ltd
55. Synermed Pharmaceuticals (K) Ltd
56. Sahajanand Enterprises Ltd
57. Vehicle & Equipment Leasing Ltd
58. Silverbird Travelplus
59. Waumini Insurance Brokers Ltd
60. Kenapen Industries Ltd
61. Hardware And Welding Supplies
62. Isolutions Associates
63. Mombasa Canvas Ltd
64. East Africa Canvas Co
65. Total Solutions Ltd
66. Print Fast (K) Ltd
67. Optiware Communications Ltd
68. Deepa Industries Ltd
69. Endeavour Africa Ltd
70. Travel Shoppe Co Ltd
71. Kema (E.A) Ltd
72. Amar Distributors Ltd
73. Pwani Cellular Services
74. Sheffield Steel Sytems Ltd
75. General Aluminium
76. Creative Edge Ltd
77. Brollo Kenya Ltd
78. Trident Plumbers Limited
79. Physical Therapy Services Ltd
80. Praful Chandra & Brothers Ltd
81. Dharamshi Lakhamshi & Co / Dalco Kenya
82. Madhupaper Kenya Ltd
83. Union Logistics Ltd
84. Oil Seals And Bearing Centre Ltd
85. Skylark Construction Ltd
86. Biodeal Laboratories Ltd
87. Warren Concrete Ltd
88. Rongai Workshop & Transport
89. Complast Industries Ltd
90. Kinpash Enterprises Ltd
91. Sight And Sound Computers Ltd
92. De Ruiten East Africa Ltd
93. Ace Autocentre Ltd

94. Kenya Suitcase Mfg Ltd
95. Hebatullah Brothers Ltd
96. Market Power Int. Ltd
97. Nivas Ltd
98. Sigma Suppliers Ltd
99. Impala Glass Industries Ltd
100. Eggen Joinex Ltd

Source: KPMG East Africa and the Nation Media Group 2015

