BUDGETING PRACTICES IN MANUFACTURING FIRMS IN KENYA

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DECLARATION

This Research proposal is my original work and has not been submitted for a degree in any other university.

Signed

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D61/P/8125/02

This Research project has been submitted for examination with my approval as university supervisor

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DEDICATION

To my entire family for the encouragement and support they gave me throughout the course. To my husband Kanyugo for his encouragement and support and to our children Wanjuki and Wambui for their patience and endurance during my absence from home as I went through the course.
ACKNOWLEDGEMENT

It is my great pleasure to thank the many people who made this work possible.

Thanks to my father, who taught me that the best kind of knowledge to have is that which is learned for its own sake, and to my mother, who taught me that even the largest task can be accomplished if it is done one step at a time.

Special thanks to my supervisor Mr. Luther Otieno whose patience, guidance and encouragement I cannot overstate. You may never realize how much I learnt from you.

Many sincere thanks to my classmates for the healthy discussions we held and the encouragement we offered each other when the going got tough.

Finally to my friend Anne, for the discussions we held that gave priceless insights into this research.

May the Lord shine his blessings upon you.
<table>
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<th>Abbreviation</th>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act and</td>
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<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>PwC</td>
<td>PricewaterhouseCoopers</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>ROI</td>
<td>Return on Investment</td>
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<td>SLA</td>
<td>Service Level Agreement</td>
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ABSTRACT

The manufacturing sector in Kenya contributes approximately 13% of the GDP and is thus a significant player in the economy. The objective of this study was to establish the budgeting practices in the manufacturing industry in Kenya. The study was aimed at establishing whether budgets exist in the sector and if so, the methods used for budgeting, uses to which the budgets are put and the factors considered important while budgeting.

To achieve this, a questionnaire was issued to 75 companies of which 45 (60%) responded. The responses were analysed using percentages, measures of central tendency (the median and mean) and for dispersion, standard deviation was used.

The findings of the study indicated that majority of the firms in the sector prepare budgets. Incremental (prior year) budgeting is the most widely applied method of budgeting. The most significant use of budgets according to the research is maximisation of shareholders' value. Firms were asked to rate their agreement or disagreement with the budget criticisms that were proposed as the basis for "beyond budgeting". All the firms disagreed with the criticisms except one where they indicated that budgets stifle innovation to some extent.

The conclusion is that budgeting is a widely applied tool in the manufacturing industry in Kenya and budgeting in its current form is widely accepted. The more traditional method of incremental budgeting is widely applied. Management in the industry should aim to adopt more advanced methods like zero based and activity based budgeting. Incremental budgets have the very significant shortcoming of carrying forward inefficiencies from prior years. Criticisms should be used as basis for developing a more flexible planning model that focuses on the entire performance management process.
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

Recent developments such as globalization, intense competition, rapid advances in technology and shorter product cycles have substantially transformed the environment in which businesses operate. As a result, various financial management systems, including budgeting and standard cost management systems have come under greater scrutiny. The changes in the business environment have profound implications for cost management systems. It is even more critical now, that businesses which want to remain competitive have excellent control over their costs. Otherwise these businesses may cease to operate in the near future, as they may not be able to compete effectively (Banhum, 2000; Johnston, 1990 and Kaplan, 1988).

Generally, an organization’s objectives are expressed in time frames (three to five years) as informed by its mission and vision. Budgets come in after the strategic planning for the organization has been done, action planning has happened and the organization needs to know how much money will be required to execute those actions. The major value of budgeting lies in aligning the plans and budgets to strategies. The future of budgeting lies in planning for value.

Budgets are used in organizations for diverse purposes. They include, for example, performance measurement and evaluation, staff motivation, pricing decisions and cost control. Hence, budgeting has been considered, in the past as an integral element of
management control system. Budgeting is a vital tool in organizations for directing activities and employees' efforts toward the organization's common objectives (Covaleski et al., 2003). For example, budgeting requires the organization to engage in systematic operational planning for the near future and to consider how to best allocate its limited resources among the organization's various operating units. Budgeted results in terms of, for example, revenues, costs, or units of production; communicate to employees the organization's expectations regarding their job performance, which is ultimately evaluated based on some comparison of actual versus budgeted results.

1.2 Budgeting

A budget is a quantitative expression of plans. It is commonly used by business firms, governmental agencies, non-profit institutions, and even households. While there is considerable variation in the scope, degree of formality, and level of sophistication applied to budgeting, most of the well-managed business firms use a budget which is a comprehensive and coordinated plan for the operations and resources of the firm. Such a budget is developed by a formal and intricate process.

A master budget is comprehensive in nature and covers all facets of the operations and finances of the firm. It has four major components: operating budget, capital expenditure budget, cash budget, and the projected financial position. Firms have in place either the whole master budget as defined here or some aspects of it.

The use of budgets is a key determinant of how organizations function, adapt and perform. The process of supporting the use of budgets consumes a significant portion of management
time and generally managers are not satisfied with the effectiveness of the process. There is not a simple solution for improving the use of budgets but neither is there a simple option of 'throwing them away'. (Mourik, 2006)

1.3 Global Manufacturing Industry

The Manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. (North American Industry Classification System (NAICS) of 2007.)

Establishments in the manufacturing sector are often described as plants, factories, or mills and characteristically use power-driven machines and materials-handling equipment. However, establishments that transform materials or substances into new products by hand or in the worker's home and those engaged in selling to the general public products made on the same premises from which they are sold, such as bakeries, candy stores, and custom tailors, may also be included in this sector. Manufacturing establishments may process materials or may contract with other establishments to process their materials for them. Both types of establishments are included in manufacturing. This has the following subdivisions:

- Food, Beverage and Tobacco Manufacturing
- Textile, Clothing, Footwear and Leather Manufacturing
- Wood and Paper Product Manufacturing
- Printing, Publishing and Recorded Media
- Petroleum, Coal, Chemical and Associated Product Manufacturing
- Non-Metallic Mineral Product Manufacturing
- Metal Product Manufacturing
1.4 Manufacturing Industry in Kenya

The players fall in the following categories as represented in the Kenya Association of Manufacturer's listing.

- Food and Beverage Processing
- Pharmaceutical and medical equipment
- Wood products
- Paper and Paper board
- Leather products
- Chemical and allied
- Metal and allied
- Textiles
- Tobacco
- Plastics and rubber

1.5 The Statement of the Problem

The Manufacturing industry in Kenya is dominated by subsidiaries of Multinationals. However, due to the high costs of production in the country, many of them have withdrawn their manufacturing plants from Kenya and are now represented by direct subsidiaries or appointed distributors. Manufacturing firms in Kenya therefore need to plan for success. How do they currently go about planning and specifically budgeting?
There are two divergent views on the usefulness of budgets. Proponents of budgets argue that they are still relevant and useful. Meanwhile, critics claim that budgets are obsolete.

A number of studies have been done on the concept of budgeting. The proponents of budgeting have argued that budgets have several important roles. Blocher et al., (2002) in his study argued that budgets help allocate resources, coordinate operations and provide a means of performance measurement. Hilton et al., (2000) agreed with this view and claimed that budgeting is the most widely used technique for planning and control purposes. Clarke and Toal (1999) too, were for the opinion that budgeting is essential and can, for example be incorporated as part of the financial component of the balanced scorecard.

Research organizations seem to suggest that traditional budgeting remains widespread. Some claim that as many as 99% European companies have a budget in place and no mention of abandoning it. (Dugdale et al. 1999)

For large companies, it would be a struggle to plan, coordinate and control without the overall framework provided by budgets. Even in small companies, a budget can provide a road map detailing where the business is, where it wants to go and how it can get there.

The business environment within which the manufacturing firms operate has been very volatile. The political anxiety, competition, technological advancement and global changes are some of the challenges that have affected planning for growth. As such, it is only those firms that are able to plan for success can be guaranteed of survival.

Lack of planning or poor planning leads to the misallocation of funds and increases the risk of not maximizing the shareholders value. A study done in 1997 on selected financial
management practices by small enterprises suggested further research should study whether formality or otherwise of business conduct has any bearing on the success of the business (Mundu S. 1997). He reckoned that financial planning and control leads to determination of investments required thus giving rise to finance needs.

This study focuses on identifying the budgeting practices that the manufacturing industry in Kenya has adopted to ensure that available funds are allocated in the most optimal way to meet the objectives of the firm.

1.6 Objective of the Study

The objective of this study is to establish the budgeting practices in manufacturing industries in Kenya and the reasons why budgets are used if at all. The practices surveyed will include the types of budgets prepared, the techniques adopted, the budgeting periods and intervals, the factors considered while budgeting and the uses to which the budgets are put.

1.7 Scope of the Study

The study covers companies in the manufacturing sector in the economy and is not limited to any type of manufacturer. It will therefore include manufacturers in the following areas:

- Food and Beverage Processing
- Pharmaceutical and medical equipment
- Wood products
- Paper and Paper board
- Leather products
- Chemical and allied
1.8 Significance of the Study

Kenya has a large manufacturing sector serving both the local market and exports to the East African region. The sector, which is dominated by subsidiaries of multi-national corporations, contributed approximately 13% of the Gross Domestic Product (GDP) in 2004. Improved power supply, increased supply of agricultural products for agro processing, favourable tax reforms and tax incentives, more vigorous export promotion and liberal trade incentives to take advantage of the expanded market outlets through AGOA, COMESA and East African Community (EAC) arrangements, have all resulted in a modest expansion in the sector of 1.4% per cent in 2004 as compared to 1.2% in 2003.

The rising levels of poverty coupled with the general slowdown of the economy has continued to inhibit growth in the demand of locally manufactured goods, as effective demand continues to shift more in favour of relatively cheaper imported manufactured items. In addition, the high cost of inputs as a result of poor infrastructure has led to high prices of locally manufactured products thereby limiting their competitiveness in the regional markets and hampering the sector's capacity utilisation. However, the recent introduction of the EAC Customs Union provides Kenya's manufacturing sector, the most developed within the region, a greater opportunity for growth by taking advantage of the enlarged market size, economies of scale, and increased intraregional trade. (PwC).
In light of this, it is critical that players in the Sector plan for success and efficiency improvement.

Findings from this study will attract other researchers to venture into the study of budgeting as a financial management tool in other sectors that have not been studied in the African context. It will indicate the budgeting practices and thus give an indication of the future of budgeting in the sector. The study will identify gaps in the budgeting process prevalent in the sub sector and will thus be a pointer to areas of potential process improvement and/or alternatives to budgeting. This study may also help in pointing out areas in which manufacturing sector develop competencies and capabilities leading to superior performance. It will provide a wide selection of practices in use by firms operating in the same environment and manufacturers may be able to adopt best practices. This will improve efficiencies within the sector.
CHAPTER TWO

2.0: LITERATURE REVIEW

2.1 Budgeting

According to the Institute of Cost and Management Accountants, UK, a budget is

"a financial and/or quantitative statement, prepared and approved prior to a defined period of
time, of the policy to be pursued during that period for the purpose of attaining a given
objective. It may include income, expenditure and the employment of capital." Budgeting is
thus, an important tool for financial planning and control in the organization (McNally, 2002).

A budget is in fact a series of goals with price tags on it. Since funds are limited and have to
be divided in one way or another, the budget becomes a mechanism for making choices.
(Wildafsky, 1964). Budgets types include operating budgets and capital budgets (Gilding et
al., 1998, Blocher et al., 2002).

Comprehensive in nature, a master budget covers all facets of the operations and finances of
the firm. It has four major components: operating budget, capital expenditure budget, cash
budget, and the projected financial position.

1. The Operating budget – built up of: the sales forecast, production budget, material
and purchases budget, labour cost budget and manufacturing overhead budget.

- The sales budget underlies almost all other budgets. In coming up with the forecast
one should consider the outlook of the industry and the economy, past behaviour and
emerging trends, governmental regulations and controls, consumer attitudes
dispositions, tastes and preferences, nature and extent of competition and advertising and promotions efforts of the firm.

- Production budget – volume and timing of sales budget, inventory policy and capacity.
- Purchases budget – logically follows from the production budgets
- Labour cost budgets – cost of direct labour
- Manufacturing overhead – the indirect expenses necessary for running a factory that include indirect labor, depreciation, utilities, repair and maintenance, insurance etc.

ii. **The Capital expenditure Budget**

The capital expenditure budget shows the list of capital projects selected for investment along with their estimated cost. Generally, this budget is prepared separately from the operating budget.

The proposals in the capital expenditure budget have to be suitably justified. Usually the justification is in terms of quantitative criteria, such as the pay back period, accounting rate of return, internal rate of return, cost reduction per unit, productivity gains. Hard-to-quantity considerations like growth opportunities, market image, technological competence, morale, labor unrest, and employee safety, could also be important.

iii. **Cash Budgets**

The cash budget shows the cash inflow and outflow expected in the budget period. Apart from the operating budget, other influences on the cash budget are: proposed acquisitions and
disposal of capital assets, anticipated borrowings and their repayment, proposed tax and dividend payments, planned issues of equity and debt capital.

The projected surpluses or deficits in the cash budget provide the basis for investment (if there is a surplus over the target cash balance that the firm wishes to maintain) and financing (when the projected cash balance falls below the target).

The components of a master budgeting system are all inter-related and shown in figure 2.1.

![Components of the master budget](image)

**Fig 2.1 Components of the master budget (Chandra, P. 1992)**

### 2.1.1 The Role of Budgets in the Manufacturing Sector

Budgeting in the private sector is a collective and closely coordinated exercise in which each activity is systematically related to the other. The company undertakes a thorough analysis of its previous experience, state of the economy, corporate objectives and available resources.

Upon review of the budgets, if the CEO or the board finds the budgets unsatisfactory, they
will ask the departmental heads to adjust in order to achieve a desired profit of Return on Investment (ROI) objective. (Biwott J., 1998)

In contrast, public organizations are more concerned with the provision of public goods. Their budget is therefore mainly intended for authorizing actions and providing ceilings for management actions (Horngren, 1983)

Since decisions by management often have a long term effect, it is important that they are based on a true understanding of the past with a logical estimate of the future. It is unlikely that detailed knowledge of the business and its environment will be possessed by one individual.

Francis Goldberger seeks to address the reason why manufacturing enterprises bother about budgets, yet prices are determined by the markets, governments and the recovery of Research and Development costs. He reckons that since manufacturing is an integral part of the business, then its performance must contribute to its competitive advantage. (Goldberger F., 1991)

CEOs need budgets; otherwise they cannot gauge the progress of the business. A budget is not more than an overall view of what is likely to happen and no CEO in his right mind would allow a product to go out of stock just because the overtime budget does not allow. (Goldberger F., 1991)

Budgeting performs the following important organizational functions:

Planning: A budget provides a plan of action or a set of guidelines. It sets deadlines for departmental objectives as well as standards for performance measurement. These standards
or targets give a direction to the activities of the business. Budgeting allocates resources to various activities and influences the process of business strategy formulation.

**Coordination:** Budgeting facilitates coordination of the various activities performed by different departments such as purchasing, production and marketing in a manner that ensures maximization of organizational profit.

**Control:** The budgets of individual departments act as performance standards. At the end of the budgeting period, the actual departmental performance is compared to the targets set by the budget. Thus, deviations from these targets are identified to evaluate performance and suitable action is taken where necessary. Budgeting facilitates reliable and accurate measurement of performance besides aiding in cost control (Banham, 2000).

**Product costing:** A manufacturing concern will use budgets to estimate the future costs of running the factory and use that to estimate a cost of the product. This in turn helps in determining the price of the product even though other factors like market forces and governments come into play. Poor budgeting can then have disastrous effects. If energy costs have been poorly evaluated, or the running -in time of a new machine has been misjudged, then overhead allocations may be completely wrong. It would appear to be ruining a product’s profitability to the extent that marketing may want to abandon it. (Goldberger F, 1991). In his study on cost allocation practices among manufacturing firms in Kenya, Langat B.K. found that 18.8% of his respondents used the budgeted level as allocation base. His study covered 475 manufacturers listed by the Kenya Association of Manufacturers. (Langat B. 2005)

**Organizing:** The scarce economic and human resources are placed the most financially rewarding areas.
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Organizing: The scarce economic and human resources are placed the most financially
rewarding areas.
2.1.2 Benefits of Budgeting

The process of budgeting provides the following benefits to the organization:

Management is compelled to anticipate the obstacles and risks likely to arise in the course of achieving budgeted targets and is thus well-prepared to mitigate them. They are forced to plan ahead and systematically anticipate the future. Problems are anticipated and firefighting is reduced.

Budgeting enables control of income and expenditure; it acts as a tool for monitoring and periodic evaluation of managerial policies and decisions; it facilitates optimal allocation of resources for maximization of profit and facilitates coordination and decentralization of tasks while still retaining control. Firms in the Export Processing Zone do not widely practice formal strategic planning. However, firms with more formal strategic planning have above industry average profits compared to those that do not. (Hapisu G, 2003)

It helps identify weaknesses and deficiencies during the process of achieving targets; it gives a sense of direction to organizational activities and provides systematic and disciplined solutions to problems (Blocher et al., 2002; Browhill, 1987).

Budgeting and budgetary control leads to the determination of investments required giving rise to finance needs. It is used internally to increase efficiency and externally for credit and security analysis (Mundu S, 1997)
2.1.3 Limitations of Budgeting

Sometimes budgets are viewed as a hindrance to modern organizations. There is need to look at the traditional role of budgets, the potential for improving the budgeting process, the radical alternative of doing without them and in that case the issues to be tackled beyond planning and control. (Mourik, 2006)

"The budget is a relic from an earlier age. It is expensive, absorbs too much time and adds little value" comments Mitch max of the specialist management consultancy The Performax Group while sharing some stimulating research findings from the beyond budgeting roundtable in a research briefing entitled "Slaying the dragon: Managing Performance Better Without Budgets".

There are three fundamental flaws inherent in the budgeting process that has serious implications on how companies perform. These are:

a. Cultural flaws — people ensure they set easily achievable targets and manage results closely to meet those targets to protect the future.

b. Strategic flaws — budgets are a barrier to change. Planning horizons are shorter, as are product life cycles. Assets are increasingly intangible. Organizations are accountable to the customer. With this facets changing everyday, budgets are often obsolete in the first quarter.

c. Financial flaws — they are expensive, low value adding and are barriers to growth

The following limitations of budgeting should be given consideration along with its benefits:

- Budgeting helps estimate future events through forecasting. However, the future cannot be
predicted with complete accuracy and therefore, budgeting is not precise; successful implementation of the budget implies cooperation and coordination between all managers, which may not always happen; the budget is merely a tool, which provides guidelines to, but cannot take the place of, management.

- It gives detailed information on how to achieve targets for the benefit of management; management should avoid the mistake of putting too many expectations on the budget, since they all may not always be fulfilled (Bonham, 2000; Blocher et al., 2002).

- Budgets are time consuming to put together. It may then turn out that by the time budgets get to be used, their assumptions are typically outdated thus reducing the value of budgeting process.

- For budgetary control to be effective there needs to be a high degree of operational stability so that the budget is then valid for a reasonable period of time. For organizations operating in turbulent environments, budgetary control becomes less useful.

- Sometimes the focus is more on the expenditure in relation to budget as opposed to the project completion. (Odundo P, 2002)

2.2 Considerations when Budgeting

Non-economic factors like politics affect the budget process (Odundo P, 2002). It is likely that a host of factors could affect the company's future and it could exploit this to its advantage, thus the need for a fact finding process during budgeting. (Mhara P, 2005)
Finance managers should develop two separate budgets: an operational budget and a capital budget. An operational budget plans for the costs associated with operating and maintaining the business environment over a specified period (usually corresponding to the organization's fiscal year). The capital budget is typically a longer-range budget (three to five years) that plans expenses for capital assets for the organization. Executive management or the organizational budget committee must review and approve all departmental budgets (McNally, 2002).

It is the responsibility of the finance manager to prepare budgets. Inputs are required from all departments within the organization. The finance manager should specify the process that is used and the information that is required from each department manager. In a small organization, the process may be very informal. However, in larger enterprises, the finance manager should provide each manager with guidelines specifying the information required, when it is required, and what medium should be used to submit the information. It may be helpful to prepare and distribute a budget manual to each departmental manager to assist them in determining their departments' resource requirements. Sufficient time should be given to each manager to collect and submit the information (such as one month). For larger organizations this process could take three or four months or more to complete. This also gives the financial manager sufficient time to coordinate the collection of the necessary departmental information needed to develop the budget plan (Hofstede, 1991; Banham, 2000).

Some of the things that must be considered when developing a budget include:

**Prior-period trends** Examine trends of service levels over past budget periods to approximate future requirements
Service level agreements (SLAs) with each organizational group: SLAs specify the service levels that are provided to customers as well as the costs for providing those services.

IT organizational requirements such as personnel training and system upgrades: Significant IT environment changes may require significant resources, which must be planned for in advance.

Organizational changes: For example, if a department is outsourced, then the IT department would no longer be required to provide these services. Or the enterprise may be in an expansion phase, requiring greater IT services (Bowhill, 1987; Hofstede, 1991; Banham, 2000).

Industry and economic trends: Examine how trends in the industry or general economic trends will affect the need for IT services. Special requirements such as developing in-house applications: Depending on the scope of the applications being developed, significant resources may be required.

Customer satisfaction: The organization can also use surveys to determine how the services from the prior budget period were performed. Customer satisfaction surveys help to determine if the correct level of service is being provided, especially in regards to the operation of the service desk (Bowhill, 1987; Hofstede, 1991; Banham, 2000).

The development of an organizational budget requires input from a variety of sources, including but not limited to upper management, customers, and historical cost data. As part of the SLA negotiation process, prices must be established for all services provided. Inputs must be garnered from managers so that accurate prices can be negotiated. The financial manager should also examine trends from previous budget periods. Internal budgeting inputs and trends are used as inputs for the negotiation process where final prices are set from which the budget is developed (Bowhill, 1987; Little et al., 2002; Banham, 2000).
2.2.1 Service Level Agreements

One of the most important budget inputs is the SLA. Service level agreements answer the question, What have I promised to do? The matching cost data answers the other half of the question, How much does it cost to do what I have promised? Financial management is responsible for providing input for the costs of services included in the SLA. In order to recover all operating costs from customers, the manager who negotiates an SLA agreement must have a complete understanding of the costs. This requires cost information from each manager. With this information, the financial manager can assist in determining what it will cost in the future to fulfill the obligations in the SLA (Hofstede, 1991; Banham, 2000).

Accurate cost data provides a solid basis for negotiation. SLAs and historical cost data can provide parties to the negotiation with an accurate picture of what services were provided and at what cost. Without a complete understanding of the costs of providing services, managers are unable to negotiate agreements that are fair to each customer and still completely recover the costs of operating the environment. The negotiation process involves not only the negotiation of service levels, but also the setting of prices for the services provided, so that they can be appropriately budgeted for. Part of this activity involves the review of existing SLAs to verify that they are still needed and that the services being provided sufficiently meet customer demands (Banham, 2000).

As part of this evaluation, customers should be prepared to provide input regarding their strategies and goals for the upcoming year. Based on this information, SLAs are revised as needed to more accurately reflect the service requirements of each group. Only then can accurate prices be set for these services (Hofstede, 1991; Banham, 2000).
2.2.2 Customer Requirements

In addition to the negotiation of SLAs, each customer should provide information about future service requirements, thus providing input for the capital budget. For example, if an organization's accounting department is planning on purchasing a new software accounting package, the IT department may need to make modifications to existing system architecture (that is, new servers) to support this software. Knowing this information well in advance gives the IT department time to plan for expenses related to system upgrades, service desk support, and so on (Clarke and Toal, 1999; Covaleski et al., 2003).

2.2.3 Internal Cost Inputs

When setting customer service costs, the financial manager must gather budget inputs from each manager. Most of the budgetary inputs collected are the indirect costs of the operating environment. For example, what training is required to teach personnel how to manage user accounts and security protocols? What training is required to inform the organization about policy changes, such as changes to the request for change submittal process? What costs are incurred for managing SLAs? Each of these costs must be identified and recovered (Covaleski et al., 2003).

2.2.4 Trends

Not all costs are known. In order to derive a complete budget, unknown costs must be estimated. Unknown costs can be estimated using previous budget trends and also by examining industry averages (Clarke and Toal, 1999). Trends are historical data of similar costs from previous periods that can be used to extrapolate costs for the current budget. When using trends to develop a budget, the financial manager must be careful not to
underestimate the costs, which could lead to an insufficient amount of funds to operate the IT environment. However, it is equally unacceptable to overestimate costs, as these results in charging customers too much for the services being provided. In an organization that competes with vendors to provide services, overestimating costs can lead to the loss of service requests for each department (Covaleski et al., 2003; Little et al., 2002).

2.3 Budgeting Methods

Several different methods are available: prior year budgeting and zero-based budgeting. Like balancing the household checkbook, the budgeting method should be consistent and repeatable (Karmarkar et al., 1989; McNally, 2002).

2.3.1 Prior Year Budgeting

The budget process begins with a copy of the previous budget. Changes are made to the budgeted amounts based on the actual costs incurred to date. Each organizational department provides justification for increases from the prior years budget or actual incurred costs (Karmarkar et al., 1989; McNally, 2002).

Sometimes upper management provides direction to the budgeting process. This direction may come in the form of challenges or a percentage reduction. Where costs are charged back to internal customers, budgets may be dictated to be variable to base. If the business base decreases by 10 percent, the budget must decrease by a similar amount (McNally, 2002).
Another method of budgeting is zero-based budgeting. With this technique, the budget planning process begins with a zero balance and each activity that is funded must provide a justifiable reason for why it should be included in the budget. As part of providing budget information, each organizational department must justify its request for funds or, as part of the SLA, must justify its need for the level of service it is requesting. Zero-based budgets are built from the ground up, with all funds appropriately justified before they are included in the budget (Prendergast, 2000; Little et al., 2002; Pierce and O’Dea, 1998).

The major advantage of this technique is that the budget developed is not simply a reworked version of the prior period’s budget. Zero-based budgeting requires that all prior period costs be evaluated before they are included in the budget. Even utility costs that may appear fixed should be reexamined and, if possible, be renegotiated. All external support costs should also be assessed and their usefulness evaluated (Pierce and O’Dea, 1998). So, in essence, the budget planning process becomes a time to assess the overall the operation environment and to evaluate where operational and financial improvements can be made. This method also ensures that the financial manager is able to justify the budgeted items to the budget committee, as all items and their costs are closely scrutinized (Prendergast, 2000).

Other methods include priority based budgeting which is a modification of the incremental budget to incorporate a sensitivity analysis e.g what if funding increased by x%? Muleni A. 2001). Different approaches to budgeting have been causes of great disagreements in the past as they directly affect accountability (Amare, 1986).
2.4 Developments in Budgeting

2.4.1 Activity based Budgeting (ABB)

This is an approach to budgeting where the company uses the understanding of its activities and driver relationships to quantitatively estimate work load and resource requirements. (Dierks & Cokins, 2000)

The aim of ABB is to authorize the supply of only those resources that are needed to perform activities required to meet the budgeted production and sales volume. With ABB, cost objects are the starting point. Their budgeted output determines the necessary activities which are then used to estimate the resources required for the period. Activity based budgeting involves the following stages:

1. estimate production volumes (sales and production) by individual products and customers
2. estimate the demand for organizational activities
3. estimate the resources required to perform the organizational activities
4. estimate for each resource the quantity that must be supplied to meet the demand
5. take action to adjust the capacity of resources to match the projected supply.
   (Drury C, 2000)

2.4.2 Beyond Budgeting

The information age is characterized by intense competition, uncertainty and a need to respond quickly to changes in the market meaning that successful organizations are unlikely to succeed with the traditional command control culture. Budgets support a command and control culture. The use of a budget process results in the front line being disempowered because the front line must act within the constraints set by management rather than act upon
the needs of customers and competitive threats. Budgets reflect historical data and are set after managers engage in a lengthy process of trying to establish what that data indicates about the future. This process is usually protracted due to the managers' self-interested wrangling. In managing performance, budgets represent fixed term performance contracts and as such a performance management system does not help ensure the teamwork and agility required for organizational success. (Fraser R, Hope J, 2003)

The Beyond Budgeting Approach proposes replacing rigid annual budget based performance evaluations with performance evaluations based on relative performance contracts with hindsight. It emanates from the following criticisms of traditional budgets:

- Dissatisfaction with planning and budgeting
- Leads to unethical behaviour
- Reinforces dependency culture
- Diversified from strategy
- Focuses on targets rather than customers
- Stifles product and strategy innovation
- Protects rather than reduces costs
- Time consuming and expensive
- Provides poor value to users
- Fails to focus on shareholder value
- Too rigid: prevents fast response

50% of firms are dissatisfied with budgets: CFO's top priority

Fig 2.4 Adapted from: http://www.bhrt.org/bbconcept.htm, accessed 24th April 2008

a. Budgets are time consuming and expensive. Despite the advent of powerful computer networks and multi-layered models, budgeting remains protracted and expensive.
b. Budgets provide poor value to users

c. Budgets fail to focus on shareholder value. Budgets focus on internally negotiated targets which tend to be incremental changes from the previous period’s outcomes.

d. Budgets are too rigid and prevent fast response

e. Budgets protect rather than reduce costs. "Use it or lose it" is the manager's mantra.

f. Budgets stifle product and strategy innovation. "Never take risks." It is just not worth it.
   If it's not in the budget, you might be exposed

g. Budgets focus on sales targets rather than customer satisfaction. Though everyone wants to satisfy customers, that is not how they are measured and rewarded

h. Budgets are divorced from strategy.

i. Budgets reinforce a dependency culture. The way to survive and prosper in a budgeting environment is to do what you're told, meet the budget (but never beat it!).

j. Budgets lead to unethical behavior. Managing the results (also known as cooking the books) is a frequent outcome of budgeting. Many finance managers are well versed in "managing the slack" and feeding it into the results when needed. However, as we have seen, this practice can border on outright fraud. (http://www.hbr.org/bbconcept.htm, accessed 24th April 2008)

2.4.2.1 Beyond Budgeting Model

Working with budgets, as practiced in most corporations, should be abolished. That may sound like a radical proposition, but it is merely a step in a long running battle to change organizations from centralized hierarchies towards devolved networks. Most of the other building blocks are in place. Firms have invested huge sums in quality programs, IT works, process reengineering, and a range of management tools including balanced scorecards, and activity accounting. But they are unable to realize the new ideas, because the
Beyond Budgeting (BB) is an alternative that is more adaptive and devolved. It replaces the budgeting model with a more adaptive and devolved alternative. Criticizing budgets is not new. But to define a set of principles, that guides leaders towards a new management model, that is lean, adaptive and ethical. The approach has the benefits of; more innovative strategies, lower costs, more loyal customers and faster response. This is because the focus is on reducing complexity, clear governance principles and value to the customer. (Fraser, Hope and Bunce, 2003)

Beyond Budgeting tries to combine the hard fact side in form of new performance management processes (typically the responsibility of finance) with the soft fact side of a new performance management climate and a “devolutionary framework”, where the people at the front, working with customers, get the freedom to decide and act (typically the responsibility of the CFO and of HR).

To make it happen it requires the commitment of the executive team, but the contribution of especially three corporate functions:

- finance (hard facts)
- IT (bringing the hard facts to everyone)
- HR (managing the change from a people perspective)

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To make it happen it requires the commitment of the executive team, but the contribution of especially three corporate functions:

- finance (hard facts)
- IT (bringing the hard facts to everyone)
- HR (managing the change from a people perspective)

2.5 Budgeting and Financial Management

With the surge in outsourcing, application hosting, and e-commerce, proper financial management practices are becoming integral to business operations. Implementing a formalized financial management through a budgeting process generates benefits in cost visibility, planning, optimization, and cost recovery (Magner et al., 2000; Prendergast, 2000).

The purpose of a company is to return a profit to the shareholders. The purpose of a non-profit or governmental organization is to achieve their stated goals and objectives within budget. The sole reason for the department's existence is to support the business in achieving these goals. While those in information technology may enjoy technology; their only reason for drawing a paycheck is because they are necessary to further the organization's goals.

The questions that management must be able to answer at any moment are: How do I, and my department, help the organization accomplish its goals? What does the department contribute to shareholder value? Proper budgeting of the departments gives the organizational financial management the following answers (McNally, 2002; Jensen, 2001; Hilton et al., 2000).

It is clear that proper financial management begins with a good budget. Among other things, a good budget calls for an activity budget to act as a link between objectives and their realization. A faulty budget is a faulty start to the whole financial management process (Muleri A, 2001).

2.5.1 Cost Visibility

Proper financial management of the department budgets provides management with visibility of costs. Cost visibility provides benefits including: the organization provides services within
budgets that are negotiated with customers. The costs of providing an agreed-to level of service can be tracked and understood and understandable. The organizational departments can trace costs and report the origin of costs to customers and executive management. Customers are fairly charged for the services being provided and the prices charged are more predictable. The organizational department is able to compare the cost of providing services to the costs charged by outside vendors. Accurate cost data will assist the business unit in the preparation of accurate and realistic bids and proposals. Accurate cost data is necessary to optimize operations (Hilton et al., 2000).

2.5.2 Planning

The development of a sound budget encourages and promotes better organizational planning. Customers are encouraged to be cost-conscious about the services they use and to educate individual users about the costs associated with their activities. Planning focuses attention on the organization's goals and objectives. Planning results in fewer poor decisions. Planning helps the organization evaluate risk and take reasonable risks. Planning assists organizations in the optimizing quadrant (McNally, 2002).

2.5.3 Value Optimization

Budgets and accurate cost information provide metrics that can be used to measure performance, reliability, and customer satisfaction. For example, a report that measures actual costs against budgeted costs is a useful metric for assessing performance. Another example is accessing changes to ensure that they were implemented within their budget. Comparing performance versus organization plans is one of the first steps in optimizing performance. The optimizing phase utilizes the information collected through the cost-
accounting activity. The optimizing phase includes processes, procedures, and techniques to manage and reduce costs while maintaining or improving service levels (McNally, 2002).

In order to complete the optimizing activity, organizational financial information must be collected and provided to the manager(s) responsible for service optimization. The collection of this information and the production of appropriate reports take place within the cost-accounting activity.

2.5.4 Cost Recovery
Properly implemented cost accounts facilitate improved cost recovery. Cost accounts must be logical and easily understandable. Many corporations today are utilizing cost allocation or charge-back models where business units are funding their own key organizational projects. This places more accountability for the business value of organizational projects in the hands of those who must justify the expenditure and prove the benefits. Implementing cost recovery puts more pressure on the organizational groups to accurately collect costs and to become more efficient and cost effective (Prendergast, 2000).

2.5.5 Goals and Objectives
The goals and objectives of financial management are to be able to fully account for the cost of organizational services, to attribute the costs to the services delivered to the organizations' customers so that the costs can be recovered, to aid decision making by understanding the cost of organizational services, and to provide business cases for changes to organizational services based on a sound understanding of the costs involved (Magner et al., 2000; Prendergast, 2000).
2.6 Budgeting and Performance – Does a relationship exist?

Since it is very difficult to obtain financial information from most of the companies who deem it confidential, a theoretical review was done in an attempt to answer the above question. In their review of world wide budget practices, a team from the centre of business performance at Cranfield School of Management did several case studies on the effect of budgeting on financial performance. They found that most of the companies studied did not use the approaches suggested in their pure form but used customized approaches. 96% of the analysts said that forecast accuracy and management credibility influence market expectations.

85% of them stated that they believe that budgeting systems have either a direct or indirect impact on profits and hence on share valuations.

The relationship between strategic variability and planning comprehensiveness is limited. However, for strategic planning to be effective certain preconditions must exist, e.g., existence of sound financial reporting systems. (Piest B, 1994). McKernan and Morris argue that there is a consensus that formal strategic planning facilitates survival especially in turbulent environments.

Previous studies which have examined the relationship between planning and business performance have reported mixed results. Some found positive and significant impact while others found no relationship. Overall the studies have concluded that SME’s engaged in strategic planning are more likely to utilize formal capital budgeting techniques including the net present value method which is consistent with maximizing the firm value. Financial
planning and control leads to determination of investments required thus giving rise to finance needs. (Mundu, 1997)
3.0 RESEARCH METHODOLOGY

3.1 Research Design
This was a survey of the use of budgeting practices in manufacturing firms in Kenya. The objective of the research was to establish the budgeting practices used in the manufacturing industry in Kenya. The practices studied included: techniques, methods, uses, perceived limitations and factors considered while budgeting.

3.2 Target Population
The target population comprised of manufacturing firms in Kenya.

3.3 Sampling Design
A sampling frame was created using the Kenya Association of Manufacturers members register obtained from their website as accessed on 11th March 2008. The total number of members in the register as of that date was 549. Of these, 412 are in Nairobi and 334 of them are in the manufacturing sector.

The rest, in associate and support sectors were excluded from the study.

Nairobi was chosen due to the geographical convenience to the researcher, cost of collecting data as well as the time that would have been required if the data were to be collected outside Nairobi. This was still fairly representative given that over 75% of the KAM members were found to be in this region. The KAM listing was used as the basis because it was the most
organized. The implication was that only manufacturers who are registered as members were studied.

Table 3.1 Composition of the Manufacturing Sector

<table>
<thead>
<tr>
<th>Category</th>
<th>No of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverage and Tobacco</td>
<td>81</td>
</tr>
<tr>
<td>Chemical and Allied</td>
<td>39</td>
</tr>
<tr>
<td>Leather Products and Footwear</td>
<td>6</td>
</tr>
<tr>
<td>Metal and Allied</td>
<td>38</td>
</tr>
<tr>
<td>Motor vehicle assembly</td>
<td>16</td>
</tr>
<tr>
<td>Paper and Paperboard</td>
<td>48</td>
</tr>
<tr>
<td>Pharmaceutical and Medical Equipment</td>
<td>18</td>
</tr>
<tr>
<td>Plastics and Rubber</td>
<td>48</td>
</tr>
<tr>
<td>Textile and Apparelis</td>
<td>32</td>
</tr>
<tr>
<td>Timber, Wood and Furniture</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>334</td>
</tr>
</tbody>
</table>

Since the population embraces 10 distinct categories, the frame was organized by the above categories into separate "strata." A sample was selected from each "stratum" separately, producing a stratified sample. The two main reasons for using the stratified sampling design were: to ensure that all categories are adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

The sample size was determined using the "Creative Research Systems" sample size calculator. (http://www.surveysystem.com. accessed 9th May 2008) To achieve a confidence level of 95%, a sample size of 75 was used. The proportion of the stratum size to population size was used to determine the spread of the sample across strata.

Given that this is more than 5% of the total population studied, the sample size can be reduced without sacrificing precision.(Cooper, Schindler, 2003). This will allowed some space for the questionnaires that did not get returned.
3.4 Data Collection Method

A semi-structured questionnaire was administered to manufacturing firms within Nairobi and its environs. This method was chosen as it is the most feasible way of reaching this number of respondents. The drop and pick method was chosen because the questions were simplified and unambiguous making it easy for the respondent to answer on his own. In addition, the questionnaire has the following advantages that made it appropriate for this study:

i. Questionnaires are very cost effective compared to face-to-face interviews. This study has a relatively large sample and the time is limited. The number of questions is also large making a written questionnaire even more appropriate.

ii. Questionnaires are easy to analyze. Data entry and tabulation for nearly all surveys can be easily done with many computer software packages.

iii. Most people have had some experience completing questionnaires and they generally do not make people apprehensive.

iv. Questionnaires reduce bias. There is uniform question presentation and no middle-man bias. The researcher’s own opinions will not influence the respondent to answer questions in a certain manner. There are no verbal or visual clues to influence the respondent.

v. Questionnaires are less intrusive than telephone or face-to-face surveys. When a respondent receives a questionnaire in the mail, he is free to complete the questionnaire on his own time-table.
Although a questionnaire has the risk of generating too many responses or misinterpreted questions, this was preempted by designing specific questions with defined possible answers. Open ended questions were limited to a minimum.

The questionnaire was administered on a drop and pick basis. Where possible, email was used to administer the questionnaire. Finance managers or their equivalents were targeted and for smaller firms, the senior managers responsible for planning were targeted. This method was made possible by the fact that the questions were structured and unambiguous.

The first set of questions, (Section A) was general in nature and was used to gather some basic information about the firm. This was useful in categorizing the firm as either large or small.

The second section (B) sought to address the objective of establishing the budgeting practices in use in the manufacturing sector. Respondents were asked specific questions regarding the types of budgets they prepare, the time range covered by the budgets, uses to which budgets are put and factors considered while budgeting.

The questionnaire combined two types of questions. One had questions whose response was either yes or no while the other had a numbered scale where individuals were required to make a decision on their level of agreement, generally on a five-point scale (i.e. Strongly Agree, Agree, Undecided, Disagree, Strongly Disagree) with each statement. The number beside each response became the value for that response and the total score was obtained by adding the values for each response.
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3.5 Data Analysis and Presentation

Field editing was minimal since the questionnaire was dropped for the respondent to complete on his own. The questionnaires were analyzed centrally for accuracy and completeness. The data was then checked for any errors and omissions (Kothari, 1990). Coding of the responses was then performed to facilitate statistical analysis. Firms were also classified into:

1. Small: - covering small and medium enterprises with up to 100 employees.
2. Large: - Covering large firms with over 100 employees.

The budget types and techniques were addressed by the first group of structured questions with a “yes or no” response. The responses were tabulated in frequency tables, pie charts and the percentages for each type computed.

For the semi-structured questions e.g. the time range, basis of breakdown etc, the frequency tables and percentages were used. In addition, measures of central tendency were used especially the mode to determine the techniques used by most companies.

In analyzing the data on aspects of budget implementation, challenges, perceived importance of the budgets and factors considered while budgeting, responses on the Likert scale were collated using frequency tables. The measures of central tendency specifically the median and the mean were used to analyze the responses. To measure the level of consensus regarding a variable, measures of dispersion were employed mainly the standard deviation.
CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents the analysis of the data collected and interpreted on the budgeting practices in the manufacturing industry in Kenya.

4.1 Data Collected and Analysed

Data was collected from 45 firms in the manufacturing industry. Of the 75 targeted firms, 45 of them responded representing 60% response rate considered adequate to form a basis for valid conclusions regarding the budgeting practices adopted by the manufacturing industry in Kenya. Of these 45, two of them indicated that they do not prepare any budgets. The number of firms that prepare budgets from the sample represents 98% of the firms studied, while only 2% do not prepare any budgets.

4.2 Background Information of Firms Studied

4.2.1 Number of Employees

The 45 firms studied fall in the region of Nairobi and its environs. Of these, 29 have more than 50 employees and can therefore be classified as large manufacturing firms. This represents 65% of the firms studied and the conclusions can therefore be said to be true of large manufacturers. 13% have between 50 and 100 employees and 23% have less than 50 employees.
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4.2.2 Nature of Business

All the firms studied indicated that they were engaged in the conversion of materials into
finished product. The responses were distributed as follows across the industries

Table 4.1 Distribution of respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Beverage and Tobacco</td>
<td>12</td>
</tr>
<tr>
<td>Chemical and Allied</td>
<td>5</td>
</tr>
<tr>
<td>Leather Products and Footwear</td>
<td>0</td>
</tr>
<tr>
<td>Metal and Allied</td>
<td>5</td>
</tr>
<tr>
<td>Motor vehicle assembly</td>
<td>1</td>
</tr>
<tr>
<td>Paper and Paperboard</td>
<td>4</td>
</tr>
<tr>
<td>Pharmaceutical and Medical Equipment</td>
<td>4</td>
</tr>
<tr>
<td>Plastics and Rubber</td>
<td>6</td>
</tr>
<tr>
<td>Textile and Apparels</td>
<td>6</td>
</tr>
<tr>
<td>Timber, Wood and Furniture</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

4.3 Budgeting Practices

4.3.1 Existence of Budgets

In response the question whether their companies prepared budgets, a clear majority
indicated that they do prepare budgets. Only 2 firms responded that they do not prepare
budgets. As such, 43 firms (93.3%) do prepare some type of budgets. We can therefore conclude that budgeting as a tool is widely used in the manufacturing industry in Kenya.

![Existence of Budgets](image)

**Fig 4.2 Existence of Budgets**

Source: Research Data

### 4.3.2 The existence of the operating budget.

Majority of the firms studied prepare all the components of the operating budget. They prepare production budgets, sales budgets, Capital expenditure budgets and overhead cost budgets. Of all the components, sales budgets were the most widely prepared with 98% of the firms preparing them. Figure 4.3 summarises the prevalence of the components of the operating budget.

### 4.3.3 The Cash Budget

Cash budgets have a high prevalence with 93% of the firms studied preparing them.

### 4.3.4 The Capital Budget

When asked whether they prepare capital expenditure budgets, 93% firms indicated that they do.
4.4 Budgeting Methods and Process

When the respondents were asked about the budgeting methods that their companies have adopted, a majority of them used prior year budgeting. More than half of the firms (59.1%) have adopted prior year budgeting, while the rest use zero based, activity based or a combination of all the three.

A majority of firms (76%) prepare budgets that cover between 1 and 3 years. The performance against budgets is reviewed on a monthly basis by 77% of all the firms while 73% of the firms studied break down their budgets on the basis of time and department.

4.5 Aspects of Budget Implementation

The responses around the specified aspects of budgeting indicated that majority of the firms have faith in the budgeting process. They indicated that that there is good information flow during budgeting and that budgets are widely accepted within the organisations.
Table 4.2 Aspects of Budget Implementation

<table>
<thead>
<tr>
<th>Aspects of Budget Implementation</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Not Sure</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Information Flow</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>18</td>
<td>44</td>
</tr>
<tr>
<td>Budget Accepted with Reception</td>
<td>2</td>
<td>12</td>
<td>4</td>
<td>8</td>
<td>16</td>
<td>42</td>
</tr>
<tr>
<td>Effective Leadership Provided</td>
<td>8</td>
<td>8</td>
<td>2</td>
<td>10</td>
<td>16</td>
<td>44</td>
</tr>
<tr>
<td>Effective Coordination</td>
<td>6</td>
<td>7</td>
<td>2</td>
<td>18</td>
<td>16</td>
<td>44</td>
</tr>
<tr>
<td><strong>Total Score</strong></td>
<td><strong>18</strong></td>
<td><strong>26</strong></td>
<td><strong>12</strong></td>
<td><strong>62</strong></td>
<td><strong>68</strong></td>
<td><strong>174</strong></td>
</tr>
</tbody>
</table>

Source: Research Data

4.6 Criticisms of Budgeting

A majority of the firms do not identify with the criticisms of budgeting. When asked to rate their agreement or otherwise to the criticisms of budgeting that are the basis of “beyond budgeting,” majority either disagreed or strongly disagreed with the criticism posed. The responses were on a scale of 1 to 5 from “strongly disagree” to “strongly agree.” The one criticism that the respondents agreed with somewhat was that budgeting stifles innovation. This scored a mean that is barely above the median score of “not sure.” All other factors were generally disagreed with and scored below the median.

There was consensus among the respondents that budgets do add value and are focused on the overall strategy of the firm. The standard deviations for the two variables were 0.98 and 0.88 respectively.

As regards whether budgets are focused on value in the eyes of the customer, there was high variability (standard deviation of 1.62) meaning that some respondents felt that budgets are focused on the customer while others felt differently.

The responses of various company representatives are shown in table 4.3 below.
### Table 4.3  Criticisms of Budgeting

<table>
<thead>
<tr>
<th>Variables</th>
<th>Time</th>
<th>NVA</th>
<th>Focus</th>
<th>Strategy</th>
<th>Inflexible</th>
<th>Customer</th>
<th>Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Score</td>
<td>94</td>
<td>62</td>
<td>63</td>
<td>87</td>
<td>94</td>
<td>98</td>
<td>133</td>
</tr>
<tr>
<td>Mean Standard</td>
<td>2.19</td>
<td>1.44</td>
<td>1.47</td>
<td>2.02</td>
<td>2.19</td>
<td>2.28</td>
<td>3.09</td>
</tr>
<tr>
<td>Deviation</td>
<td>1.38</td>
<td>0.98</td>
<td>0.88</td>
<td>1.42</td>
<td>1.01</td>
<td>1.62</td>
<td>1.41</td>
</tr>
</tbody>
</table>

Source: Research Data

This may be an indication that "Beyond Budgeting" is still a long way off and budgeting in its current state is widely accepted in the local manufacturing industry. Manufacturers do not agree with the criticisms that have been forwarded as a basis for the beyond budgeting model.

### Table 4.4  Criticism of Budgeting Ranking

<table>
<thead>
<tr>
<th>Do not Add Value</th>
<th>86%</th>
<th>9%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Focus on Shareholders' Value</td>
<td>82%</td>
<td>6%</td>
</tr>
<tr>
<td>Divorced From Strategy</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>Time Consuming/Expensive</td>
<td>77%</td>
<td>23%</td>
</tr>
<tr>
<td>No Focus on Customer Satisfaction</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>Rigid &amp; Inflexible</td>
<td>64%</td>
<td>18%</td>
</tr>
<tr>
<td>Stifles Innovation</td>
<td>52%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Research Data

### 4.7 Why budgeted targets are sometimes not met.

The respondents were asked why in their opinion the targets set during budgeting are sometimes not met. 55% agreed that Companies fail to meet their targets because they set
unattainable goals. 73% felt that the uncertainty in the environment leads to non achievement of goals. This is illustrated in the table below:

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Disagree</th>
<th>Agree</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departmental Inability</td>
<td>68%</td>
<td>32%</td>
<td>0%</td>
</tr>
<tr>
<td>Unattainable Standards</td>
<td>45%</td>
<td>55%</td>
<td>0%</td>
</tr>
<tr>
<td>Uncertainty</td>
<td>27%</td>
<td>73%</td>
<td>0%</td>
</tr>
<tr>
<td>Ineffective Planning</td>
<td>36%</td>
<td>50%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: Research Data

4.8 Uses of Budgets

The respondents were asked to indicate on a scale their agreement or otherwise the extents to which budgets are used for particular purposes in their organisations. The results indicated that budgets are put to various uses. Most of the firms do not use budgets as a means to calculate rewards or to motivate employees. The respondents rated profit maximisation as the most important use to which budgets are put and motivation of employees as the least important use of budgets.

The variables studied were: forecasting the future (FC), Profit maximization (PM_1), communicating the company’s objectives (Comm.), Performance measurement (PM_2), means of calculating rewards (Rew), Motivation tool (Mot), control tool (cont), Funds allocation (FA), Calculating cost of goods (COGS), reduce risk of failure (RR), reduce costs (CC) and Investment Appraisal (IA). The most important use according to the research is funds allocation with a mean score of 4.28 followed by profit maximisation with a mean of 4.23. Calculating rewards and motivation staff was rated as the least important. The mean scores (2.86 and 2.88 respectively) were below the median score of 3 indicating that factors are not considered important uses of budgets.
Funds allocation and profit maximisation are uses that show the lowest distance from the mean. The standard deviation is the lowest at 0.85 and 1.09 respectively followed by forecasting the future at 1.25. The highest variability is seen in use of budgets as means for reward calculation with a standard deviation of 1.63.

These measures are illustrated in the table below:

<table>
<thead>
<tr>
<th>Variables</th>
<th>FC</th>
<th>PM 1</th>
<th>Comm.</th>
<th>PM 2</th>
<th>Rew</th>
<th>Mot</th>
<th>Cont</th>
<th>FA</th>
<th>COGS</th>
<th>RR</th>
<th>CC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Score</td>
<td>179</td>
<td>182</td>
<td>158</td>
<td>140</td>
<td>123</td>
<td>124</td>
<td>169</td>
<td>184</td>
<td>125</td>
<td>154</td>
<td>143</td>
</tr>
<tr>
<td>Mean Std</td>
<td>4.16</td>
<td>4.23</td>
<td>3.67</td>
<td>3.26</td>
<td>2.86</td>
<td>2.88</td>
<td>3.93</td>
<td>4.28</td>
<td>2.91</td>
<td>3.58</td>
<td>3.33</td>
</tr>
<tr>
<td>Dev</td>
<td>1.25</td>
<td>1.08</td>
<td>1.48</td>
<td>1.45</td>
<td>1.63</td>
<td>1.52</td>
<td>1.35</td>
<td>0.85</td>
<td>1.59</td>
<td>1.37</td>
<td>1.46</td>
</tr>
</tbody>
</table>

Source: Research Data

4.9 Factors Considered While Budgeting

Different factors were posed to the respondents who were asked to rate their importance to the budgeting process. The factors posed to them were: economic outlook, past behaviours and emerging trends, government regulations and controls, consumer attitudes, tastes and preferences, competition, advertising efforts and political situation. In addition to the factors specified, firms indicated that they do consider their production capacity, availability of funds, new products and services as important factors to consider while budgeting. Firms indicated that economic trends and outlook are the most important factor with a mean score of 4.58 in a rating scale of 1 to 5. The next was trends and behaviours of past costs followed by competition with means of 4.44 and 4.30 respectively. The factor considered least important was the Advertising and Promotion efforts of the firm with a mean of 3.23. All the factors were rated above the median of 3. The greatest consensus is found in importance of
economic outlook with a standard deviation of 0.85. The importance of consumer attitudes and preferences shows high variability with a standard deviation of 1.55.

Table 4.7  Factors Considered When Budgeting

<table>
<thead>
<tr>
<th>Variables</th>
<th>Economic outlook</th>
<th>Past Trends</th>
<th>Govt regulations</th>
<th>ADTP</th>
<th>Competition</th>
<th>A&amp;P</th>
<th>Political</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Score</td>
<td>197</td>
<td>191</td>
<td>174</td>
<td>147</td>
<td>185</td>
<td>139</td>
<td>151</td>
</tr>
<tr>
<td>Mean</td>
<td>4.58</td>
<td>4.44</td>
<td>4.05</td>
<td>3.42</td>
<td>4.30</td>
<td>3.23</td>
<td>3.51</td>
</tr>
<tr>
<td>Std Deviation</td>
<td>0.85</td>
<td>1.05</td>
<td>1.36</td>
<td>1.55</td>
<td>1.04</td>
<td>1.56</td>
<td>1.30</td>
</tr>
</tbody>
</table>

Source: Research Data

4.10 Summary of Findings

The questionnaire was administered to 75 potential respondents of whom 45 (60%) responded. The results indicated that 93.3% of the firms prepare budgets. The components of the operating budget is widely prepared with 98% of the firms preparing the sales budget and 89% of the firms preparing the production, material and purchase, labour costs and overhead cost budgets. Cash budgets and Capital expenditure budgets are prepared by 93% of the firms.

The most widely used method of budgeting is the prior year (incremental) method used by 59.1% of the firms and performance against budgets is reviewed monthly by most of the firms.

Economic outlook, competition and trends of past costs are considered the most important factors to consider while budgeting with mean ratings of 4.58, 4.44 and 4.30 against a median of 3 in a scale of one to five.
Most firms do not agree with the criticisms of budgeting posed by the proponents of "beyond budgeting". In a scale of 1-5, all variables posed scored a mean that was below the median. The criticism that budgets stifle innovation scored slightly above 3 at 3.09 indicating some agreement with this criticism.

Profit maximization, forecasting the future and funds allocation were rated the most important uses of budgeting with mean ratings of 4.23, 4.16 and 4.28 respectively.
5.0 DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion of Findings and Conclusions

The objective of this study was to establish the budgeting practices in manufacturing industries in Kenya and the reasons why budgets are used if at all. The practices surveyed included the types of budgets prepared, the techniques adopted, the budgeting periods and intervals, the factors considered while budgeting and the uses to which the budgets are put.

Of the 45 respondents, 43 of them (93.3%) indicated that they use budgets. We can therefore conclude that budgeting is a widely used practice in the manufacturing industry in Kenya.

The results indicated that of those that prepare budgets, all of them use at least one component of the operating budget. A clear majority use most of the components of the master budget. From this, we can conclude that the operating budget is a widely used tool in the manufacturing industry.

Cash budgets and Capital expenditure budgets are also widely used in the manufacturing industry in Kenya.

The most widely applied budgeting period is between one and three years and most of the firms review performance against budget every month. From this, we can conclude that budgeting is used by the manufacturing firms as a management tool for evaluating
performance of the firm. It is also clear that the companies' medium term strategic plans are expressed in budgetary terms.

The most important use of budgets according to this research is maximisation of shareholders value. This is achieved through planning for the most optimal use of resources as well as continuously evaluating performance and putting in corrective action in good time. With most of the firms reviewing their performance against budget every month, deviation from planned performance will be realised and corrected in good time.

The most important factor to consider while budgeting is the overall economic outlook as it has the highest mean. From the standard deviation, we conclude that there is consensus as regards the importance of this factor. With all factors getting a mean that is above the median of 3, we can conclude that all of them are considered important to the process. This is in line with the review of literature which indicated that unknown costs can be estimated by use of past trends and industry averages. (Clarke and Ioal, 1999). Also rated important are government regulations and controls and the competition. This aspect is agreement with the indication that in an organization that competes with other vendors to provide services, overestimating costs can lead to the loss of service requests for each department (Covaleski et al., 2003; Little et al., 2002) These are assumptions which if inaccurately estimated can render the budgets irrelevant.

The least important factor is firms own advertising and promotion efforts and there is no consensus on the importance of this factor. Some of the respondents consider it important while others do not. We can only speculate that the importance or otherwise may depend on
other factors like the category of manufacturing that a firm belongs. This was not tested in the research and would be a good basis for further research in this area.

In as far as challenges that lead to the budgeted output not being achieved, uncertainty in the economic, political and technological environment was ranked the most important reason. This is hard to predict and when the actual turns out to be different from the assumptions, then the performance is likely to be very different from the budgeted performance.

With regard to the criticisms of budgeting which form the basis of the “Beyond Budgeting” most firms did not identify with the criticisms highlighted in section 2.4.2 of this paper. They largely disagreed with all the criticisms of budgeting. All but one of the factors had a mean rating that was below the median. This indicates that budgeting in its current form is widely accepted in the manufacturing industry and will be around for sometime. Overall, they strongly felt that budgets do add value and that they are aligned to strategy and value in the eyes of the shareholder.

5.2 Recommendations

The Manufacturing industry should adopt more advanced methods of budgeting. Majority of them (59.1%) use the more traditional prior year budgeting method. Although historical data cannot and should not be ignored while planning for the future, prior year budgeting has some significant shortcomings which could compromise the value of the budgets prepared. The problem is that less thought goes into the process and real change is not catered for.
Zero based budgets better equip management to make decisions when comparing actual program performance to the budget. Zero-based budgeting most often gives a better estimate of income projections and helps create a model for spending by breaking the habit of budgeting nonessential costs simply because they were incurred the prior year.

Since Zero Based Budgets and Activity Based Budgeting have their own shortcomings, the companies may benefit more from using a hybrid of all the methods. Some costs may only be reasonably estimated using historical data. However, incremental (prior year) budgeting in its pure form may lead to carrying forward of inefficiencies from previous years.

With regard to review of the budgets, a majority of the firms indicated that performance against budgets is reviewed by top management. While this is good, ways should be devised of incorporating cross functional teams that cut across all ranks to create a sense of financial ownership within the organizations. This way, implementation of the corrective actions will seem less of an imposition.

Although calculating rewards and measuring performance of employees were rated as the less important uses of budgets, an ambitious and exhaustive budget can be used as a means of calculating rewards. This way, the employee is able to see what is in it for him and works hard towards achievement of that budget.

With regard to criticisms posed by the proponents of beyond budgeting, there is wide disagreement with all the factors by majority of the firms studied. Budgeting is widely accepted in its current form in the manufacturing industry in Kenya. Although budgeting is a useful tool, there is need to adopt more recent developments or at least borrow from them.
These include "beyond budgeting" and "benchmarking". These recent approaches to budgeting focus on the entire performance management process and are in favor of more flexible models by which managers are able to regulate their own performance, and financial planning processes and individual behavior are therefore better aligned with corporate strategy.

Budgets are useful as a management tool but need to be used with caution. Sometimes there is temptation to be too prudent and set very lenient budgets. This ensures that performance is always exceeding targets but value for the shareholder remains less than optimal.

5.3 Limitations

This study was limited by the fact that some respondents deemed the information required as confidential. As such, some questions were left unanswered and some did not fill the questionnaire at all.

The questionnaire was administered on a drop and pick method. This proved to be limiting when certain responses provoked a further exploratory question which was then not asked since it was not a face to face interview. For instance where a respondent said that their organisation did not prepare budgets, it would have been of value to inquire why this is so or what tools they use in the place of budgets. This would only be possible in a face to face interview.
5.4 Suggestions for Further Research

Budgeting should be studied in other sectors of the economy like the agricultural sector. Agriculture is a main source of livelihood for many Kenyans and strategic planning in the sector could play a big role in the success of the sector.

More recent developments like “beyond budgeting” need to be studied in the manufacturing sector to assess whether the criticisms of budgeting have been felt and addressed.

Further research may be done to assess the relationship if any of the budgeting practices to the performance of the companies.

For the factors that affect budgets which the respondents indicated to be important to the process, it will be worthwhile to study them in depth and establish the extent to which they affect the process. Such research would aim to study how the firms go about estimating these factors to enable them make realistic assumptions.
REFERENCES


July 2008

Dear Respondent,

REF: REQUEST FOR RESEARCH DATA

I am a Master of Business Administration (M.B.A.) student at the University of Nairobi. I am required to submit as part of my course work assessment a research project report on “Budgeting Practices in Manufacturing Firms in Kenya”. To achieve this, your organization is one of those selected for the study. I kindly request you to fill the attached questionnaire to generate data required for this study. This information will be used purely for academic purpose and your name will not be mentioned in the report. Findings of the study, shall upon request, be availed to you.

Your assistance and cooperation will be highly appreciated.

Thank you in advance.

Maina Judy Wangari
Student Researcher
University of Nairobi

Otieno Luther O
Lecturer: Department of Finance and Accounting
University of Nairobi
Appendix 2  Questionnaire

SECTION A: GENERAL INFORMATION

1. Name of Institution: _______________________________________
2. Industry: _______________________________________________
3. Please state your position in the organisation: ______________________
4. Length of time with the company: ______________
5. Total assets value in 2007: __________
6. Total employees:
   - Less than 50 [ ]
   - 51 - 100 [ ]
   - 100 and more [ ]

SECTION B: BUDGETING PROCESS AND PRACTICES

7. Kindly answer the following questions by ticking the appropriate box:

<table>
<thead>
<tr>
<th>Budget Planning and Control Process Aspects</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Does your company prepare any budgets?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Does your company prepare sales budgets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Does your company prepare production budgets?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Does your company prepare material/purchases budget?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Does your company prepare Labour cost budgets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Does your company prepare overhead costs (expenses) budgets?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Does your company prepare capital expenditure budgets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h) Does your company prepare Cash budgets?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Do you prepare other types of budgets? Please specify.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j) What budgeting method has your organisation adopted?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
   - Prior Year Budgeting
   - Zero Based Budgeting
   - Activity Based Budgeting
   - Other (please specify)
| k) What range do your budgets cover? |     |    |
   - 1-3 years [ ]
### Appendix 2 Questionnaire

<table>
<thead>
<tr>
<th></th>
<th>1-5 years</th>
<th></th>
<th>Over 5 years</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Is there a team responsible for the budgeting process?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>If no, who does the budget?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your company issue budget guidelines prior to preparing budgets?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On what basis do you break down your budget?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td></td>
<td>Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time and department</td>
<td></td>
<td>Others, please specify</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who evaluates the budget variance performance reports?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental heads</td>
<td></td>
<td>Budget committee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top management</td>
<td></td>
<td>Others, please specify</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is the periodicity of performance reporting related to budgets?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly</td>
<td></td>
<td>Quarterly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi-annually</td>
<td></td>
<td>Others, please specify</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. The following are some of the statements relating to budget implementation. Please tick the appropriate scale. 1 = Strongly Disagree, 2 = Disagree 3 = Not sure, 4 = Agree 5 = Strongly Agree

<table>
<thead>
<tr>
<th>Aspects of Budget Implementation</th>
<th>1 2 3 4 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>In your company, good information flow is available for budgeting exercise</td>
<td></td>
</tr>
<tr>
<td>In your company, the budget communication is accepted with caution</td>
<td></td>
</tr>
<tr>
<td>In your company, the budget communication is accepted with reception</td>
<td></td>
</tr>
<tr>
<td>Leadership provided to the subordinate managers during budget execution is effective</td>
<td></td>
</tr>
<tr>
<td>Coordination among the various departments during budget execution is achieved</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2 Questionnaire

In your company, budget variances are used to evaluate manager's performance
In your company, budget variance are used to evaluate the forecasting ability of the manager
Any other uses? (please specify)

9. The following are some of the criticisms relating to budgeting Process. Please tick the appropriate scale. 1 = Strongly Disagree. 2 = Disagree 3 = Not sure 4 = Agree 5 = Strongly Agree

<table>
<thead>
<tr>
<th>Criticism</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgets are time consuming and expensive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgets do not add value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgets do not focus on the shareholders' value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgets are divorced from Strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgets are rigid and inflexible</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgets do not focus on customer satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgets stifle innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other criticism, please specify</td>
<td>i.</td>
<td>ii.</td>
<td>iii.</td>
<td>iv.</td>
<td>v.</td>
</tr>
<tr>
<td>i.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>v.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. In some periods, you may not be able to achieve the required standard targets. To what extent are the following challenges responsible for this? (Please, tick the appropriate scale). 1 = Strongly Disagree 2 = Disagree 3 = Uncertain 4 = Agree 5 = Strongly Agree

<table>
<thead>
<tr>
<th>Challenges</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inability in your department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unattainable standard</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncertainty (Turbulent environment)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ineffective planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11. To what extent are the budgets worked out in detail?  
Always  
Almost always  
Often  
Almost Never  
Never  

12. Budgets have a number of purposes, indicate how important do you think that each of the following purpose is relevant for your company (please indicate the influence of each purpose using a rating scale):-

1- Not Important  
2- Important  
3- Don't Know  
4- Very Important  
5- Extremely Important  

<table>
<thead>
<tr>
<th>Uses to which budgets are put</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) To forecast the future</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) To assist in profit maximization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) As a means by which management communicate to other levels in the company the company objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) To measure performance of managers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) As a means of calculating rewards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) To motivate employees to do better</td>
<td></td>
<td></td>
<td></td>
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<td>g) To control performance by calculating and investigating variances</td>
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<td>h) To obtain allocate funds</td>
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<tr>
<td>i) To determine cost of goods</td>
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<td>j) Reduce risk of failure</td>
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<td>k) Reduce business costs</td>
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<td>l) Investment appraisal</td>
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<td>Other uses - Please specify</td>
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13. How important are the following factors to your budgeting process?
Appendix 2

Questionnaire

1 = Not Important
2 = Important
3 = Don’t Know
4 = Very Important
5 = Extremely Important

Factors considered while budgeting

<table>
<thead>
<tr>
<th>Factors</th>
<th>1</th>
<th>2</th>
<th>3</th>
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</thead>
<tbody>
<tr>
<td>a) The outlook of the industry and the economy</td>
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<td>b) Past behaviour and emerging trends in sales</td>
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<td>c) Governmental regulations and controls</td>
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<td>d) Consumer attitudes, dispositions, tastes and preferences</td>
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<td>e) Competition</td>
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<td>f) Advertising and promotion efforts of the firm</td>
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<td>g) Any other factors (please specify)</td>
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<td>h) Political situation</td>
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</table>

14. Any comments would you like to provide on budgeting practices and/or developments in your company

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Note

All information will be treated with utmost confidence.

Thanks for taking your time to fill in this questionnaire.