THE EFFECT OF BUDGETARY CONTROL PROCESS ON FIRM FINANCIAL PERFORMANCE: A CASE STUDY OF NZOIA SUGAR COMPANY, KENYA

BY

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DECLARATION

I hereby declare that this dissertation is my original work and has not been submitted for a degree award in any university.

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DEDICATION

This research work is dedicated to my mother; the strongest woman I know. An embodiment of hard work, discipline and sacrifices whose life purpose has been to see me reach these heights.

ACKNOWLEDGEMENT

First and most importantly to God Almighty for His gift of love and unending grace that has enabled me reach these heights, I humbly offer my gratitude. Indeed God is good.

Special thanks to my supervisors, Prof Tarus and Dr. Kibet for not only guiding me in my research but also being living testimonies that all is possible through hard work and determination.

My family and especially my mother for always being my pillar of strength and beacon of hope in life, you are truly appreciated. To my good friend Dr. Gregory Ondieki for the support during my MBA program, I am indeed grateful.

ABSTRACT

This study sought to identify the link between budgetary control and the performance of the public enterprises in Kenya focusing on Nzoia Sugar Company (NSC) as a case study. The objectives of the study include; to determine the effect of budgetary planning on organizational performance; to examine the effect of budget monitoring on organizational performance and to establish the effect of budgetary feedback on performance targets at NSC. The variables which are also internal are planning, monitoring and feedback and there is need to analyze them to establish how they affect organizational performance.The target population of the study was 132 employees of the organization, the research adopted a census approach by interviewing all Heads of departments, heads of sections and supervisors. The sources of data for the research were primary while questionnaires and interviews were used as the data collection methods. Moreover, in computing and presentation of the data from the findings the computer program Statistical Package for Social Sciences (SPSS) was used. Findings from the study sought to reveal whether budgetary control can influence performance and more so if there exists any relationship between the two. Budgets and budgetary control mainly form and give every organization the structural support to be able to achieve their goals and objectives through proper allocation of resources therefore it forms a crucial base under which an organization can be able to improve on their performances thus the need to conduct a study on how budgetary control can influence performances.The results indicated that there was no significant relationship between the budget monitoring ($p = 0.807$) and the financial performance. The findings also indicated no significant relationship ($p = 0.448$) between the budget feedback and the financial performance. The results however indicated that there was significant relationship (0.006) between the budget planning and financial performance. The study concludes that budgetary planning is key to budgetary control process of any given firm. Firms are expected to embrace budgetary planning in the budgetary control process. The study recommends that firms should aim at identifying high priority programs to include in the budget in order to have a competitive advantage over others, firms' management should take corrective actions where variances are reported since they are quickly becoming a rather effective and efficient way in budget feedback process, top management should hold budget conferences to review performance since it has the potential to affect performance of the firm. Holding budget conferences with the employees should thus be a core objective in budgetary control process. The study suggest that further studies to analyze the direct and interaction relationship of budgetary control process on financial performance of firms should be carried out.

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ABBREVIATIONS AND ACRONYMS

CIM: Chartered Institute Of Marketing

COMESA: Common Market for East and Southern Africa.

ED: Edition

FCB: Fives Cail Babcock

GOK: Government of Kenya

LTD: Limited

NSC: Nzoia Sugar Company

ORISE: Oak Ridge Institute for Science and Education

SPSS: Statistical Package for Social Sciences

U.S.A: United States of America

UK: United Kingdom

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter consists of the background to the study, scope, statement of the problem, objectives and the significance of the study based on public enterprises as far as budgetary controls and performance are concerned.

1.1 Background of the study

Budgetary control is the process that involves the continuous comparison of actual performance against the budget to ensure the plan is achieved or to provide a basis for its revision (Oak Ridge Institute for Science and Education, 1995). It is through budgetary control that the management can ensure the activities of the organization are well guided to the attainment of the long run goals of the organization. This eventually affects the firm's performance therefore in the long run and the budgetary control enables an organization to enhance the achievement of better results thus generating good performance. Performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability (Mclean, 1970). Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance therefore, is used to indicate a Firm's success, conditions, and compliance.

Budget and Budgeting are concepts traceable to the Bible days, precisely the days of Joseph in Egypt as cited in Genesis chapter 41. It was reported that nothing was given out of the treasure without a written order. History has it that Joseph budgeted and stored grains which lasted the Egyptians throughout the seven years of famine. According to Gilani (2004), a budget is a plan that forecasts future expenses and helps companies to effectively allocate resources to meet those expenses. She further argues that budgets are also used to evaluate performances and compare actual spending with the budgeted amounts. On the other hand, Lucey (2003) states that government sectors look at budget from legal point of view as proposed estimates by revenue and expenditure within a fiscal year. Further, a budget is seen as a plan quantified in monetary terms, prepared and approved prior to a defined period of time, usually showing planned income to be generated and expenditure to be incurred during that period and capital to be employed to attain a given objective.

It is clear that budgeting at the early state of its development was concerned with planning for costs but with time it leads to concerns with measuring the actual achievement of people, departments and firms. If the actual achievements delivered in the financial year are close to the budget, it demonstrates that the organization has been successfully going it in the direction they had planned. On the other hand, if the actual results diverge wide from the budget, this sends out a worrying message to management and urgent need for controls to stem the variances.

1.2 Statement of the Problem

Based on the economic surveys of Kenya (GOK- 2007; 2008; 2009; 2010; 2011) manufacturing sector recorded dismal contribution among the key sectors of the economy in the periods 2007 to 2011. Statistics indicate that the manufacturing sector has been consistently reducing on its total contribution to the economy perhaps as a result of poor performance. Many business firms recognize the need to have a comprehensive budgetary control system in order to minimize budget variances, costs and maximize efficiency while improving on their performance. However, based on the study conducted by Boquist (2001), it was established that companies continue to blunder and fail because they have flawed budgetary planning and their budget control systems are never utilized effectively. Budgetary control is as crucial as cash itself because it reveals any theft, waste, excessive use or stock out which if not addressed could lead to the business's poor performance.

According to the Kenya Sugar Industry Strategic plan, 2010-2014; The Kenyan sugar industry is a major employer and contributor to the national economy. It is one of the most important crops alongside tea, coffee, horticulture and maize. Currently, the industry directly supports approximately 250,000 small-scale farmers who supply over 92 percent of the cane milled by the sugar companies. An estimated six million Kenyans derive their livelihoods directly or indirectly from the industry. In 2008, the industry employed about 500,000 people directly or indirectly in the sugarcane business chain from production to consumption. In addition, the industry saves Kenya in excess of USD 250 million (about Ksh. 19.3 billion) in foreign exchange annually and contributes tax revenues to the exchequer (VAT, Corporate Tax, personal income taxes, cess). In the sugar belt zones, the sugar industry contributes to infrastructure development through road construction and maintenance; construction of bridges and to social amenities such as education, health, sports and recreation facilities. All these costs are always budgeted for in the beginning of the year yet companies in the sugar industry always grapple with paying off these debts when they accrue and fall due. Cases of unpaid farmers, suppliers and employees have become the norm rather than the exception and it is therefore imperative to investigate these inconsistencies and apparent failure in financial performance of the sugar company.

1.3 Objectives

1.3.1 General objectives

The purpose of the study was to establish how the budgetary process influences the performance of NSC.

1.3.2 Specific objectives

i. To determine effect of budgetary feedback on organizational financial performance.

ii. To examine the effect of budget planning on organizational financial performance in Nzoia Sugar Company.

iii. To investigate the effect of budget monitoring on financial performance targets at Nzoia Sugar Company.

1.4 Research Hypotheses

Ho1. Budgetary feedback on budget implementation has no significant effect on organizational financial performance.

Ho2. Budgetary planning has no significant effect on organizational financial performance.

Ho3. Budgetary monitoring has no significant effect on financial performance of the organization.

1.5 Scope of the Study

The study focused on the twelve departments in NSC however the researchtargeted departmental and sectional heads in the Company. The departments include; agriculture, agriculture Services, human resources, purchasing, information and communication technology, finance, general administration, sales &marketing, production, internal audit, public relations and factory engineering. It covered the period between 2008- 2012 which reflects the last strategic plan of the company.

1.6 Significance of the Study

The findings of the study may lead the company to review on the decisions made regarding budgetary control systems in order to minimize budget variances, costs and maximize efficiency and profitability. The study will also contribute to the body of knowledge relating to budgetary control system and form a basis for further research in the future.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discusses previous scholarly works that have been done on the area under study. The discussion adopts thematic approach building around the study objectives.

2.1 Theoretical Framework

This study will adopt the McKinsey's 7S theory. This theory was introduced for the first time in 1981, by Richard Pascale and Anthony Athos. McKinsey, an American consultancy bureau, adopted the theory, used it frequently and made it one of the best-known management models in the world. The 7s Model stands for seven aspects where an organization should pay attention to in order to function successfully: Staff, Style, Structure, System, Strategy, Skills and Shared Values. These 7 aspects have to support and reinforce each other to achieve the goals of an organization (Robert, H. M. 2010).

In an organization, systems refer to the procedures and processes such as information systems, manufacturing processes, budgeting and control processes. When taking into consideration the systems of any organization, things such as the customization of the systems, tailoring those systems to individual managers, the setting up of objectives for those systems, economizing those systems, the flexibility of the systems and blending those systems into the organizational environment come into any manager's mind. It is these elements of concern associated with the Systems of the organization that Mckinsey consultants have included their framework.

The term Staff refers to the people in the organization and their socialization into the organizational culture. This includes Staffing that is the filling, and keeping filled positions in the organizational structure through identifying work-force requirements, recruiting, selecting, placing, promoting, appraising, planning the careers, compensating and training or otherwise developing both candidates and current job holders to accomplish their tasks effectively and efficiently. This also leans towards the chosen culture of the organization and the selection of employees according to that particular organizational culture and whether the employees have blended into and accepted the culture or not.

Structure is the organizational structure or the hierarchy of the organization that comprises of the authority and responsibility relationships in the firm. This function of the framework is concerned with the direction of delegation of authority, the organizational structures, whether Flat or Tall and the degree of centralization or decentralization. Structure is closely related to Staff as the size of the staff greatly impacts the type of structure that the organization has. It is also dependent upon the Style of management preferred by the superiors in the organization as it is the preference of the top management that really matters on the type of organizational structure being applied.

The systematic actions and the allocation of resources to achieve the organizational objectives and aims are referred to as "Strategy". There are many predefined strategies but the management can effectively create some other strategy through the use of creative techniques like brainstorming or professional approach such as the Delphi Technique.

Shared vision or super ordinate goals are the values held and shared by the members of an organization. By using the term Shared Values, the 7S theorists emphasize that goal statements are very important in determining the destiny of the organization; they also point out that the organization members must share values equally. Therefore, special attention is given to personal and organizational values in order to increase organizational effectiveness.

These are the distinctive capabilities of an organization. In traditional management literature the term "skills" refers to the personal skills (e.g. technical, human, conceptual) while in the 7S framework "skills" not only means this but it also points towards the capabilities of the organization as a whole.

Budgetary control is one of the aspects of organizational planning that should be given special consideration in order to function successfully. It is through budgetary control that the organization is able to implement its strategy by efficient resource allocation to achieve its objectives. It is also a major function of an organization’s system in the setting up of objectives since it is through the allocations that the firm is able to achieve its targets including good financial performance.

This theory is relevant to the study in that the budgetary controls can be emphasized properly by ensuring that the organization has the right aspects of the 7s Model including Staff, Style, Structure, System, Strategy, Skills and Shared Values. These 7 aspects have to support and reinforce each other to achieve the goals of an organization which in this case is the financial performance of the firm.

2.2 The Concept of Budgeting

Lucey (2003) defines a budget as a quantitative expression of a plan of action prepared for an organization as a whole. Focus is usually on departments or functions such as sales and production or financial resources items such as cash, capital expenditure, man power purchase, and others. It is a planning and control tool relevant to all aspects of management activities. In addition, a budget is seen as a document that translates plans into money that will need to be spent to get your planned activities done (expenditure) and money that will need to be generated to cover the costs of getting the work done (income). It is an estimate, or informed guess, about what you will need in monetary terms to do your work (Lysons and Farrington, 2006; Owler and Brown, 1989). In a normal planning cycle, the organization will begin with a strategic planning process where the problem that needs to be addressed is looked at and the specific role of the organization in addressing it is defined. This then is related to what actual activities need to be undertaken to achieve the planned impact (Owler and Brown, 1989). This is thus the operational plan and it is the operational plan that needs to be costed. You cannot prepare a budget until you know what it is you are planning to do and that operational costs will only be incurred when you do the actual work.

The budget is an essential management tool. Without a budget, you are like a pilot navigating in the dark without instruments (Owler and Brown, 1989). Therefore it is important for an organization, project or department to have a budget to know how much money it needs to carry out its activities and also forces it to be rigorous in thinking through the implications of its activity planning. There are times when the realities of the budgeting process force you to rethink your action plans and used properly, the budget tells you when you will need certain amounts of money to carry out your activities; the budget enables you to monitor your income and expenditure and identify any problems; the budget is a basis for financial accountability and transparency.

When everyone can see how much should have been spent and received, they can ask informed questions about discrepancies; you cannot raise money from donors unless you have a budget. Donors use the budget as a basis for deciding whether what you are asking for is reasonable and well-planned. (Lucey, 2003)

Since budgeting involves costs, it is crucial to estimate and control the kind of costs to be realized when preparing a budget (Aslani, 2009). The costs a company may need to estimate fall into the following categories: Operational costs – the direct costs of doing the work including materials, equipment, transport and services; Organizational costs also called core costs–these are the costs of your organizational base, including management, administration, governance. Once you have decided on the best organizational set-up to support your operational plans, you will incur the organizational expenses on a regular basis even if you do not carry out your plans or have activity levels as high as you had hoped; Staffing costs – these are the costs for your core staff, the people involved in management, the people doing work that cuts across the organization. These costs include their salaries and any benefits such as medical aid or pension fund payments for which the organization is responsible; Capital costs – these are costs for large investments which while they may be necessary because of a project or projects, will remain organizational assets even after the projects are over. Vehicles and equipment such as computers and photocopiers fit here. They may be used by all projects, or they might only be required for a specific project.

The foregoing scenario projects an organizational process which if not sequentially monitored and controlled, can easily go out of hand, putting the organizational in a financial crisis. Speedy production of budgetary control statements and immediate investigation of revealed variances provide the best basis for bringing operations into line with the plan, or where there have been substantial changes in circumstances making agreed alterations to the plan (Lucey, 2003).

2.3 The Concept of Firm Performance

Performance measures are recognized as an important element in all Quality Management tools. Managers and supervisors directing the efforts of an organization or a group have a responsibility to know how, when, and where to institute a wide range of changes. These changes cannot be sensibly implemented without knowledge of the appropriate information upon which they are based (ORISE, 1995). The implementation of performance measurements for a specific process should involve as many employees as possible to stimulate ideas and reinforce the notion that this is a team effort requiring buy-in from all involved in order to succeed (ORISE, 1995; Aslani, 2009). Substantial benefits are realized by organizations implementing performance measurement programs. These benefits are realized almost immediately through an improved understanding of processes by all employees. Furthermore, individuals get an opportunity to receive a broadened perspective of the organization's functions, rather than the more limited perspective of their own immediate span of control (Aslani, 2009). As a process, performance measurement is not simply concerned with collecting data associated with a predefined performance goal or standard, usually synonymous with a budget.

Performance measurement is better thought of as an overall management system involving prevention and detection aimed at achieving conformance of the work product or service to your customer's requirements. Additionally, it is concerned with process optimization through increased efficiency of the process or product. These actions occur in a continuous cycle, allowing options for expansion and improvement of the work process or product as better techniques are discovered and implemented. In the context of this study, performance measurement process will be looked at from the perspective of budgetary controls where it will be assessed within budgeted limits. This is premised on the fact that performance measurement is primarily managing outcome and one of its main purposes is to reduce or eliminate overall variation in the work product or process. The goal is to arrive at sound decisions about actions affecting the product or process and its output which is what budgetary control seeks to achieve.

Performance measures quantitatively tell us something important about our products, services, and the processes that produce them. They are tools to help us understand, manage and improve what our organizations do. Performance measures let us know: How well we are doing, if we are meeting our goals, if our customers are satisfied, if our processes are in statistical control, if and where improvements are necessary. They provide us with the information necessary to make intelligent decisions about what we do. A performance measure is composed of a number and a unit of measure. The number gives us a magnitude (how much) and the unit gives the number a meaning (what). Performance measures are always tied to a goal or an objective and can be represented by single dimensional units like hours, meters, nanoseconds, dollars, number of reports, number of errors, and number of CPR-certified employees and length of time to design hardware. They can show the variation in a process or deviation from design specifications. Single-dimensional units of measure usually represent very basic and fundamental measures of some process or product.

More often, multidimensional units of measure are used. These are performance measures expressed as ratios of two or more fundamental units. These may be units like miles per gallon (a performance measure of fuel economy), number of accidents per million hours worked (a performance measure of the companies safety program) or number of on-time vendor deliveries per total number of vendor deliveries. Performance measures expressed this way almost always convey more information than the single-dimensional or single-unit performance measures. Ideally, performance measures should be expressed in units of measure that are the most meaningful to those who use or make decisions based on those measures.

Most performance measures can be grouped into one of the following six general categories; Effectiveness-a process characteristic indicating the degree to which the process output conforms to requirements; Efficiency-a process characteristic indicating the degree to which the process produces the required output at minimum resource cost; Quality- the degree to which a product or service consistently meets customer requirements and expectations; Timeliness-measures whether a unit of work was done correctly and on time. Criteria must be established to define what constitutes timeliness for a given unit of work. The criterion is based on customer requirements; Productivity-the value added by the process divided by the value of the labor and capital consumed; Safety- measures the overall health of the organization and the working environment of its employees.

2.4 Budgetary Control and Performance

Budgetary control refers to the process of preparing budgets as tools of communicating the expected organizational performance within a specified time period, then using them to evaluate performance. Corrective measures are taken on significant positive or negative variances of actual performance from budgeted performance. Alternatively, Lysons and Farrington (2006) see it as the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy or to provide a basis for its revision. In general, budgetary control involves the preparation of a budget, recording of actual achievements, ascertaining and investigating the differences between actual and budgeted performances and taking suitable remedial action so that budgeted performance targets may be achieved (Cooper, 1996; Fang, 1996). It influences the financial objectives, the allocation of funds as well as investment ventures that organization undertakes. Most importantly it influences the financial position of an organization. Thus, for any organization to be able to achieve better performances, their management needs to effectively develop and utilize budgetary control systems within time. An organization needs to develop a budgetary control mainly for seven reasons, namely: coordination, clarification of authority and responsibility, communication, control, motivation, compromise, and asset utilization maximization.

Coordination as a reason for budgetary control means the activities of the whole organization can only be ran smoothly if they are planned for in advance. Budgetary control enables the relationships between organizational activities to be determined in advance and therefore their smooth implementation made possible. As for clarification of authority and responsibility, budgetary control clarifies where the authority and responsibility performance of each activity lies in the organization thereby promoting accounting responsibility among the employees.

As for communication, budgetary control enables the effective and efficient communication, both horizontal and vertical, to occur within the organization between managers and their employees. On the part of control however, budgets acts as yardsticks against which the actual performance is compare so as to determine whether there is positive or negative deviation or whether the actual performance is satisfactory.

Motivation as a major reason behind budgetary control forms a sound basis of motivating employees. Budgeting and budgetary control calls for genuine participation of workers and their managers, which has a motivating effect. As for compromise, managers compromise their individual departments' goals so as to achieve the overall organizational goals, thus avoiding instances of sub optimality in the budgeting process. Lastly, under budgetary control, asset utilization maximization enables a company to foresee deficiencies and excesses of assets in advances thus enabling the managers to avoid idle capacities and shortages. A company can only make full use of its available assets if it has a budgetary control system in place.

2.5 Budgetary Planning and Financial Performance

Planning as part of the Budgeting system involves a long range planning, strategic planning and short term planning (Sizer, 1989), further emphasizes that short term budgeting must accept the environment of today, and the physical human and financial resources at present available to the organization. Planning involves selecting objectives and action to achieve them. It is looking ahead and preparing for it, which links it to budgeting. Through planning the organization is able to assess where it is supposed to be in terms of objectives and goals. This comes from the information system (Mocker, 1970; Lewis, 1996; Stoner, 1996). Good planning is characterized by clear objectives and goals.

It must be simple and comprehensive. The plan should be well balanced and flexible so as to incorporate changes in the resources and should be time bound. Properly covered plans tell what, when and how something is to be done (Chandan, 1995; Bhatia, 1996). Sound planning mentions priorities and the planning control cycle. Since there are so many activities to be performed, it's imperative that they are listed in order of preference. Budgets are put in place in advance of the budget periods based on anticipated set of circumstances or environment. The major decisions are made as part of the long term planning process (Selznick, 1988). Benefits of budgeting accrue to the whole organization if both the short and long term consequences of the budgets are considered (Otley, 1987). However, the annual budgeting process leads to the refinement of those plans, since managers must produce detailed plans for the implementation of the long range plans. Without the annual budgeting process, the pressures of day-to-day operating problems may tempt managers not to plan for future operations (Scott, 1987)

The planning process ensures that managers do plan for future operations, and consider how conditions in the next year might change and what steps they should take to respond to these conditions. Kimbrough and Nunnery, (1988) describing the procedures for school budget preparation points out the following; that teachers should be asked to submit items to be included in the estimates, that the lists of estimates by the different teachers and heads of departments be assembled, reviewed during a special meeting consisting of the school heads and the bursar. According to them, plans and estimates must reflect serious considerations when budgeting. This process sets out the various requirements of the agreed priority to ensure its feasibility. In particular, the plans should include considerations of cash resources available, and the cash needs and further ensure that any differences are covered by the available resources. This calls for a coherent plan including all parts and individuals of the organization. Budgetary planning is therefore the key to success in business and budgeting forces planning to take place. Once not done properly the organization will not operate properly (Lucy, 1996). This process encourages managers to anticipate problems before they arise and avoid hasty decisions that are made on the spur of the moment, based on expediency rather than reasoned judgment (Murphy and Peek, 1980). An organization's plan and priorities should therefore be important drivers to the budgeting process. The previous studies reviewed above, therefore lead to the conclusion that there is an increasing perception that budgets are less useful in today highly challenging business environment. Consequently knowledge about budgeting practices is useful to provide insight into whether budgets are still appropriate planning and control tools.

2.6 Monitoring and Performance

Budgetary Monitoring and Control is a deterrent process against misappropriation of funds in terms of procedures and rules that establish the boundaries of financial behaviour. According to Drury (2000), budgetary monitoring and control process is a systematic and continuous one which is characterized by the following stages:

Establishing targeted performance or level of activity for each department of the organization by way of setting targets to be achieved enhances the monitoring of the organizations performance. Communicating details of the budgetary policy to all the stakeholders for easy appreciation of the set targets and objectives enhances ownership of the results achieved at end of the day. Monitoring actual revenue or cost data this is done by way of continuous comparison of actual performance with the budgeted performance and regular reporting of variances to the responsible officers. This helps in asserting the reasons for the differences between actual and budgeted performance and taking the suitable corrective action.

The “bottom-top” approach of budgeting allows participation of all levels of management in the decision-making process. Negotiations then begin between the corporate office and department heads to finalize budgetary figures. The budgetary process then shifts to a "tops-down" approach, where the corporate office has ultimate control to set the final budget. Through this process of monitoring, analysis and control, the problem of "ratcheting" is generally avoided (Kelly, 2003). A budgetary monitoring and control process assumes that expenditure must agree with the budgeted plans and maintains information about expenditure. Financial control is also one of the most important aspects of budgeting. By means of budgetary control, which means comparing actual results with planned results and reporting on the variations, a control frame is set for management. This frame points to managers to track flow of resources accurately and consistently. This calls for continuous control process through the year, and not just at the end of a budget period. The objectives of control are to plan the policy of an organization, to coordinate the activities of the organization so as to achieve the targets set. According to Briston (1981), financial control and monitoring ensures efficient and cost-effective program implementation within a system of accountability. He however, notes that the existing financial control arrangements must be complemented by further improvements in the overall program monitoring for better budget implementation in accordance with approved work programs. The above process demands comprehensive planning and approval framework, consistent with processes for constructing budgets, both Capital and

Revenue. Sound methodologies for assessing the financial impact of proposed expenditures, compatibility with other management and performance data and a system of control that set clear responsibilities and gives accurate and timely monitoring information on performance against budgets is important.

2.7 Feedback and Performance

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control, leadership and staffing. According to Cook (1968), feedback is generally positively associated with budget performance. It focuses on the extent to which employees have achieved expected levels of work during a specified time period. The reports should be simple and suitable for the level of understanding for the user. They should be presented promptly to enable timely actions to take place. Reports should be accurate to enable the making of corrective decisions based on the reports. It has to be noted that the principle of exception should be utilized where possible. Budgetary Control is not effective unless there is continuous flow of budget reports. These reports should be prepared at regular intervals (say monthly) to show comparison of actual performance with that budgeted. Such reports may be presented to heads of budget centers, showing favorable or unfavorable variances from budget figures. These heads of budget centers should explain these variances to the top management so that necessary corrective action may be taken (Arora, 1995; Foster 1987). According to Underdown (1997), a good budget system should be integrated with the standard cost system. Where standard costing system is used it should be integrated with the budget program in both budget preparation and variance analysis. Unfavorable variances are mostly scrutinized which take the form of over expenditure or expenditure incurred on non-budgeted items.

2.8 Conceptual framework of the Study

A conceptual framework refers to what a researcher conceptualizes to be the relationship between variables in the study and show the relationship diagrammatically. The purpose of the framework is to help the reader to quickly see the relationship between dependent and independent variables. The dependent variable is performance while the independent variables are budgetary control dimensions as illustrated in fig. 2.1 below.

Independent variables **Dependent variable**

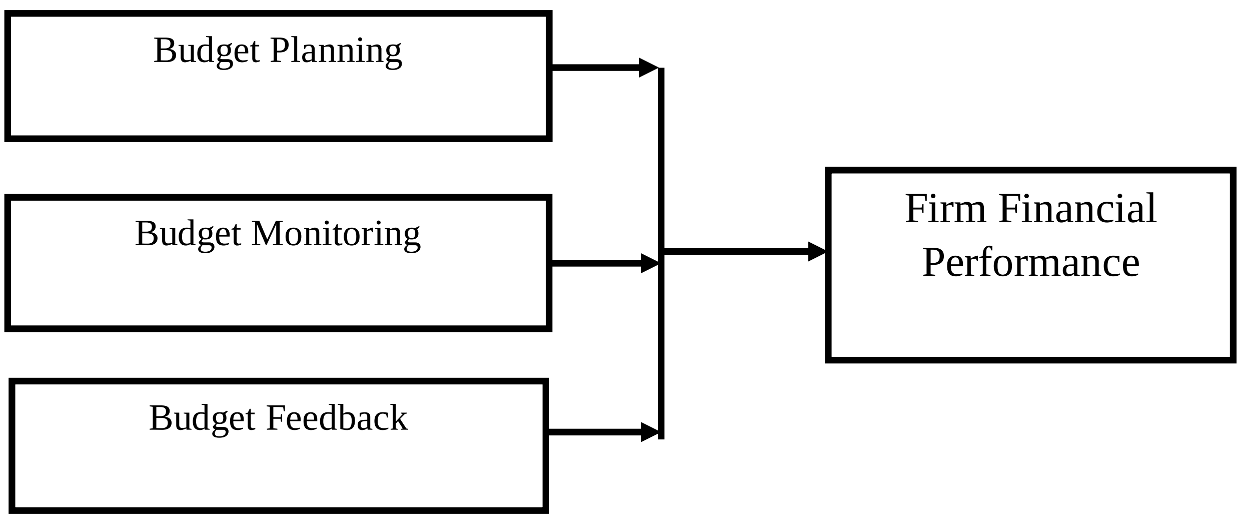

Fig 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This chapter gives a description of the research methodology. It presents the research design, geographical location of the study, the research population, sampling procedures and sample. Also presented in this chapter are the data collection instruments, procedures and data analyses that were utilized on data collected.

3.1 Research Design

The study was conducted through a case study. A case study is a way of organizing data and looking at the object to be studied as a whole. Case study was used because it is the best method available to social scientist and other educators interested in collecting original data for the purposes of describing a population which is too large to observe directly. The study was majorly concerned with getting information on the effects of budgetary control process on the firm's financial performance. It also addressed a wide range of issues concerning budgetary controls system employed by the company.

3.3 Target Population

Mugenda and Mugenda, (2003), define population as an entire group of individuals, events or objects having common observable characteristics. The study targeted the departmental heads, heads of sections and the supervisors.

The total target population therefore comprised of 132 respondents as illustrated by table 3.1,

Table 3.1: Study Population Size

Category	**Study Population**	**Sample size**
Departmental Heads	12	12
Heads of Sections	25	25
Supervisors	95	95
Total	**132**	**132**

Source: Human Resource Department, Nzoia Sugar Company (2014).

3.4 Sample Size and Sampling Method

Sampling is defined as a process of selecting the number of subjects for a given study which represents a larger group from which the subjects were selected while a sample is a smaller number of subjects obtained from accessible and representative population (Mugenda and Mugenda, 2003).

A census approach was used, since the units of study are not too many, is concentrated in Nzoia Sugar Company (NSC) and, therefore, accessible and not prohibitive in terms of cost, time and other resources. Such a methodology enhances validity of the collected data by including certain information-rich cases for study. Thus the sampling frame consists of all the 132 respondents.

3.5 Data collection Instruments

The instruments employed in the primary data collection were questionnaires and interviews.

3.5.1 Questionnaires

The questionnaire was employed as the main instrument for data collection. Most of the items in the questionnaire were closed-ended, with few open-ended items. The open-ended items served to clarify the responses in the closed-ended items and to capture participants' needs within existing budgetary control practices. The questionnaire was advantageous because it saves time on the part of the researcher and heightens independence and accuracy of responses from the participants.

3.5.2 Interview Schedules

Interview schedules were used to enhance quality of the data, confirm and/or solicit some of the uncovered information by use of the questionnaire. Members of the budgetary control committee were targeted for interview. The schedules were analyzed qualitatively to present the opinion of the committee and add value to the study.

3.6 Reliability and Validity of the Data Collection Instruments

The questionnaire is considered reliable for the study since it has been modeled upon instruments in research literature that had been pre-tested in previous studies and yielded desired results (Dirou, 2004). Reliability were further enhanced through use of instrument triangulation technique. This is an acceptable method in survey research that is qualitative in nature (Kothari, 2003; Mugenda &Mugenda, 2003; Saunders 2009). Validity of research instruments were safeguarded by after construction, consulting experts in research on business management to judge, modify and improve on the instruments.

3.7 Data Collection Procedure

Prior to the actual research, the Human Resource Office were informed about purpose of visits. On specific occasions, the departmental heads were informed. The researcher administered the questionnaires personally and where not possible research assistant assisted. This increased the return and response rate, give room for further clarifications with regard to the instrument, and create good rapport with the respondents.

This increased their willingness to give true and additional information. Interviews with key respondents were done according to scheduled appointments.

3.7.1 Primary Data

The core information for the primary data was derived through a detailed individual staff's survey with the aid of a standard questionnaire. Interviews were conducted to complement the data generated through questionnaires.

3.8 Data Analysis and Presentation

The study yielded a variety of data containing both qualitative and quantitative details. Data was coded and entered into a Statistical Package for Social Sciences (SPSS) for data syntheses and analyses. Both descriptive and inferential statistics were employed in the study. The regression model was employed to compute the relationship between the independent and dependent variables. Graphs and frequency tables were used to summarize the data and capture descriptive results.

The regression equation employed was as follows;

$Y = C + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + E$

Where Y = Firms Financial Performance (Dependent Variable)

β = Coefficients

X_1 = Budget Monitoring

X_2 = Budget Feedback

X_3 = Budget Planning

E = Error rate

3.9 Ethical Consideration

The study yielded a variety of ethical issues both in relation to primary data. Strict confidence was applied to all information given during interviews, document analysis and observation of budget documents. Identity of staff and all participants was also concealed after the information was coded into SPSS and synthesized for analysis.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The analysis was done using the 88 filled questionnaires out of the 120 questionnaires that were distributed. This represented a response rate of 73.3%. This was a good response rate and the data provided was taken to be a true representation of the respondents views due to independence of the study carried out.

4.1 Background Information

4.1.1 Gender of the respondents.

The researcher classified the respondents according to their gender to get representation from both genders hence eliminating biasness that could be generated by getting information from one gender. The findings were as represented in table 4.1

Table 4.1: Gender of the Respondents

	N (%)
Male	55 (62.5)
Female	33 (37.5)
Total	88 (100)

Source: Analysis of data in this study (2014)

The findings of the study indicated that out of the total number of the respondents which was 88, 55 of them were male forming 62.5% and 33 were female forming 37.5%. This therefore means that the representation of the respondents in this survey was unbiased.

4.1.2 Age Distribution of the Respondents

The researcher sought to establish the age distribution of the respondents. This demographic feature affects behaviors or perception of respondents. It was necessary to assess the age of respondents, as this would affect the way each would behave in the work place. At an early age, many people love to be comfortable hence different perception. The findings are represented in the table 4.2

Table 4.2: Age of the Respondents

Age in years	**N (%)**
20-29	42 (47.7)
30-39	16 (18.2)
40-49	18 (20.5)
50-59	12 (13.6)
Total	**88 (100)**

Source: Analysis of data in this study (2014)

The findings showed that among the respondents those who were aged between 20-29years were 47.7%%, between 30 and 39 years among were 18.2% between 40 and 49 years were 20.5%, while those between 50-59 years were 13.6% .

A majority of the respondents were below 50 years this implied that the response was almost accurate as they are in a position to give their view just as it is.

4.1.3 Number of Years Worked in the Organization by the Respondents

The study sought to establish the number of years that the respondents had spent working at their current position. The findings are as presented in table 4.3:

Table 4.3: Years Worked in the Organization by the Respondents

Years worked (Years)	N (%)
5-10	47 (53.4)
10-15	30 (34.1)
15-20	4 (4.5)
20 and above	7 (8.0)
Total	**88 (100)**

Source: Analysis of data in this study (2014)

Results from the study indicated that a majority 53.4% of the respondents had worked in the organization for between 5-10years, 34.1 % had worked in the organization for between 10 and 15 years, 4.5% had worked in the organization for between 15-20years while 8% of the respondents had worked in the organization for over 20 years.

This therefore implied that a majority of the respondents had not worked for long in the organization suggesting that they are still cautious in their work and very little escape their attention. As source of information they form a good basis since one can get all the information they need from this very attentive and informed group.

4.1.4 Educational Level

The researcher grouped the respondents according to their level of education in order to get information from across the board; this is as represented below in table 4.4:

Table 4.4: level of education of the respondents

	N (%)
Form 4 and below	5 (5.7)
Form 6 (A' level)	5 (5.7)
Certificate level	35 (39.8)
Diploma level	18 (20.5)
Graduate level	19 (21.6)
Post graduate level	6 (6.8)
Total	**88 (100)**

Source: Analysis of data in this study (2014)

The findings indicate that among the respondents; 5.7% had attained form 4 and below education, 5.7% had A-level level of education, 39.8% had achieved certificate level, 20.5% had diplomas, 21.6% had bachelor's degree while 6.8% had achieved post graduate level of education.

This therefore revealed that the respondents had different levels of qualifications and therefore were a good group to provide the information that the study required. Therefore the researcher was in a position to obtain the relevant information pertaining to the study that they required.

4.1.5 Respondents Association with Nzoia Sugar Company

The study classified the respondents according to their association with the company. The results is shown in table 4.5:

Table 4.5: Respondents Association with Nzoia Sugar Company (NSC)

	N (%)
Sectional Head	28 (31.8)
Supervisor	60 (68.2)
Total	**88 (100)**

Source: Analysis of data in this study (2014)

The findings indicated that a majority of the respondents 68.2% were associated with the company as the supervisors while 31.8% were associated with the company at the level of sectional head.

This implied that the respondents were fairly distributed hence the response was unbiased.

4.1.6 Training on Budgetary Control Techniques Undergone by Respondents

The researcher sought to assess the training techniques undergone by the respondents. The results are shown in table 4.6:

Table 4.6: Training on Budgetary Control Techniques Undergone by Respondents

	N (%)
Study leave	16 (18.2)
Workshops	27 (30.7)
Seminars	45 (51.1)
Total	**88 (100)**

Source: Analysis of data in this study (2014)

The findings of the results showed that a majority of the respondents, 51.1% underwent training on budgetary control techniques in seminars, 30.7% were trained in workshops while 18.2% were trained while on study leave.

This implied that majority of the respondents had adequate knowledge on budgetary control techniques hence the response was adequate for this survey.

4.2 Specific Information

The researcher sought to find specific information of the objectives and tabulated the results.

4.2.1 Effect of Monitoring on firm's Financial Performance

The researcher sought to establish the effect of monitoring on firms financial performance. The findings were as presented on table 4.7.

Table 4.7: Effect of Monitoring on Firm's Financial Performance

KEY; F- frequency %- percentage SA-strongly agree, A-agree, U-undecided, D-disagree, SD-strongly disagree

		SA	A	UD	D	SD	T	MEAN
Continuous comparison of budgets and actual results is	F	53	31	2	2	0	88	4.5
	%	60.	35.	2.3	2.3	0	100	90.6%
Budget adjustments are done in the company as needs arises	F	26	45	8	8	1	88	3.8
	%	29.5	51.1	9.1	9.1	1.1	100	75.9%
The perceived levels of budget monitoring in the company is	F	18	39	10	19	2	88	3.6
	%	20.5	44.3	11.4	21.6	2.3	100	71.8%
There is clear tracking of results in the company	F	40	28	5	12	3	88	3.8
	%	45.5	31.8	5.7	13.6	3.4	100	76.1%
Top management holds budget conferences to review performance	F	9	14	9	33	23	88	2.1
	%	10.2	15.9	10.2	37.5	26.1	100	43%

Source: Analysis of data in this study (2014)

The findings established that 90.6% of the respondents were of the opinion that continuous comparison of budgets and actual results is done, 76.1% were of the statement that there is clear tracking of results in the company, 75.9% were of the statement that budget adjustments are done in the company as needs arises, 71.8% said that the perceived levels of budget monitoring in the company is adequate while 43% said that top management holds budget conferences to review performance.

It is evident from the study that continuous comparison of budgets and actual results is done. This could be because deviations can occur at any time. This could be also because of different workers working on the budget with different levels of accuracy. Consequently the continuous comparison of the budgets is necessary to ensure that the organization budgets have little deviations from what is already budgeted. Any deviations are consequently reconciled to ensure that proper results are established.

This result is in agreement with Bristol (1981) which noted that the most effective way to manage a budget is to develop regular benchmarks to monitor the process continuously. In her study, she noted that company budget needs to be reviewed every month to ensure it is in accordance with the company requirements. Lysons and Farrington (2006) are also in agreement with the study that continuous comparison of actual budgeted results is an effective way to manage a budget. In their study they noted that firm's budget need to be reviewed quarterly in order to achieve updated and consistence data on the firms budget necessities.

4.2.2 Effects of Budget Feedback on Firms Financial Performance

The researcher sought to establish the effect of budget feedback on firms' financial performance. The findings were as presented on table 4.8

Table 4.8: Effects of Budget Feedback on Firm's Financial Performance

		SA	A	UD	D	SD	T	MEAN
Budget performance reports	F	42	26	6	11	3	88	4.1
are prepared regularly in the	%	47.7	29.5	6.8	12.5	3.4	100	81.1%
Deviations from budget	F	22	46	9	9	2	88	3.9
targets are frequently reported	%	25	52.3	10.2	10.2	2.3	100	77.5%
Deviations from the expected	F	15	36	8	23	6	88	3.4
and actual results are common	%	17	40.9	9.1	26.1	6.8	100	67%
Management takes corrective	F	12	27	10	26	13	88	3.0
action where variances are	%	13.6	30.7	11.4	29.5	14.8	100	59.8%
Budget deviations are	F	25	47	3	12	1	88	3.9
reported to the budget	%	28.5	53.4	3.4	13.6	1.1	100	78.9%

Source: Analysis of data in this study (2014)

The findings established that 81.1% were of the statement that budget performance reports are prepared regularly in the institution., 78.9% said that budget deviations are reported to the budget committee/management, 77.5% were of the opinion that deviations from budget targets are frequently reported, 67% were of the opinion that deviations from the expected and actual results are common while 59.8% were of the opinion that management takes corrective action where variances are reported.

Majority of the respondents supported the statement that budget performance reports are prepared regularly in the institution this could be because regular preparation of reports in the institutions ensured that all the necessary information is captured thus enhanced firms performance. This reports act as indicators of the budget feedback which in the process enable the stakeholders to ensure that they are away of the budget control process and are able to make regular adjustments where necessary.

Arora (1995) agrees with the findings that regular preparation of budget performance report in the institution should be done. He furthers suggests that reports should be prepared at regular intervals (say monthly) to show comparison of actual performance with that budgeted. Cook (1968) says that regular preparation of reports in the institution should be done to enable timely and precise actions to take place. His study further suggests that reports should be prepared regularly to ensure systematic follow up of the budget.

4.2.3 Effects of Budget Planning on Firms Financial Performance

The researcher sought to establish the effect of budget planning on firms' financial performance. The findings were as presented on table 4.9

Table 4.9: Effects of Budget Planning on Firm's Financial Performance

		SA	A	UD	D	SD	T	Mean
Program activities are clearly indicated prior	F	65	20	0	1	2	88	4.6 93%
	%	73.9	22.7	0	1.1	2.3	100	
We discuss targets to be met with the team	F	30	47	2	8	1	88	4.2 83.4%
	%	34.1	53.4	2.3	9.1	1.1	100	
We have clear target results in the budget	F	23	37	10	11	7	88	3.7 73.1%
	%	26.1	42	11.4	12.5	8	100	
We identify high priority programs to include in the budget	F	25	23	8	24	8	88	3.4 67.5%
	%	28.4	26.1	9.1	27.3	9.1	100	
Programs and plans are the basis for allocating financial resources	F	27	25	9	18	9	88	3.5 67.8%
	%	30.7	28.4	10.2	20.5	10.2	100	

Source: Analysis of data in this study (2014)

According to the findings, 93% were of the opinion that program activities are clearly indicated prior, 83.4% supported the opinion that they discuss targets to be met with the team, 73.1% stated that they have clear target results in the budget, 67.8% programs and plans are the basis for allocating financial resources while 67.5% were of the opinion that they identify high priority programs to include in the budget.

It is evident from the findings that program activities are clearly indicated prior. This could be because a clear programs activity ensures a systematic and logical way of capital allocation for the running of the activities in firms as a result contributing to the firms' performance. This aspect of planning is essential as it will always ensure that there is a clear line of operation that needs to be followed and challenges in the budget control process can always be anticipated and controlled.

Sizer (1989) is in agreement with the findings that clear program activities are indicated prior. In his study, he says that clear program activities should be indicated prior in order to ensure a systematic allocation of resources within the firms. Otley (1997) also agrees that program activities are clearly indicated prior. In her study, she says that firms financial performance is greatly affected by the way its resources are allocated and prioritized.

4.2.4 Indicators of Firm's Financial Performance

The researcher sought to establish the indicators of firms' financial performance. The findings were as presented on table 4.10.

Table 4.10 Indicators of Firms Financial Performance

		SA	A	UD	D	SD	T	Mean
Profitability	F	44	40	1	2	1	88	3.5
	%	50	45.5	1.1	2.3	1.1	100	88%
Return on assets	F	24	46	5	9	4	88	3.8
	%	27.3	52.3	5.7	10.2	4.5	100	77.5%
Return on Investment	F	37	35	7	8	1	88	4.1
	%	42	39.8	8	9.1	1.1	100	82.5%
Cash flows	F	22	38	9	14	5	88	3.7
	%	25	43.2	10.2	15.9	5.7	100	73.2%
Number of sales	F	20	48	7	11	2	88	3.8
	%	22.7	54.5	8.0	12.5	2.3	100	76.6%

Source: Analysis of data in this study (2014)

According to the findings, 88% were of the statement that profitability is part of firms financial performance indicator, 82.5% said that return on investment is part of firms financial performance, 77.5% were of the statement that return on assets is an indicator of firms financial performance, 76.6% were of the statement that firms financial performance indicators is based on number of sales while 73.2% were of the statement that cash flows is part of the firm's financial performance indicators.

It is evident that profitability is part of financial indicators employed by the firm, this could be because achieving the target in the firm depicts a picture of a firms that is determined to attain maximum profits and has put up necessary measures to ensure they perform hence it is a financial indicator.

This findings are in line with Oden (2010) findings that note that despite firms employing different ways to measure their performance, profitability if correctly done can be an effective measure of financial performance but he notes that the firm has more wealth than just the tangible wealth and consequently other ways of measuring performance should also be explored in the process.

4.3 Discussion of Interview Schedules

On budget monitoring, the management who were issued with questionnaires noted that budgets needs to be constantly reviewed giving authentic results, they also noted that there is clear follow up of results in the company, they also mentioned that budgets are moderated depending on the needs of the firm, they also indicated that there is sufficient monitoring of budget in the company. Also budget meetings are held frequently to evaluate the firm's performance. These findings were related to the findings in the questionnaires for the head sections and for the supervisors.

Regarding budget feedback, the management who were issued with questionnaires held that the budget performance are prepared monthly in the organization, the budget committee receives and acts on budgets deviations reported to them, they also noted that deviations from budget targets are regularly reported to the budget committee, they also noted that there is often variation of the results from the expected actual results. They also noted that management was keen to assess measures to curb the variances that were reported. These findings were similar with the findings from the questionnaires for the head sections and for the supervisors.

Concerning budget planning, the staffs who were issued with interview schedules said that undertakings of the program activities are clearly indicated, they also noted that targets to be met by different teams are outlined clearly, budgets targets results are clearly indicated and programs and plans played a key role in allocating resources in the firms. They also noted that programs are included in the budget in the order of their importance. These findings were similar with the findings from the questionnaires for the heads of sections and for the supervisors.

4.4 Effect of Budgetary Control Process on Firms Financial Performance

The study adopted the regression model to examine how each of the identified firms measures that is, budget monitoring, budget feedback, and budget planning contributed to the financial performance of firms. The results were illustrated in table 4.11, 4.12 and 4.13 below.

Table 4.11 Effect of Budgetary Control Process on Firms Financial Performance as per Regression Model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.378[a]	.143	.113	.56559

a. Predictors: (Constant), budget planning, budget monitoring, budget feedback

Source: Analysis of data in this study (2014)

The model summary indicated that about 14.3% of the data could be accounted for in the regression model (R Square= 0.143) while the regression model indicated that the regression model was significant to mean that the model had not been computed by chance. This made the results of the regression model credible and reliable to illustrate the regression model

Table 4.12 and Table 4.13 Effect of Budgetary Control Process on Firms Financial Performance as per Regression Model

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.493	3	1.498	4.682	.005[a]
	Residual	26.870	84	.320		
	Total	31.363	87			

a. Predictors: (Constant), budget planning, budget monitoring, budget feedback

b. Dependent Variable: financial performance

Source: Analysis of data in this study (2014)

Table 4.13 Effect of Budgetary Control Process on Firms Financial Performance as per Regression Model

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.318	0.509		4.552	0.000
	Budget monitoring	0.029	0.120	0.027	0.245	0.807
	Budget feedback	0.079	0.104	0.087	0.762	0.448
	Budget planning	0.328	0.116	0.323	2.834	0.006

a. Dependent Variable: Financial performance.

Source: Analysis of data in this study (2014)

The results indicated that there was no significant relationship between the budget monitoring ($p = 0.807$) and the financial performance. The findings also indicated no significant relationship ($p = 0.448$) between the budget feedback and the financial performance. The results however indicated that there was significant relationship (0.006) between the budget planning and financial performance.

In assessing the regression model for the financial performance as per the indicators in the study, the study evaluated the standardized coefficients of the study and illustrated the results as indicated in the table multiple linear model below.

Financial Performance = 2.318 + 0.027 (budget monitoring) + 0.087 (budget feedback) + 0.323(budget planning) + 0.509 (standard error)

These results indicated that the budget planning was very important on the overall firms' financial performance. This was interpreted to mean that despite the budget monitoring and budget feedback by the management of firms, budget planning is the most vital factor as planning assists in creating a total influence over the firms' performance. This findings were in agreement with Lucey (2003) where she notes that regardless of budget monitoring and feedback by the management of the organizations, budget planning is very important because planning enables the organization to allocate its resources in a prudent way.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter deals with the objectives of the study, giving the conclusions and the recommendations for improving the implementation process of a budget. The summary will focus on the personal information from the respondents and the conclusions on the same while recommendations will be made seeking to implement on the effects of budgetary control process on firms financial performance.

5.1 Discussion

The study sought to test the following hypothesis of the study by using the regression model:

Budgetary monitoring has no significant effect on organizational financial performance.
The study identified that there was no significant relationship between budgetary monitoring and the organizational financial performance. (Accept, ($p = 0.507$).
These findings are in agreement with Hilton, (2000) study on organizational financial performance of the firms, whose findings indicated that financial performance does not only depends on the budgetary monitoring but also on evaluation of the budget of a given firm at all times.

Budgetary feedback on budgets implementation has no significance effect on organizational financial performance. The study identified that there was no significant relationship between budgetary feedback and the organizational financial performance. (Accept, $p = 0.448$).

These findings concur with Nassolo (1997) study which noted that budgetary feedback are an important part of the budget control process but not in important in enhancing the financial performance of the organization.

Budgetary planning has no significant effect on organizational financial performance
The study identified that there was a significant relationship between budgetary planning and the organizational firms' performance. (Reject, $p = 0.006$). Otley (1985) agrees with the findings that budgetary planning is a backbone in budgetary planning and is key to organizational financial performance.

5.2 Summary of the findings

5.2.1 Effect of Monitoring on Firm's Financial Performance

The findings established that 90.6% of the respondents were of the opinion that continuous comparison of budgets and actual results is done, 76.1% were of the statement that there is clear tracking of results in the company, 75.9% were of the statement that budget adjustments are done in the company as needs arises, 71.8% said that the perceived levels of budget monitoring in the company is adequate while 43% said that top management holds budget conferences to review performance.

It is evident from the study that continuous comparison of budgets and actual results is done. This could be because deviations can occur at any time. This could be also because of different workers working on the budget with different levels of accuracy. These results are in agreement with Bristol (1981) which noted that the most effective way to manage a budget is to develop regular benchmarks to monitor the process continuously.

In her study, she noted that company budget needs to be reviewed every month to ensure it is in accordance with the company requirements.

Lysons and Farrington (2006) are also in agreement with the study that continuous comparison of actual budgeted results is an effective way to manage a budget. In their study they noted that firms budget need to be reviewed quarterly in order to achieve updated and consistence data on the firms necessities.

5.2.2 Effects of Budget Feedback on Firms Financial Performance

The findings established that 81.1% were of the statement that budget performance reports are prepared regularly in the institution., 78.9% said that budget deviations are reported to the budget committee/management, 77.5% were of the statement that deviations from budget targets are frequently reported, 67% were of the opinion that deviations from the expected and actual results are common while 59.8% were of the opinion that management takes corrective action where variances are reported.

Majority of the respondents supported the statement that budget performance reports are prepared regularly in the institution this could be because regular preparation of reports in the institutions ensured that all the necessary information is captured thus enhanced firms performance. Arora (1995) agrees with the findings that regular preparation of budget performance report in the institution should be done. He furthers suggests that reports should be prepared at regular intervals (say monthly) to show comparison of actual performance with that budgeted. Cook (1968) says that regular preparation of reports in the institution should be done to enable timely and precise actions to take place. His study further suggests that reports should be prepared regularly to ensure systematic follow up of the budget.

5.2.3 Effects of Budget Planning on Firm's Financial Performance

According to the findings, 93% were of the opinion that program activities are clearly indicated prior, 83.4% supported the opinion that they discuss targets to be met with the team, 73.1%stated that they have clear target results in the budget, 67.8% felt programs and plans are the basis for allocating financial resources while 67.5% were of the opinion that they identify high priority programs to include in the budget.

It is evident from the findings that program activities are clearly indicated prior. This could be because clear programs activities ensure a systematic and logical way of handling activities in firms as a result contributing to the firms' performance.

Sizer (1989) is in agreement with the findings that clear program activities are indicated prior. In his study, he says that clear program activities should be indicated prior in order to ensure a flow of activities within the firms. Otley (1997) also agrees that program activities are clearly indicated prior. In her study, she says that firms financial performance is greatly affected by the way its program activities are indicated and prioritized.

5.3 Conclusion

Budgetary planning is key to the budgetary control process of any given firm. Firms are expected to embrace budgetary planning in the budgetary control process. This could be in line with the fact that budgetary planning and control process contributes significantly to the organizational financial performance. Consequently budgetary planning ensures that the firms are able to meet the required needs in there order of priority. This ensures that there is always a positive financial performance and achievement in the firms.

Profitability results is part of a financial performance indicator in firms, this could be because profits gained by the firms depicts a picture of a firm that is determined to perform and has put up necessary measures to ensure they perform hence it is a financial performance indicator. Achievement of reasonable profits could also be due to coordinated cooperation between the management and the employees under a good budgetary control process. Thus, profitability results target is part of a financial performance indicator employed by firms.

5.4 Recommendations

5.4.1 Policy Recommendation

Firms should aim at identifying high priority programs to include in the budget in order to have a competitive advantage over others.

Firms' management should take corrective actions where variances are reported since they are quickly becoming a rather effective and efficient way in budget feedback process.

Top management should hold budget conferences to review performance since it has the potential to affect performance of the firm. Holding budget conferences with the employees should thus be a core objective in budgetary control process.

5.4.2 Suggestions for Further Studies

This study aimed to examine the effect of budgetary control process on financial performance. However, the relationship of budgetary control process and organizational financial performance is also of significant importance. Therefore, the study suggests that another study be done to analyze the direct and interaction relationship of budgetary control process on financial performance of firms.

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APPENDICES

APPENDIX I: LETTER TO THE RESPONDENTS

I am a student at Moi University undertaking a Master’s Degree course in Business Administration. As part of the requirements of an award of a master’s degree, I am carrying out a research on ‘*The effect of budgetary controls process on the financial performance of public enterprises-A case of Nzoia Sugar Company.’*

I kindly request that you assist by answering the questionnaire provided just for academic purposes. This information will be treated with utmost confidentiality.

Regards,

NELSON MANDELA MACHOKA.

APPENDIX 2: INTERVIEW SCHEDULE

1. To what extent does budgetary planning influence financial performance of your organization?

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

What is the effect of budgetary monitoring on the financial performance of your organization?

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

To what extent does budgetary feedback influence financial performance?

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

APPENDIX 3
QUESTIONNAIRE FOR NZOIA SUGAR COMPANY EMPLOYEES

Section A: Personal Data

1. Kindly indicate your gender. (Tick as appropriate)

Male [ ]

Female [ ]

2. Age of respondent

20-29 [ ] 30-39 [ ] 40-49 [ ] 50-59 [ ] Above 60 [ ]

3. Tick for how long you have worked in this organization.

5-10 years [ ]

10-15 years [ ]

15-20 years [ ]

20 years and above [ ]

4. Tick the highest level of education attained.

Form 4 and Below [ ]

Form Six (A' level) [ ]

Certificate level [ ]

Diploma level [ ]

Graduate level [ ]

Post Graduate level [ ]

5. Identify below by ticking (√) as to how you are associated with NSC.

Top Management [ ]

Departmental Head [ ]

Section Head [ ]

6. Tick which of the following training on budgetary control techniques you have undergone.

   Study Leave [ ]

   Workshops [ ]

   Seminars [ ]

Section B: BUDGET PLANNING.

7. Please respond to the following statements by indicating the extent to which you agree or disagree with them.

Statement	**Strongly disagree**	**Disagree**	**Not sure**	**Agree**	**Strongly agree**
Program activities are clearly indicated.					
We have clear target results in the budget.					
We discuss targets to be met with my team.					
We identify high priority programs to include in the budget.					
Programs and plans are the basis for allocating financial resources.					
Planning helps us to know the type and level of resources to provide.					

SECTION C: BUDGET MONITORING.

8. Please respond to the following statements by indicating the extent to which you agree or disagree with them.

Statement	Strongly disagree	Disagree	Not sure	Agree	Strongly agree
Continuous comparison of budgets and actual results is done.					
Top management holds budget conferences to review performance.					
The perceived level of budget monitoring in my company is adequate.					
There is clear tracking of results in my company.					
Deviations are normally monitored.					
Budget adjustments are done in my company as need arises.					

SECTION D: BUDGET FEEDBACK.

9. Please respond to the following statements by indicating the extent to which you agree or disagree with them.

Statement	Strongly disagree	Disagree	Not sure	Agree	Strongly agree
Budget performance reports are prepared regularly in my institution.					
Budget deviations are reported to the budget committee/management.					
Deviations from budget targets are frequently reported.					
Management takes corrective action where variances are reported.					
Deviations from the expected and actual results are common.					
Analysis of deviations is not necessary in my institution.					

SECTION D: FINANCIAL PERFORMANCE

Kindly rate the extent to which you agree with the following as suitable indicators of financial performance employed by the organization.

Statement	Strongly disagree	Disagree	Not sure	Agree	Strongly agree
Profitability					
Return on assets					
Return on Investment					
Cash flows					
Number of sales					