

**EFFECT OF BUDGET AND BUDGETARY CONTROL ON  
FIRMS PERFORMANCE: A CASE STUDY OF THE EAST  
AFRICAN PORTLAND CEMENT  
COMPANY LIMITED**

**BY**

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**UNITED STATES INTERNATIONAL UNIVERSITY-  
AFRICA**

**SPRING 2018**

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**A Research Project Report Submitted to the Chandaria School  
of Business in Partial Fulfillment of the Requirement for the  
Degree of Masters in Business Administration (MBA)**

**UNITED STATES INTERNATIONAL UNIVERSITY-  
AFRICA**

**SPRING 2018**

## STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any institution of higher learning other than the United States International University- Africa for academic credit.

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

Amida Daboh Nafisatu (ID No: 653066)

This project has been presented for examination with my approval as the appointed supervisor.

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

Mr. Kepha Oyaro

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

Dean, Chandaria School of Business

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## **ABSTRACT**

The purpose of this study was to evaluate the effect of budgetary control system on the performance of the East African Portland Cement Company Limited. Specifically, the study sought to address the following concerns: What are some of the budgetary control systems applicable at the East African Portland Cement Company? Is there a relationship between budgetary control and employee behavior? Finally, yet importantly, what is the effect of budgetary control on firm performance?

Descriptive research design was used to describe the independent variable whereas explanatory research design was used to describe the relationship between the independent and dependent variables in the study. Budgetary control is the independent variable whereas budgetary control types, employee behavior and financial performance were used as the dependent variables. The paper researched on the role of budget and budgetary control on organizational performance: a case study of East African Portland Cement Company. Both primary and secondary data was used in the study. Questionnaires were used to collect primary data whereas secondary data was obtained from the published accounts of East African Portland Cement Company for the period 2012-2016. A total of 45 staff was sampled using the purposive sampling technique, and data obtained was subjected to regression analysis.

The research model used in the study comprised of the independent variable sales turnover and the following dependent variables: budgetary control types, employee behavior and measures of financial performance namely: profit before tax, profit after tax and earnings per share. The Statistical Package for Social Sciences (SPSS) was used to analyze the data collected in order to generate descriptive statistics and inferential statistics for the study. Results were presented in form of tables and figures. Relevant recommendations and conclusions were given. Regression analysis was used to describe the extent with which the dependent variables could be explained by the independent variable.

The study examined the effect of sales turnover on budgetary controls. The study established that the two variables had a low positive correlation at 32.3%. Concerning the effect of budgetary control on employee behavior, the study found out that budgetary control had a high correlation with employee behavior at 54.7%. As regards the effect of budgetary control on firm performance, the study established that the link between

budgetary control and profit before tax was high at 54.4%. However, it was slightly lower in relation to both profit after tax and earnings per share at 49.1%.

In conclusion, the study established that there was a low positive correlation between budgetary controls and sales turnover. Thus, the various budgetary control types for instance, short-term form of budgetary control, long-term budgeting, flexible budgeting, zero based budgeting, rolling budgeting and activity-based budgeting are responsible for the low positive correlation. It is therefore recommended that there is need to increase the level of sensitization among management and employees of the East African Portland Cement Company on the importance of budgetary controls in enhancing financial performance. The budgetary control process should consider both firm needs and parameters within the firm during planning to achieve better results.

Regarding the effect of budgetary control on employee behavior, the study concluded that the correlation between the two variables was high. It is therefore recommended that the firm should strive to maintain or improve on its employee behavior for instance, employee working relationships, realization of budget, management style, money factor, organizational structure and fulfilment of individual needs.

Finally, about the relationship between budgetary control and firm performance, the study concluded that there was a high positive correlation of 54.4% between budgetary control and firm's financial performance measured in terms of profit before. However, there was a low positive correlation of 49.1% between budgetary control and both profit after tax and earnings. It is therefore recommended that East African Portland Cement Company should encourage implementation of their budgets as planned. In addition, management is also advised to pay more attention to the budgeting processes since it improves firm performance.

## **ACKNOWLEDGEMENT**

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## **DEDICATION**

This project is dedicated to my family for their endless support to ensure that I acquire this quality education.

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# CHAPTER ONE

## 1.0 INTRODUCTION

### 1.1 Background of the Problem

Budgetary control system in a multinational company like any other business is inevitable and largely influences performance and decision making at all levels of the organization. It is an important tool used in monitoring the performance of the organization, which is done through variance analysis i.e. assessing and devising possible reasons that have caused actual results to be different from what was budgeted and taking necessary corrective actions to prevent or minimize future reoccurrence (Sidik, 2012).

Factors responsible for variances can however be controllable or uncontrollable; management must keep close eyes on those that can be controlled and capitalize on them to minimize future variances. It is traditional for most organizations to establish a budget at the beginning of each period that guide towards meeting the objectives of the organization within the specified predetermined estimate that depends on the management of the organization (Bashuna, 2013).

The scope of the budget will determine the level of operations to be carried out and proper budgetary control will aid in decision making as it tracks the level of performance of every activity and then identifying underperformed activities that may require revision or possible elimination (Mohamed, Evans and Tirimba, 2015). In order to keep in line with the objectives of the organization, every function within the organization must meet its stated budget and thus ultimately making it possible for the objectives of the organization to be achieved. Budgetary control is therefore important as it makes this possible through coordinating and monitoring of the various functions (Abdullahi, Abubakar, Kuwata and Muhammad, 2015).

Traditional budgeting has been criticized for a long time now for its inadequacy as a means of management control. We could note from the argument of Isaac, Lawal and Okoli (2015), who contend that the rapid changes in today's business environment renders a rigid approach to budgetary control obsolete. It is no longer helpful, in his opinion, to compare actual results to that forecasted anything up to 15 months previously. These authors argue

that almost the requirement of an appropriate system would be the building in of accountability to explain the differences between actual and planned performance.

Budgetary control refers to the establishment of budgets relating to the responsibilities of the executives of a policy and the continuous comparison of the actual with the budgeted results, aimed at securing the objective of the policy or to provide a basis for revision (Olaoye and Ogunmakin, 2014). According to Igbinosun and Ohiokha (2012), budget must be aligned with the organization's strategies, appropriate strategic planning and performance management processes introduced and must involve processes that are value based, consequential and continuous. This study intends to investigate the budgetary control practice of the East African Portland Cement Company and make suggestions of what seems to be the best practices based on literature, articles and prominent businesses.

As earlier mentioned in the introduction, a budget is a statement of projected resources set aside for the execution of scheduled work over a given period. It is the blue print of the expected outcome of a firm's operations in a financial year. It specifies the qualitative factors of a firm's performance. Budgetary control on the other hand entails the process of establishing what is happening and comparing the actual results with budgeted targets to ascertain achievement or remedy any variances that may have arisen.

Mbabazize and Twesige (2014) defines budget as "a financial plan summarizing the financial experience of the past, stating the current plan and projecting it over a specified period of time in future". Hence, a budget is the bedrock of financial administration through which different operations in the field of public finance are linked. In public sector accounting, budgets refers to financial proposals, which are placed before the legislative assemblies periodically for approval and allow governments spend money for the benefit of the citizenry. Thus, it entails the entire financial operations of the government, which may form the basis of future fiscal planning for the economy.

To appreciate the concept of budgets, one needs to consider its purpose. The following are the purposes of budgeting: boosts planning and control with a view to improving a firm's financial position, assists managers identify cost effective strategies aimed at achieving organizational goals, budgets assist managers keep track of firms' performance for future survival and focus on areas crucial areas. Other purposes of budgeting include assist

management translate firm objectives into action, coordinate efficient allocation of factors of production to all stakeholders and communicating organizational objectives to all stakeholders (Raghunandan, Ramgulam and Raghunandan-Mohammed, 2012).

Since we have enumerated the rationale for preparing budgets, it is thus imperative for us to acknowledge the different steps involved to produce a quality budget. There should exist a budget manual with instructions governing the whole process. In addition, a budget committee consisting of the organization's chief executive officer and representatives of the various departments of the firm should be in place. It is the responsibility of this committee to schedule activities for the budgeting process (Siyabola, 2013).

Thereafter, the principal budget factor, which limits the level of activities, is set. Examples of budget factors include low machine capacity, shortage of raw materials and skilled labor. The budget officer who is in most cases an accountant in the firm is then appointed. This officer is responsible for issuing instructions to the various functional heads, receiving and checking the budget forecasts, provide departmental heads with historical data needed to predict future estimates. The budget officer also ensures that functional heads prepare their budgets on time; they prepare the summaries, proceed ahead with the submission of budgets to the committee (Abdullahi et al., 2015).

The other step is establishment of budget control periods, which could be weekly, monthly, quarterly or annually. Finally, a master budget, which is a consolidation of the various individual departmental budgets, is prepared. Functional budgets in a typical set up will include the sales budget, capital budget, production budget, plant utilization budget, production cost budget, selling and distribution budget and a cash budget (Siyabola, 2013).

The main objectives of budgetary control include combining ideas from the various levels of management in the budget control process, coordinating various activities in the firm, revealing areas of weakness and planning and controlling a firm's income and expenditure to achieve organizational goals. Other objectives include providing a benchmark against which actual result is compared with budgeted results and finally, channeling capital expenditure in the most profitable manner (Osundina and Osundina, 2012).

For a budgetary control to work, the following conditions are necessary: top management must support it in terms of facilitation and resource allocation, clearly spelt out information regarding long-term organizational goals guiding budgeting process should be in place, the organizational structure should be realistic with clearly defined responsibilities and full involvement of the functional heads in the process. In addition, there ought to exist regular revision of budgets and targets as need be, proper accounting of income and expenditure and flexibility in administration. Rigidity in budgeting may cause the whole process to lose meaning and credibility (Siyanbola, 2013).

East Africa Portland Cement Company Limited started operations as a trading company importing cement mainly from England for early construction work in British East Africa (now Kenya), as an agent of Blue Circle Industries in the United Kingdom. The name Portland is attributed to the resemblance in color of the said cement to the Portland stone used for its mining found in the Isle of Portland Dorset, England. In February 1933, the company was incorporated in Kenya with its first factory located at Nairobi's industrial area. The company had one cement mill and used imported clinker from India for cement manufacturing. The company's capacity was about 60,000 tons of cement at the time. In December 1956, construction of the Athi River facility started, the factory was commissioned in 1958 and consisted of a rotary kiln, a big cement mill which significantly increased production capacity to 120,000 tons per annum (Wanguu and Kipkirui, 2015).

Over the years, East African Portland Cement Company expanded its production capacity. Presently, the company produces 1.3million tons of cement per annum at a reduced cost, thanks to the construction of a four-megawatt power plant in June 2014. This plant is estimated to lower the annual cost of running the Athi River factory by close to Kenya shillings 500 million (Wanguu and Kipkirui, 2015).

The firm's sales revenue fell by 19% year-on-year to US\$35.9m in 2016 from US\$44.6m in 2015. It made a loss of US\$5.15m compared to a loss of US\$7.19m in 2015, according to Reuters. It said that sales volumes had fallen by 17% in 2016 due to a 'change in the competitive landscape' and that this had caused the fall in revenue. However, it added that it had cut its administrative expenses by 9% due to on-going cost management initiatives.

Looking forward the company said that, as it expected cement supply to be higher than demand in the near term; it would focus on cutting costs (NSE, 2016).

East African Portland Cement Company plans to lay-off over 1000 workers as part of plans to improve its efficiency. The company's board has described the organization as 'severely over staffed' and unable to compete with its rivals, according to Citizen Digital. At present, it has around 2000 personnel and studies suggest that it only needs 500 of these workers to remain competitive (NSE, 2016).

## **1.2 Statement of the Problem**

CIMA and ICAEW (2004) in their round table discussion dubbed, "The traditional role of budgeting in organizations", agreed that budgeting, the associated process are indispensable, and that traditional budgeting remains well known. It is worth noting that, close to 99% of European firms have a budget in place and they have no intention whatsoever to abandon it. In agreement with this, Batra and Verma (2017) in their research on usage of budget as a management control tool in India established that 88.7% of their respondents prepared budgets. Hence, the practice was widespread.

On the contrary, previous studies have shown that over 60% of business enterprises claim that they have tried using performance management service lines to carry out worldwide review of budgeting and planning. The focus was on 15 firms in the USA and Europe that had adjusted their budgeting practice. Researchers also reviewed more than 100 academic books on the subject. The results exhibited widespread discontent with the budgeting process (Bourne et al., 2005). This view was, however refuted by Kimunguyi, Memba and Njeru (2015) and Segun and Olamide (2009) who argued that budgets assist organizations in planning, control and evaluation hence satisfied with traditional budgeting.

Horngren et al., (2008) study on over 150 firms in North America indicated that budgeting was the most frequently used management tool. Besides, organizations value it highly compared to other management tools available. It is also the highly rated cost management tool in terms of cost control and reduction. Akintoye (2008) studied the relationship between budgetary control and firm performance in the Nigeria manufacturing sector. The study revealed that factors such as overdependence on crude oil, poor infrastructure,

unreliable power supply and unfavorable reforms in the sector have had a negative impact on capacity utilization in the manufacturing industry

The East African Portland Cement Company is a multinational company that is involved in many types of businesses. This makes its budgeting system complex and extremely difficult to control. Thus, the need to come up with the most cost-effective ways of distributing limited financial and non-financial resources is crucial to the firm. In most large organizations, overcoming this challenge could be an exercise in futility without adequate budgeting controls in place (Afonina, 2015).

The critical research gap associated with this study is failure by management of the firm under study to link budgetary control with performance. Lack of effective budget analysis and feedback reporting mechanisms could spell doom to a firm. Some problems arise due to lack of adequate data that is necessary to formulate and implement a proper budget and overlap of duties due to lack of defined structures. These deficiencies can be addressed by employing effective budgetary controls (Akeem, 2014). This study therefore attempts to fill this gap. To achieve this, the study has examined budgetary control systems used at the East African Portland Cement Company, the effect of budgetary control on employee behavior and the relationship between budgetary control and firm performance.

### **1.3 Objective of the Study**

The general objective of the study is to assess the effect of organizational budgetary control system on the performance of the East African Portland Cement Company Limited.

### **1.4 Research Questions**

In conducting the research, the study will attempt to answer the following questions:

- 1.4.1** What are the budgetary control systems used at the East African Portland Cement Company?
- 1.4.2** What is the effect of budgetary control on employee behavior?
- 1.4.3** Is there a relationship between budgetary control and firm performance?

### **1.5 Significance of the Study**

The beneficiaries of this research are:

### **1.5.1 Cement Manufacturing Firms**

This study is expected to enable the identification of budgetary control methods that are essential to the general performance and decision-making in cement Industry as a Multinational corporation.

### **1.5.2 Researchers and scholars**

This research will also help other companies, NGOs and government to evaluate their budgetary control systems and do improvement where necessary. This research paper will be available online for easy access by scholars and researchers.

### **1.5.3 Regulatory Authorities**

The research work shall enhance the regulator's and policy maker's formulation of appropriate policies, which enhance budgetary control, general performance and very good decision making.

## **1.6 Scope of the Study**

The focal point of this study is on the East African Portland Cement Company Limited situated in Athi River. The firm is listed in the Nairobi Securities Exchange. Particular attention will be given to the period 2012-2017.

The limitation of this study is that some respondents may not be willing to give out information regarding the firm under study. The researcher assured respondents that information sought would be treated with utmost confidentiality and for academic purposes only.

## **1.7 Definition of Terms**

### **1.7.1 Budget**

A budget is a financial statement, prepared and approved prior to a defined period, which should be pursued during that period with the aim of achieving certain objectives. It is a predetermined statement of managerial policy during the given period which provides a standard for comparison with the results actually achieved (Moretti, Downes and Nicol, 2017).

### **1.7.2 Budgetary reporting**

The financial status, income and expense data can change on a daily basis for a company. Financial data is documented and recorded in a budget report, also often referred to as a

financial report. While a budget report can be a detailed documentation, the business owner can also choose to make it brief and simple. This decision is often affected by the overall use and readership of the report. Budgetary reporting is the process of establishing budgets related to various activities and comparing the budgeted figures with the actual performance for arriving at deviations, if any (Robinson, 2009).

### **1.7.3 Budgetary Control**

Budgetary control refers to the establishment of budgets relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with the budgeted results, either to secure by individual actions the objectives of that policy or to provide a basis for its revision (Swaine, 2017).

### **1.7.4 System**

A system is a set of principles or procedures according to which something is done. It can also be deemed to mean an organized scheme or method of doing things (Adeyele, 2016).

### **1.7.4 Firm Performance**

Firm performance is the process by which organizations align their resources, systems and employees to strategic objectives and priorities. It can be defined as activities that ensure that goals are consistently being met in an effective manner (Abbadi and Abu-Rub, 2012).

## **1.8 Chapter Summary**

This chapter presented the background on the effect of budgetary reporting system on the performance of the East African Portland Cement Company Limited for the period 2012-2017. It also highlighted the problem statement, purpose of the study, research objectives, significance and scope of the study. Chapter two discussed the literature review used in the study. Chapter three discussed the methodology applied in the research whereas in chapter four, the results and findings of the study were presented. Finally, chapter five provided the conclusion, recommendation and discussions of the study.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presented literature review on previous studies on the effect of budgets and budgetary controls on financial performance of firms. Section 2.2 of the chapter looked at the various budgetary control systems used at the East African Portland Cement Company and the related theories. Section 2.3 was about effect of budgetary control on employee behavior. Section 2.4 analyzed the link between budgetary control and firm performance. All the sections attempted to address the specific objectives and fulfill the general objective of the study. Finally, section 2.5 summarized the whole chapter.

#### **2.2 Budgetary Control Systems used at the East African Portland Cement Company**

Olden day budgeting dates way back to the stone age period when the early man was forced to manage and plan the little that he usually had in terms of food and other necessary essential items. This is because the early man failed to get all that he needed at any given time. The early man could ration food and other necessities over time to avoid starvation. Although his needs were very small compared to the modern man's, the early man could not get all that he needed to achieve utmost satisfaction. He preserved considerable amount of fruit he plucked during glut period to avoid starvation during periods of dry spell. He would also preserve excess bush meat because he was not sure of killing animals daily. Despite all the aforementioned measures to mitigate uncertainties associated with the future, the early man's budgeting style was considered primitive (Siyanbola, 2013).

According to Adeyele (2016), modern day budgeting started during the Roman and Egyptian civilization periods around 500BC and 2500BC respectively. Merchants matched expected expenditure against expected income to be able to establish whether their businesses were making profit or loss. Siyanbola (2013) argue that formal preparation of budgets can be traced to the middle age period in England when the Chancellor of the Exchequer prepared annual accounts in a scroll, usually kept in a bag to be read in parliament. During time of discussing state finances, the Chancellor could always refer to the statement of accounts contained in the bag. This bag, whose original name is (boguette) in French, is referred to as the budget. Over the years, governments' financial statements

have taken over the name of the bag, thus the statement of finance for any government today is referred to as the budget.

History has it that the first annual national budget was adopted in Britain in 1787. The British parliament passed the Consolidated Fund Act, paving way for a single general fund for recording all receipts and expenditure, which formed the basis for the modern budgeting system. By 1822, the British Chancellor for the Exchequer, an equivalent of Finance Minister in other commonwealth jurisdictions, had gotten used to the presenting annual budget statements to the British Parliament account committee for review. The Audit Act, which existed then, provided independent post audit review of the said budget. Elsewhere in other developed countries jurisdictions, the United States of America adopted this system in 1912, the same year the budget and accounting Act was set up by the federal budget system. By 1931, the French government had adopted the system (Barclay, Schalkwyk and Pauw, 2011).

Of late, focus has been on strengthening the budget planning processes and their interrelationships in most of the developing countries including Kenya. Key among international organizations advocating this include the World Bank, the International Monetary Fund, the United States Agency for International Development and the United Nations. All the aforementioned agencies are interested in seeing developing and least developed countries improve their budgeting practices. All these interventions are a clear manifestation of the importance that is attached to budgeting as a management tool or process (Moretti et al., 2017).

According to Kipkemboi (2013), budget reflects estimates of future events, and what is considered acceptable performance. Comparing actual with budgeted results provide meaningful information and indicate the need to analyze and investigate over and under spending. The action taken on over and under spending is one of the most important aspects of a budgetary control system. Kimani (2014) contend that budgetary control aims to achieve four things: First of all, to define and evaluate a firm's short-term plans, secondly, to identify responsibilities and delegate authority to budget managers for the achievement of those plans. Thirdly, to allocate resources between various budget managers up to the limit imposed by the availability of resources. Lastly, budgets motivate budget managers. As a motivating tool, the freedom to take decisions and make mistakes may be empowering

or it may be viewed as a control mechanism by which managers' performance will be judged, apparently on impartial grounds. If rewards do not accompany the additional responsibility, managers may feel that they have been taken advantage of within the structure.

### **2.2.1 Classifications and types of Budget**

According to Isaac et al., (2015), budgets can be classified as follows: short-term budget, long-term budget, fixed budget, flexible budget and zero based budgets. Other classifications include rolling budgets, activity-based budgeting, incremental budgeting and planning, programming budgeting systems.

#### **2.2.1.1 Short-term budgets**

These are budgets established for use for control purposes over a short period, usually less than one year. They are commonly used in manufacturing industries due to their complexity and dynamism. They can easily match with the ever-changing working environment in which they operate.

#### **2.2.1.2 Long-term budgets**

These budgets are also sometimes referred to as development plans. They are normally applicable for a minimum duration of 5 years and are at times, referred to as an organization's strategic plan. Just as governments usually prepare 5-year Development Plans that can be rolled over after every five years, manufacturing firms also prepare 5-year strategic plans, which are usually broken into annual budgets that are rolled over from one year to the other.

#### **2.2.1.3 Fixed budget**

As the name suggests, a fixed budget will remain the same regardless of the subsequent changes in activity costs or revenues. It usually serves as a benchmark in performance evaluation.

#### **2.2.1.4 Flexible budget**

Flexible budgets are budgets that are designed to change as the level of activity achieved changes. They recognize the existence of fixed, variable and semi-variable costs and change in relation to the actual volume of output over time.

#### **2.2.1.5 Zero Based Budgeting.**

This type of budgeting is also sometimes referred to as priority-based budgeting. It is a technique, which discourages the traditional incremental budgeting style year after year but

advocates for justification for any budgeted figures. Zero Based Budgeting was introduced in the US in the early 1970s. It gained prominence due to its practicality. The technique lays more emphasis on the concept of opportunity cost and cost benefit analysis generally in project evaluation.

#### **2.2.1.6 Rolling Budget**

Rolling budget in other literature is commonly known as the continuous budget. This budgeting system entails updating the budget continuously by reviewing specific period's actual results and using that information to determine the corresponding period's budget. Under the rolling budgeting arrangement, there would be a budget every quarter such that as the period under review ends, the budget is extended by an extra period.

#### **2.2.1.7 Activity Based Budgeting**

This may be defined as a budgeting method that is based on an organization's activity framework that utilizes data of cost drivers in the variance feedback and budget setting processes. It is a controlling system and planning process geared towards achieving the objectives of continuous improvement in the budgeting process. The following characteristics are associated with Activity Based Budgeting: identification of cost drivers aimed at directly controlling the cost causes and examination of the value addition potential of budgeting activities.

#### **2.2.1.8 Incremental budgeting**

This budgeting approach uses current year income and expenditure estimates as a basis of determining budget for the year. It is commonly used in the public sector. One of the drawbacks associated with this method of budgeting is the misfortune of carrying over previous years inadequacies into subsequent period's budgets. This is so because in incremental budgeting, the current period's estimates are simply adjusted by a factor which management thinks is good enough to take care of inflationary premium for the succeeding financial period.

#### **2.2.1.9 Planning, Programming Budgeting System (PPBS)**

This system of budgeting analyses the output of a particular programme and seeks the most effective alternative of achieving that programme's activities. It entails establishing long-term objectives for a firm and how those objectives can be achieved. The system aims at achieving the efficient allocation of organization resources and provision of information necessary for management to assess the effectiveness of its plans.

### **2.3 Effect of Budgetary Control on Employee Behavior**

The realization of organizational control is dependent on top managements' actions and sound working relationships between different levels of an organization's hierarchy. During budget making process, a management accountant may motivate as well as improve managers' attitude towards budgetary control improved. Consequently, lower level employees and managers are motivated when required budget levels are realized. Therefore, culture, management style and managers' attitude towards firm employees will influence the budgeting approach within an organization (Polisetty, 2016).

There are three commonly used approaches to development of final budgets. The first one is the imposed or top-down budget approach whereby top management decides on the budget and lower level managers implement it as it is. The advantage synonymous with this approach is reduced decision-making time. The second approach is referred to as the participative or bottom-up approach. This approach takes into consideration the input of the lower cadre managers. The third approach is the negotiated budget, which adopts both the imposed and participative styles of budgeting thus creating an environment whereby budget preparation is a shared responsibility (Raghunandan, Ramgulam and Raghunandan-Mohammed, 2012).

The budgeting style chosen by a firm would depend on nature and leadership style applicable in the firm. It is widely argued that budgets developed using the participative or negotiated approaches attract greater support from firm's employees and managers (Kyei, Kwaning and Francis, 2015). Mere consultation with employees or managers prior to setting budgetary goals is not participation. Schemes that do not offer real participation in the budgeting process are highly discouraged. Budgeting process should cultivate a culture of positive game spirit in every aspect namely target setting, system design, variance analysis and corrective action (Chong and Chong, 2002).

According to Chong and Chong (2002) the effect of participation is dependent upon organizational culture, personality and history. Thus, the efficacy of any management control system depends on the positive relationship between that system and the firm's interest. McGregor characterizes management styles into two theories; X and Y. Theory X argues that employees in an organization are mainly motivated by money and cannot meaningfully contribute to the firm's decision-making process. Theory Y on the other hand

argues that job security and the prospect of promotion motivates an employee in a work place. Although these theories may yield positive results, they may impede workers' personal development. For instance, employees who are not committed to the success of the budgeting process may seek ways of circumventing the process (Wilkinson, 2009).

According to the organization theory, two theories are used towards the attainment of a firm's goals namely: classical theory and human relations approach. The former is concerned about organizational structure and tasks that should be accomplished to achieve firm objectives. The latter focuses more on people, their motives and behavior and not structures and activities, which must be harnessed to achieve organizational goals. This theory emphasizes on the importance of individual needs, therefore organizational structure should be geared towards individuals, and not the other way round (Edwards, 2013).

Modern organizational behavior theories namely McGregor Theory X and Y and Herzberg Hygiene Factors, appreciate diversity in human behavior. Mohamed and Nor (2013) contend that workers who participate in a budgeting process understand the goals of that budget system better. This improves the response level and efficiency in the planning process. Besides, employee performance level, morale and the urge to satisfy higher-level needs. In most organizations today, challenging budgets motivate managers in the budgeting process to work hard towards achieving set targets. One of the modern theories of motivation, which relates to the choice behavior, is the Expectancy theory. This theory argues that under normal circumstances, an individual will evaluate different strategies of behavior and settles on one he or she believes will yield valuable work-related outcomes (Vroom, 1964). It is worth noting that budgets that are not easily achievable demands more effort from employees. Thus, management may be compelled to use external rewards to influence subordinates' level of motivation (Shahzadi, Javed, Pirzada, Nasreen and Khanam, 2014).

Herzberg contend that there are two types of motivational factors namely: satisfiers also known as higher-level needs and dissatisfiers. The theory assumes that the mere satisfaction of one need does not constitute motivation. However, Mohamed and Nor (2013) also claimed that once a worker has achieved lower level needs for instance salary, such worker will try to satisfy a higher level need for instance recognition or self-actualization. Other theories relate have attempted to examine the relationship between discretionary

managerial behavior and management information. According to the agency theory, human behavior in a firm is viewed in terms of the relationship between the principal and an agent. The theory is appropriate in dealing with the problem of information hoarding. The bottom-line regarding these modern theories in as far as budgeting is concerned, is that participation of the lower level managers and supervisors in the process draws them into the decision-making process. Thus, managers and workers will have a say in the control process and will be part of the team working closely towards achievement of the budgets with less resistance (Jensen and Meckling, 1976).

### **2.3.1 Budgets and Human Behavior**

The success of a firm's budgetary control is dependent upon top management and their appreciation of the importance of sound interpersonal relationships between different employee job cadres. Senior management can motivate lower cadre employees through budgetary control. It is important to note that culture, management style and attitude towards employees play a crucial role in determining the approach to budgeting within a firm (Raghunandan, Ramgulam and Raghunandan-Mohammed, 2012).

The three main approaches employed by firms in developing budgets include; Firstly, imposed or top-down budgeting approach. This approach is supportive of the oppressive or autocratic style of leadership where top management decides on the budget and lower level management is only responsible for the execution. Secondly, participative or bottom-up budgeting process. This budgeting approach is supportive of the democratic style of leadership where lower level management input is given recognition in the budgeting process. Lastly, negotiated budgeting approach. This type of budgeting approach adopts not only the imposed budgeting approach, but also the participative styles of budgeting and creates an environment where there is shared responsibility for budget preparation (Kim and Park, 2006). It is widely believed that participative budgeting approach elicits greater employee support in most organization compared with autocratic budgeting process.

According to Mohamed and Nor (2013), the impact of participation is dependent on personality, firm history and organizational culture. Thus, the success of any management control system depends on the degree with which it impacts on employee behavior in the organization's best interest. According to McGregor's X and Y theories, theory X presumes that workers are motivated mainly by money and are not able to contribute much to the

firm's decision-making process. On the other hand, workers who are motivated by other factors such as the possibility of promotion or job security are classed as Theory Y workers. It should be noted that whereas the authoritarian method may yield results, it may be source of frustration and an impediment to an employee's personal development. In addition, employees in a firm are not personally committed to the accomplishment of the budget, thereby try to seek out ways and means of dodging the budget process (Arslan and Staub, 2013).

### **2.3.2 Behavioral Features of the Budgeting Process**

The level of employee participation in performing a task should match the level of job complexity. Previous empirical studies on this phenomenon indicate that the job difficulty has a relationship with participation effectiveness. When a task is simple, an imposed budget is easily accepted, but when a job is difficulty, the reverse is true (Ganta, 2014).

According to Patel (2015), caution should be observed when responding to behavioral responses based on the participation chemistry. Some managers may inflate their departmental estimates when competing for the scarce resources. The firm should therefore carry out cost benefit analysis aimed at achieving effective and efficient resource allocation across departments. The Hawthorne experiment of the 1920s revealed that human and social factors in a work environment affect productivity than physical factors. These theories revealed that people at a work place, care about their work and are motivated by other factors and not necessarily by money (Levitt and List, 2011).

People participating in an organization's budgetary process must be aware of the purpose and the benefits of the process. Besides, the long-term objectives of the organization, which the budget must accommodate, should be communicated to the budgettees. Employees must be aware of organizational goals such as employee welfare, product quality, profitability, customer service, growth etc. (Hawke, 2007). Performance feedback should also be provided regularly to facilitate management to take any necessary corrective actions. Views regarding commitment versus employee performance in the budgetary process are varied. Raghunandan, Ramgulam and Raghunandan-Mohammed (2012) disagree with the view that there is a relationship between participation and commitment. This position can only be true in a working environment where mistrust exists, for instance subordinates questioning attempts by management to prompt participation. Mark Young (1985)

however from their research found out that participative budgeting did not result in the optimal utilization of a firm's resources.

Dakhli (2010) argue that participation improves group cohesiveness and interaction among employees. All these, if directly proportional with incentives would result in lower or higher performance depending on the prevailing circumstances. Senior managers in both public and private sector can use budgetary control systems as support tools and not as instruments to apportion blame and reprimanding subordinates who in one way or another, fail to realize set targets. From the public sector point of view, the strength of a budget as a decision-making tool raises many questions as the political class seek political mileage (Okoroafor, 2016).

## **2.4 Relationship Between Budgetary Control and Firms Financial Performance**

### **2.4.1 Financial Performance**

Financial performance simply means an attempt by a business organization to maximize profits. Technically, however, the term refers to the process of measuring a firm's outcome in monetary terms. Financial performance is used to gauge an organization's overall performance over a given period or compare the performance of similar businesses within an industry either in isolation or in aggregation.

Financial performance can be measured using three indicators namely; internal based performance measures such as Return on Assets (ROA) and Return on Investments (ROI), market-based performance measures such as Tobin's Q model computed as Price/Equity's Book Value, sales and market share and lastly, shareholders return measured in terms of total shareholder return or economic value added. For purposes of this study, Return on Assets (ROA) will be used as a measure of performance. Reason being, ROA is a better measure of a firm's financial performance since it gives a clear picture of the extent by which a firm utilizes its assets to make profit as opposed to simply showing healthy return on sales (Akeem, Terer, Kinyanjui and Kayode, 2014). The other ratio to be used is the Gross Profit Margin.

Financial performance of a firm can be presented in three ways namely: as a measure of the market which reflects stakeholders' level of satisfaction in the market, as an accounting measure reflecting business efficiency level and as surveys depicting estimated financial performance (Javed, Younas and Imran, 2014). Therefore, as argued by Iavorskyi (2013),

financial performance assists various stakeholders in the business to answer the following two fundamental questions: What is the organization's financial position now? How is the firm's financial performance over a given period? These questions are answered by utilizing the firm's financial statements through a process called financial analysis. According to Pratheepkanth (2011), financial statements entails a set of data, that is usually analyzed using certain accounting procedures with a view to conveying certain financial characteristics of an organization.

Financial performance analysis incorporates interpretation of financial statements with the aim of establishing the financial soundness a firm (Osuji and Odita, 2012). Financial performance often scrutinizes a firm's performance in terms of productivity in general. Such generalization comprises total business performance measured in terms of a firm's overall liquidity, profitability, fixed asset performance, working capital management, cash flow performance as well as social performance. Thus, liquidity performance indicators may be used by creditors to gauge a firm's creditworthiness for purposes of investing in it. Likewise, cash flow performance may be useful to shareholders since they can be used to gauge a firm's future growth prospects (Nasimi, 2016).

#### **2.4.2 Concept of Control**

The aim of control in an organization is to ensure that performance conforms to set targets or plans. Controlling demands that organizational activities are geared towards the attainment of the firm's set goals. Control regulates work activities according to some predetermined plans so that a firm can accomplish its objectives. Controls operate through standards, which are used as benchmarks for performance. Any deviation from the set standards are reviewed and appropriate corrective measures undertaken to address the variations.

Steps involved in the control process include setting organizational goal, recording actual activity performance, creating a mechanism of comparison between set goals and actual performance and extracting variance between set target and actual activity. Other steps include investigating the causes of the aforementioned variances and taking appropriate action regarding the said variance (Igbinosun and Ohiokha, 2012).

Control ensures that objectives as laid down in the budgets are achieved. Management is able to know about this through information availed to it by subordinates. Control ensures

that objectives are achieved. A comparison is therefore made between plans and actual performance; the difference between the two is reported to management for taking corrective action. This control process is not possible without planning. An effective control system helps accomplish the purpose for which it is designed. Effective control systems rely on good information that is well communicated, well-coordinated, timely and economical to the organization (Bento and Bento, 2006).

### **2.4.3 Budgetary Control**

Once a budget is in place, it can be used as a control instrument to compare actual performance with budgeted performance. Since most organizations' activities are expressed in financial terms, it is possible to quantify these activities. Thus, budgetary control is a form of responsibility accounting within a firm whereby costs are matched with revenues and analyzed accordingly through effective financial monitoring systems (Adongo and Jagongo, 2013).

Budgetary control demands that each manager of a cost center is responsible for the expenses of that cost unit. According to Robinson (2009), budgetary control is defined as a policy established by firm's executive for comparison purposes between actual and budgeted results associated with attainment of a particular objective. Hence, emphasis is placed on control achieved through comparison of the actual results against budgeted plans.

Abdullahi et al., (2015) contend that budgetary control is a process that compares actual results with set targets and reports any variation arising therein called variance. According to Robinson (2009), this sets a control mechanism within which expenditure can be kept within reasonable limits, deviations noted and appropriate corrective action taken on time. In some exceptional circumstances, organizational goals may be revised.

In a typical business environment, budgetary control involves a departmental head receiving a copy of the departmental budget. The budget will clearly show positive, negative or no variance between actual expenditure and budgeted expenditure for each departmental vote head. From this information, appropriate corrective action should be taken. This is in line with the common budgeting practice that calls for variance explanation to be done by the responsible sectional head in a business enterprise. Besides, the departmental head is expected to act accordingly to avoid future possible adverse variances (Mohamed et al., 2015).

It is not always that negative variances should be discarded or revised. Management can still tolerate negative variances so long as in their opinion, such variances are realistic and attainable. Thus, a conclusion can be made to the effect that management holds the key to budgetary control in a firm. Budgetary control in itself controls nothing but management does control performance when they act on information received based on some results (Polisetty, 2016). Budgetary control can also be defined as a system, which treats a budget as an avenue of producing and selling goods or services. It is further argued that the three key functions of budgetary control, which are aided by corrective action and feedback, are planning, cooperation and control (Raghunandan, M., Ramgulam, N., & Raghunandan-Mohammed, 2012).

Budgetary control involves the preparation of a budget, recording of actual achievements, ascertaining and investigating the differences between actual and budgeted performance and taking suitable remedial action so that budgeted performance may be achieved (Kimani, 2014).

Budgetary control is the system of controlling costs through budgets. It involves comparison of actual performance with the budgeted with the view of ascertaining whether what was planned agrees with actual performance. If deviations occur, reasons for difference are ascertained and recommendation of remedial action to match actual performance with plans is done. The basic objectives of budgetary control are planning, coordination and control. It is difficult to discuss one without mentioning the other (Kipkemboi, 2013). Inadequate budgetary controls lead to objectives not being cleared and performance not being achieved or satisfactory. This reduces output because employees do not know or are doubtful about what to do, when and how to do it. They spend a lot of time seeking clarifications from executives. Thus, leading to delays in identification of deviations from plans, which lead to failure in goal achievement and hence poor performance (Adongo and Jagongo, 2013).

Performance of any institution is often evaluated by measuring success in meeting the budget. When the budgetary control is successfully implemented, the organization's objectives will be realized and once this has been done the organization is said to have achieved at performance level (Turakira, 2004). Resbery and Lormorie, (1986) stated that

in practice, many organization compare actual performance with the original budget, but if the circumstances expected when the original budget was set differ, there will be a planning and control conflict.

Isaac et al., (2015) argues that for the smooth implementation of an organization's budget, budgetary planning and control must be properly done. Under budgetary control, evaluation that is a process by which an appraisal of performance is systematically conducted with a view to measure individual, department and organizational contribution should be done. It is conducted in order to take appropriate action. In particular, evaluation of budgetary control is a process of assessing performance against budget standards and performance targets with intents to take corrective action (Emmanuel and Otley, 1985). Budgetary standards and targets tend to be the criteria upon which the performances of organizational members, the superiors in particular are evaluated. These standards and targets provide a basis for identifying and appraising selected aspects of organizational performance, since they are the criteria used to guide and motivate it.

Adongo and Jagongo (2013) stated that the evaluation standards should be very fine statements derived from budgetary planning goals of the previous period, budgetary control experience with respect to budgetary goals of the previous year and from the experience of comparable performance aspects with respect to the past periods. Once this is done, budgetary control will be achieved, and the organizations objectives will be properly implemented and hence efficiently achieved.

#### **2.4.6 Empirical Review: Budgetary Control and Firm Performance**

Many researchers have highlighted a positive relationship between budgeting and budgetary control and firm performance. They include: Isaac et al., (2015); Abdullahi et al., (2015); Akeem (2014); Adongo and Jagongo (2013) and Pimpong and Laryea (2016).

Akintoye (2008) study on the relationship between budgetary control and firm performance, established a positive correlation between the two variables. The independent variable in this study representing budgetary control was the turnover whereas firm performance was measured in terms of Net asset per Share, Dividend per share and Earnings per share. Yucel and Gunluk (2007) in their research on the relationship between

budgetary control and firm performance established a positive correlation. However, performance was negatively correlated with rigid budgetary control practice.

## **2.5 Chapter Summary**

This chapter has reviewed the relevant literature on effect of budgetary control on firm performance. The chapter has also examined the different budgetary controls applicable in East African Portland Cement Company, the relationship between budgetary control and employee behavior and the influence of budgetary control on firm performance. The next chapter will discuss the research methodology that will be used in the study.

## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter described the research design methodology used to carry out the study. The study aimed at finding solutions to the specific objectives mentioned in chapter one. Section 3.2 of the chapter discussed the research design. Section 3.3 was about the population and sampling design that was used in the study. Section 3.4 scrutinized the data analysis methods used in the research. Finally, yet importantly, section 3.6 summarized the whole chapter.

#### **3.2 Research Design**

A research design refers to the plan of action the researcher intends to use to answer the specific objectives of the study. It includes all the steps to be followed by the researcher from the point of coming up with a research proposal to the final point of analyzing the data in question (Sukamolson, 2007). Odoh and Chinedum (2014), define a research design as an arrangement aimed at providing answers to the research questions raised in the study.

This study was designed as a case study of the East African Portland Cement Company using the survey method. According to Odoh and Chinedum (2014), a case study is described as analysis of a firm, assuming that the researcher can acquire knowledge regarding the subject under review from in-depth exploration of a single case. It is a qualitative analysis that involves careful observation of a situation.

#### **3.3 Population and Sampling Design**

##### **3.3.1 Population**

According to Singh and Masuku (2013) population is the total sum of elements from which conclusions are drawn. As far as this study was concerned, the population comprised of employees of East African Portland Cement Company in the finance department targeting 45 employees. Odoh and Chinedum (2014), describe target population of a study as the point of focus from which a generalization is made regarding the research findings.

##### **3.3.2 Sampling Design**

A sample is a fraction of the study population. Thus, sampling design refers to the procedure used by the researcher to select items from the population that will constitute the

sample of the study. A list of all staff was obtained from the Human Resource department. Data sample was selected using cluster sampling technique to ensure that respondents were representative of all cadres of employees. Random sampling was then used to obtain a manageable sample size.

### **3.3.2.1 Sampling Frame**

Sampling frame can be defined as a complete description of all the cases in the target population from which the sample is drawn (Saunders, Lewis, & Thornhill, 2016). The sample frame for this study consisted of 40 employees in the finance department of the East African Portland Cement Company obtained from the human resource office.

### **3.2.2.2 Sampling Technique**

Stratified random sampling method was used for this study. This entailed dividing the population into mutually exclusive groups, in this case the various job cadres and random samples were drawn from each group. The researcher selected individuals from each job cadre representing senior management, middle level management and lower cadre employees. This saved time and cost of undertaking the study.

### **3.3.2.3 Sample Size**

The target population was staff in the finance department. Due to the nature of the study, the study only considered staff from the following departments: finance director's office, finance officer's office, senior accountant, credit officer, production manager and risk management offices. Using the sample formula  $n = N / (1 + N(e)^2)$  derived from Yamane (1967) formula (Sekaran and Bougie, 2013),

Where:  $n$  = sample size

$N$  = Population

$e$  = error

At 95% confidence interval and a population of 45 the sample size was calculated as:

$$n = \frac{45}{1+45(0.05)^2}$$

$$= \frac{45}{1+0.1125}$$

$$= \frac{45}{1.1125}$$

Sample size = 40

Thus, a sample size of 40 employees is considered representative of the total population.

### **3.4 Data Collection Methods**

Data collection method is logical process a researcher uses to collect data for the study (Alshenqeeti, 2014). The data will be either primary or secondary. Data is crucial in research because it forms the basis of analysis. Data collection methods are techniques applied when collecting relevant data for the research.

According to this study, both primary and secondary data was used. Structured closed ended questionnaires were used to collect primary data. The questionnaire was divided into three sections. Section I of the questionnaire captured respondents' demographics; Section II captured data on different budgetary controls applicable to the respondent's firm; section III captured data on budgetary control effects on employee behavior; section IV captured data on effect of budgetary control on East African Portland Cement Company performance. The questionnaire had questions structured in a Likert scale. To collect data, the researcher emailed questionnaires to all the respondents who were expected to fill the questionnaire and email it back to the researcher within a week.

Secondary data was used to establish the level of financial performance at East African Portland Cement Company. Turnover was used as a measure of budgetary control whereas profit before tax, profit after tax and earnings per share were used as proxies for measurement of financial performance for the period 2012-2016.

### 3.5 Research Procedures

The questionnaire was pre-tested on 10 respondents to establish its validity and if need be, necessary adjustments made. After piloting, the revised questionnaire was emailed to all respondents. The respondents were given one week to fill the questionnaire. On collection of the filled questionnaires, the researcher reviewed all the questionnaires to ensure that all copies issued to the respondents were filled and returned. The returned questionnaires were coded and run through the Statistical Package for Social Sciences (SPSS) for analysis.

Regarding the secondary data used in the study, the researcher tested the relationship between budgetary control and firm performance using financial information of a similar unlisted firm. The researcher then sought permission from the university's research office to carry out a study on the firm. The researcher sought secondary data from the firm's audited accounts in the Nairobi Securities Exchange handbooks. Finally, the researcher analyzed data on the East African Portland Cement Company performance.

### 3.6 Data Analysis Methods

Data analysis involves bringing to order, and give meaning to the bulk of information collected in a research (Johnston, 2014). The quantitative data was analyzed using descriptive and inferential statistics after running the data collected through the Statistical Package for Social Sciences (SPSS). Inferential statistics included correlation and regression analysis. Correlation analysis was used to determine the relationship between the variables whereas regression analysis was used to test the extent with which the independent variable was used to explain changes in the dependent variable. The independent variable was sales turnover, whereas the dependent variables included; various types of budgetary controls, employee behavior, profit before tax, profit after tax and earnings per share. The regression model was as follows:

$$Y_{vbc}=a+bX_1+ e; Y_{eb}=a+bX_1 + e; Y_{pbt}=a+bX_1+ e; Y_{pat}=a+bX_1 + e; \text{ and } Y_{eps}=a+bX_1 + e$$

$X_1$ = independent variable, sales turnover

$a$ = constant coefficient of the firm under study

$b$ = slope coefficient of the independent variable

$Y_{vbc}$ = First dependent variable, various types of budgetary controls applicable in the study

$Y_{eb}$ = Second dependent variable, employee behavior

Ypbt= Third dependent variable, profit before tax

Ypat= Fourth dependent variable, profit after tax

Yeps= Fifth dependent variable, earnings per share

e= standard error of the firm under review.

The findings of the study were finally presented in form of tables and figures.

### **3.7 Chapter Summary**

This chapter presented the research methodology used in the study. The chapter also discussed the research design, population, sample size used in the study, data collection method, procedures and data analysis method adopted by the research. The next chapter presented the findings and analysis of the study. Besides, it displayed the results of the study in form of tables and charts where necessary.

## CHAPTER FOUR

### 4.0 RESULTS AND FINDINGS

#### 4.1 Introduction

This chapter provided a descriptive analysis of the background information about the respondents in general. It was further broken into sections which are arranged based on the specific objectives of the study. Section 4.3 provided findings on the budgetary control systems used at the East African Portland Cement Company. Section 4.4 presented findings on the second research question, effect of budgetary control on employee behavior. Section 4.5 gave findings on the relationship between budgetary control and firm performance. Generally, data findings were presented in form of tables and percentages for quicker interpretation.

##### 4.1.1 Response Rate

The researcher managed to collect 35 dully filled questionnaires from the respondents. This was 87.5% return rate, hence acceptable and good for generalizations. Kothari (2009) contends that a response rate of 50% and above is representative enough for a research.

#### 4.2 Background Information

##### 4.2.1 Gender of the Respondents

The research sought to investigate the gender of the targeted respondents. The results are shown in table 4.1 below. Majority of the respondents were male at 71.42 percent followed by female at 28.58 percent.

**Table 4.1: Response Rate**

<b>Variable</b>	<b>Frequency</b>	<b>Percent</b>
Male	25	71.42%
Female	10	28.58%
<b>Total</b>	<b>35</b>	<b>100%</b>

##### 4.2.2 Age of the Respondents

The study sought to examine the age distribution of the respondents. The study revealed that most of the respondents were over 36 years of age at 39 percent followed by those in

the category of 31 to 35 years at 29%. The third category comprised the respondents aged between 26 to 30 years. Those in the age bracket of between 20 to 25 years were 15 percent.

**Table 4.2: Age of the Respondents**

<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
20-25	5	15%
26-30	6	17%
31-35	10	29%
36 years and Above	14	39%
<b>Total</b>	<b>35</b>	<b>100%</b>

#### **4.2.3 Education Levels of the Respondents**

The study also sought to examine the level of education of the respondents. It was established that majority were undergraduates at 46 percent, followed by graduates at 29 percent. Postgraduates were third at 14 percent while diploma holders were fourth at 11 percent.

**Table 4.3: Education Level**

<b>Education Levels</b>	<b>Frequency</b>	<b>Percent</b>
Diploma	4	11%
Undergraduate	16	46%
Graduate	10	29%
Post Graduate	5	14%
<b>Total</b>	<b>35</b>	<b>100%</b>

#### **4.2.4 Years of Experience**

The study sought to examine the respondents work experience in terms of years spent in the industry. Fifty one percent of the respondents had worked for a duration of between 7 to 10 years whereas 23 percent had worked for less than three years. Those who worked for a period of between 3 to six years comprised 14 percent whereas 12 percent had worked for eleven years and above as illustrated in table 4.4 below.

**Table 4.4: Years of Experience**

<b>Years of Experience</b>	<b>Frequency</b>	<b>Percent</b>
Less than 3 years	8	23%
3-6 years	5	14%
7-10 years	18	51%
11 and Above	4	12%
<b>Total</b>	<b>35</b>	<b>100%</b>

#### **4.2.5 Management Level**

The study also sought to examine the respondents' management levels. Majority of management staff comprise of middle level cadre management staff at 51 percent. Senior level management was 32 of the respondents. Finally, low level management was 17 percent. The results are as tabulated below:

**Table 4.5: Management Level**

<b>Management</b>	<b>Frequency</b>	<b>Percent</b>
Low Level	6	17%
Middle Level	18	51%
Senior Level	11	32%
<b>Total</b>	<b>35</b>	<b>100%</b>

#### **4.3 Budgetary Control Systems used at the East African Portland Cement Company**

The first research question of the study was to investigate the budgetary control systems used at the East African Portland Cement Company.

Table 4.6 presents the summary statistics of the variables used in the study. The average value for use of short-term form of budgetary control is 4.03 with a standard deviation of 1.26. The mean for application of long-term budgeting in the firm was 3.33 with a standard deviation of 1.16. The mean for the use of fixed budgeting was 3.61 with a standard deviation of 1.12 while that of using flexible budgeting in the firm was 3.42, having a standard deviation of 1.17. On the use of zero based budgeting, the mean was 3.48 with a

standard deviation of 1.37. The table also shows that on average the firms perceived use of rolling budget was at 3.27 with a standard deviation of 1.44. The respondents also indicated that the average use of activity-based budgeting at East African Portland Cement Company was 3.30 with a standard deviation of 1.51. The table further shows that at an average of 3.30, the firm applied incremental budgeting with a standard deviation of 1.40. A mean of 3.24 indicated that the firm employed planning, programming budgeting system. Lastly, a mean of 3.55 indicated that the firm used other budgetary controls other than the ones mentioned above. It had a standard deviation of 1.46.

**Table 4.6: Budgetary Control Systems used at the East African Portland Cement Company**

Statement	SD	DA	N	A	SA	Mean	SD
1. Short-term form of budgetary control is used in your firm	9%	3%	12%	27%	49%	4.03	1.26
2. Long-term budgeting is applicable to your firm	9%	15%	21%	42%	12%	3.33	1.16
3. Your firm employs fixed budgeting in its budgetary process	6%	9%	24%	39%	21%	3.61	1.12
4. Flexible budgeting is used in your firm	6%	15%	30%	27%	21%	3.42	1.17
5. Zero Based budgeting is a popular budgetary control mechanism at EAPCC	9%	15%	30%	9%	36%	3.48	1.37
6. Rolling budget is used in your firm	12%	21%	27%	6%	33%	3.27	1.44
7. Activity Based Budgeting is applicable at EAPCC	21%	9%	15%	27%	27%	3.30	1.51
8. Your firm employs incremental budgeting in its budgetary control processes	15%	15%	18%	27%	24%	3.30	1.40
9. Planning, Programming Budgeting System is indeed an option budgetary control at your firm	12%	24%	12%	30%	21%	3.24	1.37
10. Other budgetary controls other than the ones mentioned above are applicable in your firm	18%	6%	9%	36%	30%	3.55	1.46

#### **4.4 Effect of Budgetary Control on Employee Behavior**

Table 4.7 presents the summary statistics of the effect of budgetary control on employee behavior. The average value of realization of organizational control depending on working relationships between different levels in an organization was 3.42 with a standard deviation of 1.28. The mean to the effect that employees are motivated when budgeted levels are realized was 3.55 with a standard deviation of 1.15. The mean to the effect that culture, management style and managers' attitude towards firm employees influences the budgeting approach within an organization was 2.85 with a standard deviation of 1.44 while that employees in East African Portland Cement Company are mainly motivated by money and cannot meaningfully contribute to the firm's decision-making process without good pay was 3.73 with a standard deviation of 1.28. On effect of organizational structure on employee motivation, the mean 3.73 with a standard deviation of 1.42. The table also shows that on average the firms individual needs affects employee motivation at the firm with a mean of 2.85 and a standard deviation of 1.52. The respondents also indicated that the average with which workers who participate in the budget making process understand the goals of that budget system better stood at 3.42 with a standard deviation of 1.52. The table further shows that at an average of 3.45, challenging budgets motivate managers in the budgeting process to work hard towards achieving set targets.

A mean of 3.33 indicated that management sometimes uses external rewards to influence subordinates' level of motivation. Lastly, a mean of 3.33 indicated that participation of the lower level managers and supervisors in the budget process draws them into the decision-making process. It had a standard deviation of 1.36.

**Table 4.7: Effect of Budgetary Control on Employee Behavior**

Statement	SD	DA	N	A	SA	Mean	SD
1. The realization of organizational control depends on working relationships between different levels in an organization	9%	18%	15%	36%	21%	3.42	1.28
2. Employees are motivated when budgeted levels are realized.	9%	6%	24%	42%	18%	3.55	1.15
3. Culture, management style and managers' attitude towards firm employees influences the budgeting approach within an organization	27%	12%	24%	21%	15%	2.85	1.44
4. Employees in your organization are mainly motivated by money and cannot meaningfully contribute to the firm's decision-making process without good pay	9%	9%	15%	33%	33%	3.73	1.28
5. Organizational structure greatly affects employee motivation	12%	9%	15%	21%	42%	3.73	1.42
6. Individual needs play crucial need in motivating employees	30%	12%	18%	21%	18%	2.85	1.52
7. Workers who participate in a budgeting process understand the goals of that budget system better	21%	6%	12%	30%	30%	3.42	1.52
8. Challenge budgets motivate managers in the budgeting process to work hard towards achieving set targets.	9%	15%	18%	36%	21%	3.45	1.25
9. Management sometimes uses external rewards to influence subordinates' level of motivation	12%	15%	12%	49%	12%	3.33	1.24
10. Participation of the lower level managers and supervisors in the budget process draws them into the decision-making process	15%	12%	18%	33%	21%	3.33	1.36

## 4.5 Relationship Between Budgetary Control and Firm Performance

### 4.5.1 East African Portland Cement Company Sales Turnover

East African Portland Cement Company Ltd sales turnover has been fluctuating between 8.4 Billion Kenya Shillings and 9.2 Billion Kenya Shillings during the period under review as indicated in table 4.8 below.

**Table 4.8: East African Portland Cement Company Sales Turnover**

Year	Sales Turnover in Kshs. “000”
2012	8,508,120.00
2013	9,211,462.00
2014	9,057,292.00
2015	8,417,621.00
2016	8,871,456.00

#### **4.4.4 East African Portland Cement Company Profit After Tax and Return on Equity Ratios**

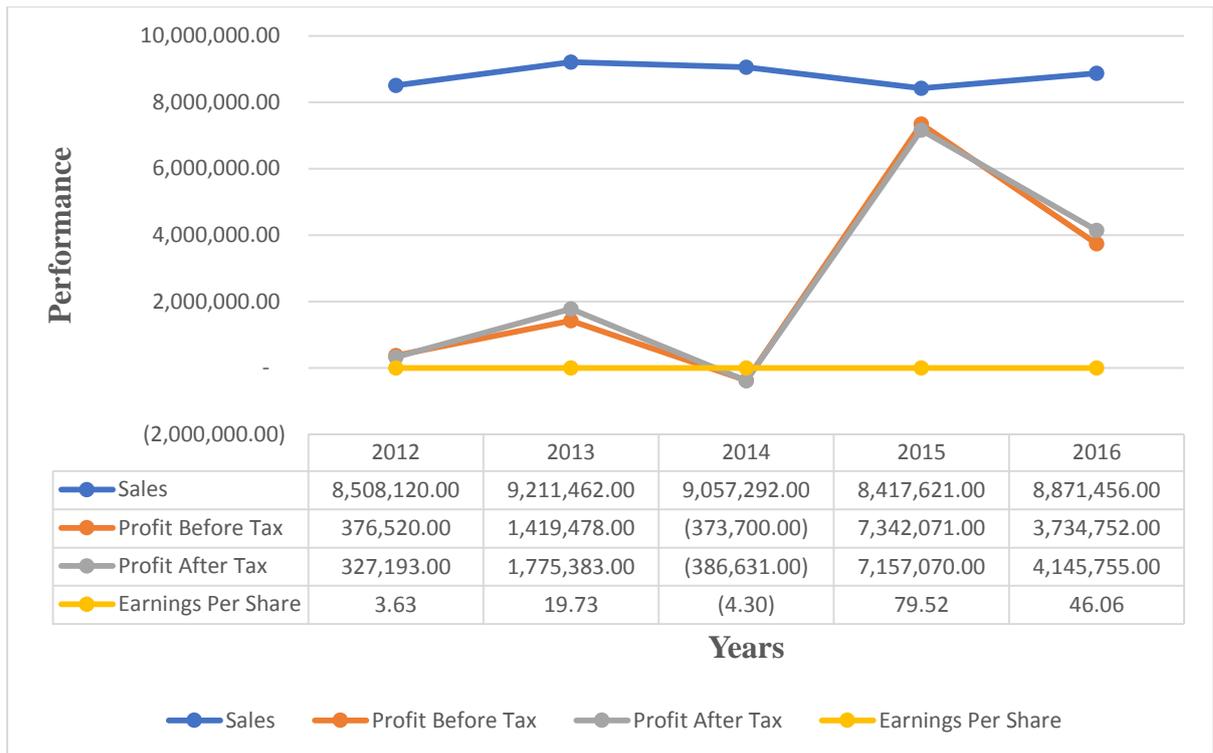
From Table 4.9 below, there existed a positive relationship between pre/after tax profits and earnings per share for the East African Portland Cement Company.

**Table 4.9: East African Portland Cement Company Pre/After Tax Profits and EPS**

Year	Profit Before Tax in Ksh. “000”	Profit After Tax in Kshs. “000”	EPS in Kshs.
2012	376,520.00	327,193.00	3.63
2013	1,419,478.00	1,775,383.00	19.73
2014	(373,700.00)	(386,631.00)	(4.30)
2015	7,342,071.00	7,157,070.00	79.52
2016	3,734,752.00	4,145,755.00	46.06

#### **4.4.5 East African Portland Cement Company – Pre/After Tax Profits and Earnings Per Share Trend Analysis**

From figure 4.5 below, the relationship between sales turnover, Profit Before/After Tax and Earnings Per Share for the East African Portland Cement Company Ltd is mixed.



**Figure 4.1: East African Portland Cement Company Sales Turnover and Pre and After-Tax Profits and Earnings Per Share Trend Analysis**

#### 4.6 Regression Analysis

Regression analysis is mainly concerned with investigating the relationship between independent and dependent variables used in research. It shows either the relationship is positive or negative. The researcher strives to unravel the fundamental effect of one variable over the other, which in this study is the relationship between sales turnover with; Profits Before and After Tax and Earnings Per Share.

##### 4.6.1 Regression Analysis on Sales Turnover and Budgetary Controls

The study sought to establish the underlying effect of one variable on another variable. Sales turnover was used as the independent variable while budgetary control types was used as the dependent variable.

**Table 4.10: Sales Turnover and Budgetary Control Model Summary**

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.323 <sup>a</sup>	.105	-.194	4.13186
a. Predictors: (Constant), Sales Turnover				

The table 4.10 above provided the R and R Square values. The R value representing simple correlation was 0.323, indicating a low level of correlation. The R<sup>2</sup> value indicated how much of budgetary control type which is the dependent variable, can be explained by the independent variable, sales turnover. In this case, 10.5% could be explained, which is insignificant.

**Table 4.11: Sales Turnover and Budgetary Control Anova**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.983	1	5.983	.350	.596 <sup>b</sup>
	Residual	51.217	3	17.072		
	Total	57.200	4			
a. Dependent Variable: Budgetary control types						
b. Predictors: (Constant), Sales Turnover						

The ANOVA (Analysis of variance) in table 4.11 above indicates the significance with which the regression model can be used to predict the dependent variable. The statistical significance (p-value, 0.596 > 0.005). The F- distribution table value for, F (1, 3) at 5% level of significance F-calculated, 10.128 > F-table value of 0.350. Thus, critical analysis of both *p* value and F critical value indicates that the model of regression was insignificant. Thus, the model is not a good predictor of the dependent variable.

#### 4.6.2 Regression Analysis on Sales Turnover and Employee Behavior

The research did regression using sales turnover as the independent variable whereas employee behavior was used as the dependent variable. The aim was to establish existence of significant relationship between the two variables.

**Table 4.12: Sales Turnover and Employee Behavior Model Summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.547 <sup>a</sup>	.299	.065	1.75625
a. Predictors: (Constant), Sales Turnover				

In table 4.12 above the R value was 0.547, representing simple correlation, indicated a higher level of relationship. The R<sup>2</sup> value indicated the extent with which the dependent variable, which in this case is employee behavior, can be explained by the independent variable, sales turnover. From the analysis 29.9% could be explained, which was lower.

**Table 4.13: Sales Turnover and Employee Behavior Anova**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.947	1	3.947	1.280	.340 <sup>b</sup>
	Residual	9.253	3	3.084		
	Total	13.200	4			
a. Dependent Variable: Employee Behavior						
b. Predictors: (Constant), Sales Turnover						

The ANOVA (Analysis of variance) table 4.13 indicated the significance with which the regression model predicted the outcome variable. The statistical significance (p-value, 0.340 > 0.05). Using the F- distribution table, 1 tailed test, 3 d.f at 5% level of significance, F-calculated, 10.128 > F- critical value of 1.280. Both P and F critical values indicated that the model of regression was not significant and hence not a good predictor of the dependent variable.

**Table 4.14: Sales Turnover and Profit Before Tax Model Summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.544 <sup>a</sup>	.296	.061	3022561.95500
a. Predictors: (Constant), Sales				

In table 4.14 above the R value was 0.544, representing simple correlation, indicated a higher level of relationship. The R<sup>2</sup> value indicated the extent with which the dependent variable, which in this case is profit before tax, can be explained by the independent variable, sales turnover. From the analysis 29.6% could be explained, which was lower.

**Table 4.15: Sales Turnover and Profit Before Tax Anova**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11497468 390000.0 00	1	11497468390000.000	1.258	.344 <sup>b</sup>
	Residual	27407642 320000.0 00	3	9135880773000.000		
	Total	38905110 710000.0 00	4			
a. Dependent Variable: Profit before tax						
b. Predictors: (Constant), Sales						

The ANOVA (Analysis of variance) table 4.15 above indicated the significance with which the regression model predicted the outcome variable. The statistical significance (p-value, 0.344>0.05). Using the F- distribution table, 1 tailed test, 3 d.f at 5% level of significance, F-calculated, 10.128> F- critical value of 1.258. Both P and F critical values indicated that the model of regression was not significant and hence not a good predictor of the dependent variable.

**Table 4.16: Sales Turnover and Profit After Tax Model Summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.491 <sup>a</sup>	.241	-.011	3096686.73300
a. Predictors: (Constant), Sales				

In table 4.16 above the R value was 0.491, representing simple correlation, indicated a lower positive correlation. The R<sup>2</sup> value indicated the extent with which the dependent variable, which in this case is profit after tax, can be explained by the independent variable, sales turnover. From the analysis 24.1% could be explained, which was lower.

**Table 4.17: Sales Turnover and Profit After Tax Anova**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9153378465000.000	1	9153378465000.000	.955	.401 <sup>b</sup>
	Residual	28768406160000.000	3	9589468721000.000		
	Total	37921784630000.000	4			
a. Dependent Variable: Profit after tax						
b. Predictors: (Constant), Sales						

The ANOVA (Analysis of variance) table 4.17 above indicated the significance with which the regression model predicted the outcome variable. The statistical significance (p-value, 0.401>0.05). Using the F- distribution table, 1 tailed test, 3 d.f at 5% level of significance, F-calculated, 10.128> F- critical value of 0.955. Both P and F critical values indicated that the model of regression was not significant and hence not a good predictor of the dependent variable.

**Table 4.18: Sales Turnover and Earnings Per Share Model Summary**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.491 <sup>a</sup>	.241	-.012	34.40929
a. Predictors: (Constant), Sales				

In table 4.18 above the R value was 0.491, representing simple correlation, indicated a lower positive correlation. The R<sup>2</sup> value indicated the extent with which the dependent variable, which in this case is earnings per share, can be explained by the independent variable, sales turnover. From the analysis 24.1% could be explained, which was lower.

**Table 4.19: Sales Turnover and Earnings Per Share Anova**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1129.750	1	1129.750	.954	.401 <sup>b</sup>
	Residual	3551.998	3	1183.999		
	Total	4681.748	4			
a. Dependent Variable: Earning per share						
b. Predictors: (Constant), Sales						

The ANOVA (Analysis of variance) table 4.19 above indicated the significance with which the regression model predicted the outcome variable. The statistical significance (p-value,  $0.401 > 0.05$ ). Using the F- distribution table, 1 tailed test, 3 d.f at 5% level of significance, F-calculated,  $10.128 > F$ - critical value of 0.954. Both  $p$  and F critical values indicated that the model of regression was not significant and hence not a good predictor of the dependent variable.

#### **4.7 Chapter Summary**

The chapter provided data analysis received from the field and presented it in form of tables. The next chapter, which is chapter five discussed the study findings, analysis and interpretations of the findings. The chapter also provided conclusion and gave recommendations for further studies based on the specific objectives discussed in the study.

## **CHAPTER FIVE**

### **5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provided the summary, conclusions and recommendations based on the study findings in chapter four.

#### **5.2 Summary of the Study**

The study investigated the effect of budgetary reporting system on financial performance of the East African Portland Cement Company. The study sought to address the following research questions: What are some of the budgetary control systems used at the East African Portland Cement Company? What is the effect of budgetary control on employee behavior? Is there a relationship between budgetary control and firm performance?

The study utilized both primary and secondary data. Primary data was obtained from 35 fully filled questionnaires out of the 40 respondents that were targeted in the study. This was 87.5% return rate which was acceptable and good for generalizations. Secondary data was obtained from the audited accounts of the East African Portland Cement Company Ltd for the five-year period 2012-2016. A data collection instrument was used to record relevant figures necessary for computation of profitability ratios and earnings per share figures used as the dependent variables. Other secondary data source of information used in the study included; review of the East African Portland Cement Company profiles, recommendations from previous studies, company website, magazines, books and relevant journals. The primary and secondary data was entered into Microsoft Excel. The quantitative data gathered was coded and evaluated using descriptive statistics. The mean and standard deviation were used to describe the variables under study. The data collected was analyzed using the Statistical Package for Social Sciences (SPSS) to test its reliability. The research applied descriptive research design. The population comprised 45 employees of the East African Portland Cement Company. A sample size of 40, representing 88.89% of the total population was used. After the analysis using Excel and SPSS, the results were presented in form of tables and figures.

Firstly, the study addressed the first research question on the various budgetary control systems applicable in East African Portland Cement Company. Using regression analysis, the findings established low correlation between sales turnover and budgetary controls

applicable in the firm. Other factors seem to play a greater role in affecting sales turnover other than the ones mentioned in the study namely: short-term budgets, long-term budgets, fixed budget, flexible budget, zero based budgeting and rolling budget. Other budgetary controls used in the study with low correlation with sales turnover include activity-based budgeting, incremental budgeting and lastly, planning and programming budgeting system. Secondly, the study also addressed the question on the effect of budgetary control on employee behavior at East African Portland Cement Company. The findings indicated a high correlation which stood at 54.7%. Thus, attributes such as individual needs, organizational structure management style play crucial role in motivating employees.

The third and last research question of the study was aimed at addressing the effect of budgetary control on profitability at East African Portland Cement Company. The study established that the correlation between sales turnover and profit before tax was high because it stood at 54.4%. However, the correlation between turnover and both profit after tax and earnings per share stood at 49.1% hence low.

### **5.3 Discussion**

#### **5.3.1 Various Budgetary Control Types in East African Portland Cement Company**

The correlation between budgetary control and sales turnover is low at 0.323. Thus, the various budgetary control types for instance, short-term form of budgetary control, long-term budgeting, flexible budgeting, zero based budgeting, rolling budgeting and activity-based budgeting are responsible for the low positive correlation. This study is in agreement with Kimani (2014) study on the effectiveness of budgetary control on performance of non-governmental organizations in Kenya. However, the study is in disagreement with the study on the relationship between budgetary control and financial performance of Kigali Serena hotel in Rwanda (Harelimana, 2017) and effect of budgetary control on financial performance of state corporations in Kenya (Adongo and Jagongo, 2013). Both studies exhibited a significant positive correlation between budgetary control and firm performance.

East African Portland cement Company needs to incorporate other budgetary controls other than the ones mentioned in this study to improve its sales turnover. Due to the ever-changing business environment in the cement business, it is necessary for East African Portland Cement to develop and implement budgets that are in sync with its major objectives as outlined in its strategic plan. A culture of inclusivity should be adopted by the

firm to meet its objectives. Thus, all departments should be involved in the budgeting process with the view to discouraging any resentment that may lead to delayed achievement of set targets (Hernández-Medina, 2010).

Budgetary features can be used to gauge a firm's ability to predict future financial success. Therefore, human factors such as employee motivation, managerial commitment, competence and employee training affect an organization's budget control process. The budgetary control process influences a firm's financial performance positively because it has an influence on the firm's financial objectives and investment opportunities. To achieve this, management and staff of an organization should be sensitized on the importance of budgetary controls towards better financial performance in organizations, the need to make the budgetary process devoid of political interference and the need to appreciate that budgets are tools for improving management efficiency (Adongo and Jagongo, 2013).

According to Chirenje, Giliba and Musamba (2013), many countries in the world have engaged in different forms of planning and hence a lot of literature on planning is available. However, little attention went into budgetary controls per se even though budgetary controls are key instruments for allocating scarce resources efficiently and effectively for a long time now. It is however important to note that in the recent past, budgeting and budgetary controls have received a considerable attention hence, literature in this subject has become a common phenomenon.

Budgeting is now touted as the pillar to economic management. It is important to also note that despite having elaborate budgeting and budgetary controls in place, a firm may still fail to meet its set targets. This means that there should be workable and realistic rules within which such budgets should be formulated and implemented. This fact has compelled firms and governments alike to come up with budget reform agendas aimed at coming up with a broader perspective of management of public and private expenditure. In Kenya, such efforts date back to the 1970s although results are still not satisfactory enough as expected (Isaboke and Kwasira, 2016).

In the recent past, the key recommendation in budget cycles is the need to shift attention from the traditional annual budgeting practice that has been there for quite some time now to the medium-term expenditure framework approach of budgeting. Kenya, for instance,

adopted the medium-term expenditure framework approach in the late 90s and implemented it for the first time in its June 2000 budget ostensibly to observe adherence to budget ceilings in public spending (Lan, 2012). Despite all the effort, much has not been achieved because the government is still faced with challenges associated with budgetary controls. For the case of the East African Portland Cement Company, this could be evidenced by the strike staged by its employees a few years ago agitating for better pay, better working environment among other related employee demands.

### **5.3.2 Effect of Budgetary Control on Employee Behavior**

The correlation between budgetary control and employee behavior is high at 0.547. Thus, the various attributes of employee behavior for instance, employee working relationships, realization of budget, management style, money factor, organizational structure and individual needs are responsible for the high correlation. This is in agreement with a study on the impact of tight budgetary controls on the behavior of managers in the public sector in Sweden. The study revealed that behavioral factors such as organizational commitment were negatively correlated with tight budgetary controls whereas stress was positively correlated with tight budgetary controls. However, the behavioral variables of satisfaction and motivation no significant results were found (Hemsing and Baker, 2013).

Since time immemorial, budgets have been used in private and public organizations to set targets and to align and control managers' behaviour. Whether an organization is private or public, budgets are established to fulfill certain requirements. When applied in the private sector, budgeting aims to assist firms make profit in the most cost-effective way. In public service however, budget achievements are measured in terms of services provided by a public entity (Onduso, 2013). Since East African Portland Cement Company is a state corporation, one can deduce that public entities face many challenges in the way their budgetary control mechanisms have been affected by government and political interference over the past few years.

In Europe, the Financial Crisis of 2006-2008 coupled with the current Euro-crisis have had a negative impact on the economic and financial situation in most European countries. These countries have swiftly adjusted their budgetary and financial policies in line with the austerity measures aimed at combating their respective budget deficits. To deal with budget deficit problem, new policies aimed at cutting public budget became handy (Terazi and

Senel, 2011). However, despite these austerity measures having had a negative effect on provision of public services and increased unemployment levels, they have also had a toll on budgetary control measures and the operationalization of government budget spending by managers of state corporations like East African Portland Cement Company used in this study. As a result, many countries and business organizations have been forced to lay more emphasis on effective budgeting and budgetary controls. Consequently, close monitoring of employee activities and strict checks on government spending has been taking place which has prompted dysfunctional behavior among employees (Hemsing and Baker, 2013).

A budget is a financial plan which mediates all activities in a business setup and focusing more on expenditure. They are not a new phenomenon. Traditionally, it was used as a tool to manage expenditure and formed the basis of evaluating and rewarding employees in organizations. It was also meant to align employees' behavior towards attainment of organizational goals (Malgwi and Unegbu, 2012).

Budgetary control is one of the commonly applied mechanisms of assessing managers performance and to communicate organizational objectives, strategy, planning processes and how management intends to meet set targets while at the same time, closely monitoring expenditure. Budgetary control is also used as a tool of cultivating managers' supportive behavior aimed at achieving organization's objectives. However, the level of management participation and support is dependent on the budgeting approach adopted by the organization (Okpanachi and Mohammed, 2013).

An organization can adopt any one of the two commonly used types of budgeting. One being "top-down" approach which entails top management deciding on budget targets and closely monitor management implementation. On the other hand, a firm may adopt "bottom-up" approach which entails a participative approach to the budgeting process. This style is deemed to increase individual participants motivation and sometimes referred to as loose budgetary control approach in other literature (Kim and Park, 2006).

Employees view meeting budgeted targets as crucial towards being rewarded through bonus payment or job promotion and they will be stressed to meet those targets. Too much stress may lead to dysfunctional behavior in employees. It is however important to note that tight budgets affect employee behavior differently. Some employees will take tight

budgetary controls as a challenge and will be motivated to face it as such (Franco-Santos and Bourne, 2008).

### **5.3.3 Relationship Between Budgetary Control and Firm Performance**

The study established a positive relationship between budgetary control and the three measures of firm performance used in the study namely: profit before tax, profit after tax and earnings per share. The positive relationship between the independent and dependent variables in the study may be due to higher profits because of improved sales. This study concurs with Pimpong and Laryea (2016) study on the relationship between budgeting and non-bank financial institutions performance in Ghana.

According to Abdullahi et al., (2015) on a study of the impact of budget and budgetary control on financial performance of Tahir guest house in Nigeria, it was established that proper budget administration and inclusivity in the budgeting process improves both firm profitability and subordinates' task performance. The study also concurs with the findings of the Goal Setting Theory (Lunenburg, 2011) as well as empirical studies by Pimpong and Laryea (2016), Sugioko (2010) and Onduso (2013).

Kenya is a developing country which must develop her manufacturing industry to realize her dreams of becoming a developed country by 2030 as envisioned in her vision 2030 strategic plan. The cement industry under which East African Portland Cement Company falls is a sub-sector of the manufacturing sector of the Kenyan economy. The industry has existed for several years now. It has gone through a series of development stages starting with the manual-based system of the early 90s to the current technologically advanced production methods. Recent trends in the performance and level of activity by manufacturing firms in Kenya indicate a growing interest in the industry and the potential for growth. Thus, there is an urgent need by the policy makers to reposition the manufacturing industry for enhanced performance for the country to realize her vision 2030 dreams.

Orebiyi and Ugochukwu (2005) defined a budget as an organization's plan expressed in monetary terms aimed at efficiently utilizing the organization's scarce resources to meet certain set targets. Osundina and Osundina (2012) defined a budget as an elaborate financial plan which clearly stipulates how an organization's goals and objectives can be achieved.

It is a quantitative statement that is prepared and approved well in advance so that set targets can be met.

Generally, financial performance of a firm is measured using financial ratios, benchmarking and measuring performance against set budgets or a mix of the said methodologies. Most studies investigating the correlation between budgeting and corporate performance use secondary data derived from audited accounts of the firms under study. Financial performance analysis entails determining the financial and operating characteristics of a business enterprise from its audited financial statements. The goal of such an exercise is to determine management's efficiency and performance abilities. The analyst attempts to establish the firm's profitability, liquidity and other indicators that the business is a going concern (Nuhu, 2014).

The ability to analyse a firm's financial position is crucial in improving its competitive edge in the market place. Critical analysis of the firms' financial performance can be useful in identifying opportunities necessary to improve performance at the department or organizational level in general (Ganga, Kalaiselvan and Suriya, 2015).

## **5.4 Conclusion**

### **5.4.1 Effect of Budgetary Controls on Sales Turnover**

The study concludes that there is a low positive correlation between budgetary controls and sales turnover standing at 32.3%. Thus, the various budgetary control types for instance, short-term form of budgetary control, long-term budgeting, flexible budgeting, zero based budgeting, rolling budgeting and activity-based budgeting are responsible for the low positive correlation.

The study also established that budgeting practices are used in the East African Portland Cement Company. The study revealed that, all the respondents of the firm indicated the existence of an established budget process at the Company. Thus, an indicator that the firm's budgetary process goes through the standard stages of budget planning, budget control, budget coordination and budget evaluation.

### **5.4.2 Effect of Budgetary Control on Employee Behavior**

On the effect of budgetary control on employee behavior, the study concludes that the correlation between the two variables was high. Thus, the firm should strive to maintain or

improve on its employee behavior for instance, employee working relationships, realization of budget, management style, money factor, organizational structure and fulfilment of individual needs.

### **5.4.3 Relationship Between Budgetary Control and Firm Performance**

The study concluded that there was a high positive correlation of 54.4% between budgetary control and the dependent variable, profit before tax. However, the relationship was lower between budgetary control and the two measures of financial performance namely; profit after tax and earnings per share which stood at 49.1% for both ratios.

## **5.5 Recommendations**

### **5.5.1 Recommendations for Improvement**

#### **5.5.1.1 Effect of Budgetary Controls on Sales Turnover**

There is a need to increase the level of sensitization among management and employees of East African Portland Cement Company on the importance of budgetary controls in enhancing financial performance. The budgetary control process should consider both firm needs and parameters within the firm during planning to achieve better results. Budgets should be used both as indicators of management's performance as well as tools used by the firm to enhance its financial goals.

#### **5.5.1.2 Effect of Budgetary Control on Employee Behavior**

Regression analysis on the correlation between budgetary control and employee behavior depicted a high correlation. East African Portland Cement Company should strive to maintain good employee behavior in the work place. This may mean that if budgetary control increases, employee characteristics such as managerial stress increases.

#### **5.5.1.3 Relationship Between Budgetary Control and Firm Performance**

The study established a positive relationship between budgetary control and the three measures of firm performance used in the study namely: profit before tax, profit after tax and earnings per share. Considering the findings of this research, it is recommended that; East African Portland Cement Company should encourage implementation of their budgets as planned. In addition, management is also advised to pay more attention to the budgeting processes since it improves firm performance.

### **5.5.2 Recommendations for Further Studies**

Since this study entailed a case study involving one firm only namely; the East African Portland Cement Company, the sample size used may have been quite small to enable the researcher get an overall picture of say, firms in the same industry as the one under study. Thus, more research in this area should focus on increasing the sample size and cover more than one firm whose operations are similar to those of East African Portland Cement Company for better results to be achieved. More research should also be done on the individual aspects of budgetary control such as zero-based budgeting, activity-based budgeting etc.

The study used one independent variable, sales turnover and five dependent variables namely; budgetary control types, employee behavior, profit before tax, profit after tax and earnings per share. It is therefore recommended that any other researcher interested in carrying out a study on the same topic should use more than one independent variable and other measures of profitability other than the ones mentioned herein. In addition, the period of study should be lengthened say, 10 years for better results.

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## **APPENDICES**

### **Appendix 1: Cover Letter**

Amida Daboh Nafisatu

United States International University-Africa,

P.O. Box 14634, 00800.

Nairobi.

**5<sup>th</sup> February 2018.**

CEO

Nairobi Securities Exchange,

Nairobi.

Dear Sir/ Madam,

#### **Re: Request for Secondary Data**

I am carrying out research on the relationship between budgetary control and financial performance of the East African Portland Cement Company Limited for the period 2012 - 2017. This is a requirement towards attainment of Masters in Business Administration (MBA) degree Program at the United States International University.

Kindly furnish me with financial information for the said company as per attached data collection sheet.

Thank you in advance.

Yours sincerely,

**Amida Daboh Nafisatu**

## Appendix 2: Study Questionnaire

This study is a requirement for the fulfillment of Masters in Business Administration (MBA) degree. The study aims to investigate the effect of budgetary control on the performance of the East African Portland Cement Company for the period 2012-2017. Any information given will be treated with utmost confidentiality. Your assistance will be highly appreciated.

### SECTION A: BIO DATA

Kindly answer the following questions by ticking or commenting on the spaces provided.

1. Gender?                                      Male       Female
  
2. Age Group?  
    20-25 years                                            31-35 years                                        
    26-30 years                                            36 years and over
  
3. What is your current position?  
    Senior management                                            Supervisory                                        
    Middle management                                            General Staff                                        
    Other (Specify): \_\_\_\_\_
  
4. Education Level  
    Undergraduate                                            Post Graduate                                        
    Middle level College                                            Doctoral                                        
    Other (Specify): \_\_\_\_\_
  
5. How long have you worked for this organization?  
    Less than 3 years                                            7-10 years                                        
    3-6 years                                            11 and above

**SECTION B: BUDGETARY CONTROLS RELEVANT TO THE FIRM**

Kindly indicate the extent to which the following aspects of budgetary controls apply to your firm. Please (y) tick appropriately on a scale of 1-5. 1- Strongly Agree, 2- Agree, 3- Uncertain, 4- Disagree, 5- Strongly Disagree.

	1	2	3	4	5
1. Short-term form of budgetary control is used in your firm					
2. Long-term budgeting is applicable to your firm					
3. Your firm employs fixed budgeting in its budgetary process					
4. Flexible budgeting is used in your firm					
5. Zero Based budgeting is a popular budgetary control mechanism at EAPCC					
6. Rolling budget is used in your firm					
7. Activity Based Budgeting is applicable at EAPCC					
8. Your firm employs incremental budgeting in its budgetary control processes					
9. Planning, Programming Budgeting System is indeed an option budgetary control at your firm					
10. Other budgetary controls other than the ones mentioned above are applicable in your firm					

**SECTION C: EFFECT OF BUDGETARY CONTROL ON EMPLOYEE BEHAVIOR**

Please tick the extent to which you agree with the following statements on the effect of budgetary control on employee behavior. Please (✓) tick accordingly on a scale of 1-5. 1- Strongly Agree, 2- Agree, 3- Uncertain, 4- Disagree, 5- Strongly Disagree.

	1	2	3	4	5
1. The realization of organizational control is dependent on top managements' actions and sound working relationships between different levels of an organization's hierarchy					
2. Employees and managers are motivated when required budget levels are realized.					
3. Culture, management style and managers' attitude towards firm employees influences the budgeting approach within an organization					
4. Employees in your organization are mainly motivated by money and cannot meaningfully contribute to the firm's decision-making process without good pay					
5. Organizational structure greatly affects employee motivation					
6. Individual needs play crucial need in motivating employees					
7. Workers who participate in a budgeting process understand the goals of that budget system better					
8. Challenge budgets motivate managers in the budgeting process to work hard towards achieving set targets.					
9. Management sometimes uses external rewards to influence subordinates' level of motivation					
10. Participation of the lower level managers and supervisors in the budget process draws them into the decision making process					

## SECTION D: EFFECT OF BUDGETARY CONTROL ON FIRM PERFORMANCE

Please tick the extent to which you agree with the following statements on the effect of budgetary control on your firm's performance. Please (y) tick accordingly on a scale of 1-5. 1- Strongly Agree, 2- Agree, 3- Uncertain, 4- Disagree, 5- Strongly Disagree.

	1	2	3	4	5
1. Financial performance is presented as a measure of the market					
2. Financial performance is presented as an accounting measure reflecting business efficiency level					
3. Financial performance is presented as surveys depicting estimated financial performance					
4. Your firm's financial position relates to the financial soundness as of now					
5. Your firm's financial position relates to the financial soundness over a given period					
6. Financial performance scrutinizes a firm's performance in general.					
7. Linking firm's management with shareholding improves profitability					
8. A firm's profit margin is measured by the return on sales					
9. Empirical evidence about the impact of budgetary control on firm performance is conflicting and mixed					
10. Budgetary control decisions are crucial to a firm's profitability					

**THANK YOU FOR TAKING YOUR TIME TO ANSWER THIS QUESTIONNAIRE**

**Appendix 3: East African Portland Cement Company Ltd Data Collection Instrument  
in Kshs. "000"**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Profit Before Tax	376,520	1,419,478	(373,700)	7,342,071	3,734,752
Profit After Tax	327,193	1,775,383	-386,631	7,157,070	4,145,755
Earnings Per Share	3.63	19.73	-4.30	79.52	46.06