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**RELATIONSHIP BETWEEN BUDGETING PROCESS AND FINANCIAL
PERFORMANCE OF TEA PROCESSING FACTORIES IN KERICHO AND
BOMET COUNTIES, KENYA.**

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**A Thesis Submitted to the Board of Graduate Studies in Partial Fulfilment of the
Requirements for the Conferment of the degree of Master of Business
Administration (Accounting Option) of University of Kabianga**

UNIVERSITY OF KABIANGA

FEBRUARY, 2022

DECLARATION AND APPROVAL

Declaration

This thesis is my original work and has not been presented for the award of a conferment of a degree in this or any other university; -

Signature

Date.....

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Approval

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DEDICATION

Dedicated to my family for their moral support and my employer for the financial support throughout the period of research.

ACKNOWLEDGEMENT

I acknowledge the almighty God who has given me the strength and healthiness in pursuing the research work.

I also thank University of Kabianga for giving me the chance to further my studies.

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ABSTRACT

The tea sub-sector plays an important role in the economy of the country through employment to many Kenyans both directly and indirectly and contributes over 26 percent of the total foreign exchange earnings. Globally, Kenya is an important player in the tea industry as it sells the tea produced locally to the world market through Kenya tea development agency (KTDA) managed factories. Nevertheless, KTDA factories have had many problems ranging from the high manufacturing costs and other operating costs together with the declining global tea prices due to oversupply of tea to the world market and this results to low returns to the farmers. To curb the ever-increasing huge costs the tea factories, need to adopt a tight budgeting process to ensure an optimal allocation of resources for good performance and hence better returns to the farmers. Therefore, the purpose of the research was to establish the relationship between budgeting process (independent variable) and financial performance (dependent variable) of tea processing factories. Specifically, the research explored the budgeting process of the KTDA tea factories within Kericho and Bomet Counties and it was based on budgeting process variables (planning, participative budgeting, monitoring and control) and its relationship with the financial performance of the tea factories. The theories that underpinned the study were forecasting and budgeting theory, control and responsibility accounting theory, budgeting control theory and the agency theory. The study employed correlational research design as it enabled establishment of relationship between variables. The census survey method was appropriate as the sample size was small. The Statistical Package for Social Sciences (SPSS) version 26 was used for analyzing data using both descriptive and inferential statistics. The study targeted all the KTDA parent tea factories in Kericho and Bomet counties with a sample of 96 respondents drawn from 7 factories and the response rate was 81.25%. The study found that 52.1% of variations in financial performance was predicted by the independent variables ($R^2 = 0.521$; $p < 0.05$). In conclusion, there was positive relationship between budgeting process variables (planning, monitoring and control and participative budgeting) and financial performance and as indicated by $b = 0.299$ ($p < 0.05$), $b = 0.281$ ($p < 0.05$) and $b = 0.357$ ($p < 0.05$) respectively and hence null hypothesis was rejected. It was therefore recommended that tea factories should adopt tight budgeting and budgetary control to improve on their performance. The research findings may be used by policy makers in emphasizing the importance of budgetary control on companies' performances. Equally, the findings may serve as a basis for further research in similar field.

TABLE OF CONTENTS

DECLARATION AND APPROVAL.....	ii
COPYRIGHT.....	iii
DEDICATION.....	iv
ACKNOWLEDGEMENT.....	v
ABSTRACT.....	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	xi
LIST OF FIGURES	xii
LIST OF ABBREVIATIONS AND ACRONYMS	xiii
OPERATIONAL DEFINITION OF TERMS.....	xv
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Overview	1
1.2 Background of the Study	1
1.3 Statement of the Problem	5
1.4 General Objective	5
1.5 Specific Objectives	5
1.6 Hypotheses of the Study	6
1.7 Justifications of the Study.....	6

1.8	Significance of the Study.....	7
1.9	Scope of the Study.....	7
1.10	Limitations of the Study	8
1.11	Assumptions of the Study.....	8
CHAPTER TWO		9
LITERATURE REVIEW		9
2.1	Introduction	9
2.1.1	Forecasting and budgeting theory.....	9
2.1.2	Control and responsibility accounting theory	11
2.1.3	The budgetary control theory.....	12
2.1.4	The agency theory	13
2.2	Empirical Literature.....	15
2.2.1	Budget planning.....	15
2.2.2	Participative budgeting	21
2.2.3	Budget monitoring and control	25
2.2.4	Financial performance	29
2.3	Conceptual Framework.....	31
2.4	Identification of Knowledge Gap	32
CHAPTER THREE.....		34
RESEARCH METHODOLOGY		34
3.1	Introduction	34
3.2	Research Design	34
3.3	Location of the Study	34

3.4	Target Population	35
3.6	Data Collection Instruments	36
3.6.1	Validity	37
3.6.2	Reliability.....	38
3.7	Data Collection Procedures	39
3.8	Data Analysis and Presentation	40
3.9	Ethical Consideration	41
CHAPTER FOUR.....		42
RESULTS AND DISCUSSIONS		42
4.1	Introduction	42
4.2	Response Rate	43
4.3	Demographic Information	44
4.3.1	Educational level of the respondents.....	45
4.3.2	Experience level of the respondents.....	45
4.3.3	Duration of budget cover.....	46
4.3.4	Frequency of budget review	47
4.4	Budgeting Process	48
4.4.1	Budget planning	49
4.4.2	Budget monitoring and control	50
4.4.3	Budget participation	52
4.5	Pearson Correlation Analysis	54

4.6. Budgeting Process and Financial Performance of Tea Processing Factories.....	56
4.7 Summary of the Results of Hypothesis	59
CHAPTER FIVE	60
SUMMARY, CONCLUSION AND RECOMMENDATIONS	60
5.1 Introduction	60
5.2 Summary of the Findings	60
5.3 Conclusions	61
5.4 Recommendations	62
5.5 Areas for Further Research	62
REFERENCES.....	64
APPENDICES.....	69
Appendix I Introductory Letter	69
Appendix II Questionnaire	70
Appendix III Maps	75
Appendix IV National Commission for Science, Technology and Innovation.....	76
Appendix V Publications	78

LIST OF TABLES

Table 3.1 Study Population size.....	42
Table 3.2 Reliability Test Results.....	45
Table 4.1 Department of the respondents	51
Table 4.2 Educational Level of the respondents	45
Table 4.3 Experience Level of the respondents	46
Table 4.4 Duration of Budget Cover.....	47
Table 4.5 Frequency of Budget review.....	48
Table 4.6 Budget Planning.....	56
Table 4.7 Budget Monitoring and Control.....	58
Table 4.8 Budget Participation	60
Table 4.9 Correlations.....	55
Table 4.10: Model Summary of Budgeting process and Financial performance	56
Table 4.11: Coefficient	56
Table 4.12: Summary of the results of hypothesis.....	59

LIST OF FIGURES

Figure 2.1 Conceptual Framework	31
Figure 4.1 Response Rate	50

LIST OF ABBREVIATIONS AND ACRONYMS

ABB	Activity Based Budgeting
BC	Budgetary Control
CBD	Central Business District
FP	Financial Performance
GDP	Gross Domestic Product
KTDA	Kenya Tea Development Agency
NACOSTI	National Commission for Science, Technology and Innovation
NGO	Non -Governmental Organization
NSE	Nairobi Stock Exchange
NSC	Nzoia Sugar Company
PBBS	Performance Based Budgeting System
PLC	Public Limited Company
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SACCO	Saving and Credit Co-operative

SME's	Small and Medium Term Enterprises
SASRA	Sacco Societies Regulatory Authority
ZBB	Zero Based Budgeting

OPERATIONAL DEFINITION OF TERMS

Budgeting process Is the method employed by any organization in preparing its budget (Foley, 2010). It refers to budgeting and budgetary control in tea processing factories.

Budgeting Is the setting up of predetermined plan to control the activities of an organization to which the actual performance will be compared with (Nyambura, 2014). It is the making of a plan to guide tea processing factories in aligning its expenditure to the limited resources and how the revenues will be generated.

Budgetary control Is a management tool used to monitor and control the firm's expenditure for a given period on the basis of predetermined budget and if there are any variations of actual with planned expenditure, corrective actions are taken (Maina, 2017). Budgetary control refers to how the management of the tea processing factories used budgets in the monitoring and controlling costs and evaluating the actuals against the targets and taking corrective actions.

Monitoring and control According to Igbinosun and Ohiokha (2012), Monitoring and control involves analysis of activities and making comparison of the actual results against the set targets and any variances are investigated for the necessary corrective to be taken.

Monitoring and control are the keeping track of the activities of the tea processing factories to ensure that they are being performance or executed as per the set targets for a given period.

Budget participation Is where the organization employees take part in the budget preparation (Rutto & Olouch, 2017). Budget participation refers to employees' involvement in the budget making of the tea factories.

Financial performance Is the monetary results of an organization usually measured in the form of return on assets and return on equity (Siyanbola, 2013). Financial performance is the results of the tea processing factories that is generated from its investment in assets.

CHAPTER ONE

INTRODUCTION

1.1 Overview

This chapter covers information on background of the study, statement of the problem, objectives of the study, hypotheses, scope, justification, significance, assumptions and limitations of the study.

1.2 Background of the Study

Budgeting process involves budgeting and budgetary control. Budgeting is an estimate of revenue and expenditure of organizations and of persons for specified future period and helps improve the growth of businesses through effective and efficient management of resources. Budgetary control in a management control tool used to monitor and control the firm's expenditure for a given period on the basis of predetermined targets and if there are any variations of actual with planned expenditure, corrective actions are taken.

Globally, organizations build up diversity of systems and strategies to facilitate the planning and controlling of activities. Budgeting is part of these systems which is mainly used by tea factories in setting their targets that guide the execution of their functions. The actual results are compared with the predetermined targets and corrective measures are taken where deviations are not favorable (Abdullahi, S. R., Abubakar, M. A., Kuwata, G., & Muhammad, T. A. (2015). The tea production in Kenya is a major foreign exchange earner and thus a source of revenue to the government and the individual farmers in the tea growing areas (World Bank, 2013). In Kenya tea growing is practiced in large scale and small scale (Kagira, E.K., Kimani, S.W. and Githii, K.S, 2012). The small-scale tea farming is done by local farmers who are the shareholders of 54 factories and 15 satellite factories managed by Kenya Tea Development Agency (KTDA). The tea

factories are owned by the farmers and collect green leaf from the factory and processed which are then marketed locally and internationally. The tea factories are faced with numerous problems ranging from the ever-increasing labour costs, electricity and firewood costs and other production costs (Ongong'a & Ochieng,2013). The tea farming is also affected greatly by the farm inputs mainly fertilizers resulting in low returns to the farmers as the tea prices have been declining in the three consecutive years for instance in the year 2020 KTDA teas prices dropped to an average of USD 2.18 from USD 2.54 per kg recorded in 2019 (Business daily, Thursday 15 April 2021). The ever-increasing factory overheads which reduce payment to the farmers together with farm inputs such as fertilizers greatly affect the viability of tea farming (Kagira *et al.*,2012).

To mitigate on the production costs, other operating costs and the effect of declining tea prices an effective and efficient budgeting process for optimal allocation of limited resources need to be adopted by the tea factories as this may help improve their performance. Budgeting is applied by organizations as a way of planning for the future activities. They are made for critical functions of organizations such as purchases, sales, production, labour resources, cash flow projections giving a comprehensive detail plan covering a period of one year. Budgeting is used to monitor and control the activities of organizations so as to minimize variances, costs and improve operational efficiency (Alesina & Perotti, 2014). This may assist in making decision on whether to change the approach of running the business activities, or even revised the budget if it becomes unachievable due to unfavorable conditions. Budget motivates the management of the organizations to align their interest to that of the owners of maximizing their wealth and the long-term growth of the business. The degree to which this is executed will mainly rely on how well the spending plans were done, most importantly whether it is a participative budget in which case the employees are the owners of the budget as they know the detail content of the budget and all will work towards accomplishing the set targets (Mulani, J., Chi, G. & Young, J., 2013). Kelly (2015) opined that an organization budget process act as a motivating factor to the employees by having the employees

participate in the entire process so that the activities are executed in an efficient and effective manner. It is imperative for firms who desire to achieve a competitive advantage to have an effective budgeting and budgetary control system over their operations (Chenhall & Langfield, 2014).

In budgeting, predetermined goals are set and outcomes measured and timely corrective actions are executed where deviations occur (Nwoye, 2015). The budgeting process starts by generating budget assumptions for the plan period. These assumptions are aligned to projected sales volume and value trends, the related cost centres with the anticipated changes in the economic environment and industry changes. The underlying assumptions which might affect the related operating expenses are also agreed. Budgets are prepared for all the respective units of the tea factories by the Factory unit manager and the Factory accountants which is then submitted to the KTDA for reviewed and approval by the Board of Directors. The budgets once approved are implemented by the respective factories. Therefore, budget plays a critical role in decision making in any of the factories and there are several types of budgets which form part of the overall budget which includes Capital, Production, Marketing, Sales and Cash budgets.

Capital budgeting involves the allocation of resources to major capital assets which generate revenue to the company and usually requires large amount of funds. Capital investment need thorough analysis as it involves many other activities associated with the asset and its viability must be critically analyzed to avoid huge losses in future. The techniques such as net present value; payback period is used to evaluate the viability of such project. The capital investments are taken to improve the shareholders' value in the future and are normally funded from the internally generated funds which are cheaper source of funding or external financing from borrowings where internal funds are inadequate. The production budget involves making estimates for production of goods in a given period based on the projected sales volume for the same period.

Budgetary control ascertained how well management of each tea factory have used the budget in monitoring and controlling the planned expenditures in the financial year. Budgetary control account for the revenue and expenses of different departments and each employee is held responsible for the various expenses incurred by those departments and each manager will be assessed based on its performance. A budgetary control system ensures that factories achieved results that are in compliance with the budgets (Kpedor, 2012). The analysis of budgets and actualized amount assist managers of any tea factory to come up with any variances and take corrective actions so that planned objectives are realized.

The financial performance refers to the level of performance attained by a tea factory over a given period of time, expressed in terms of overall profits and losses during that time and usually assessed by use of ratios such as organization's liquidity ratios, efficiency ratios, profitability ratios, return on assets, and return on equity and leverages ratios. Performance gives an indication of the organization accomplishment of its objectives (Premchand, 2012). In the tea sector financial health status is of great significance as it enables tea factories to pay its creditors and other obligations as they fall due. This in away confirms the importance of budgeting which enables organization to forecast on the future and improve financial performance. It is therefore imperative for the organization to use budgeting process to allocate its resources for optimal results which increases the shareholder's wealth. Such budgetary control needs to be effectively organized due to limited resources required to generate profits (Kpedor, 2012). Financial performance is therefore vital for the survival of firms (Isaboke & Kwasira, 2016). It is measured by use of return on assets (ROA) and returns on equity (ROE) (Siyanbola, 2013).

1.3 Statement of the Problem

The tea sub-sector plays a key role in the social- economic development in the country. It is among the best sectors which contributes a lot to the Gross Domestic Product (GDP) and it accounts to over 26% of the overall foreign income according to Kenya's Economic Outlook,2018. Despite this, KTDA managed tea factories have recorded low returns in the past 3 years (KTDA report, 2021). The decline in tea prices together with high cost of production have resulted to low returns and greatly affected the economic activities in the tea growing regions since farmers depends mainly on income from tea production. To curb on the huge costs, the KTDA managed tea factories have instituted measures to improve on the production and operational efficiencies through tight budgeting and budgetary control for better financial performance. However, it is not clear whether these controls have yielded results owing to limited literature. Globally and locally, several researches have been done on various fields on the effect of budgeting and budgetary controls on the financial performance and the scholars gave different findings depending on the independent variables chosen. From the literature reviewed, it was evident that budgeting process may have an impact on an organization's performance. Therefore, there is need to establish the relationship between budget planning, budget participation and monitoring and control adopted by KTDA managed factories within Kericho and Bomet counties and their financial performance.

1.4 General Objective

The general objective of the study was to establish the relationship between budgeting process and financial performance of selected tea processing factories in Kericho and Bomet Counties.

1.5 Specific Objectives

The specific objectives of the study were to;

- i. Establish the relationship between budget planning and financial performance of selected tea factories in Kericho and Bomet counties.

- ii. Determine the relationship between budget participation and financial performance of selected tea factories in Kericho and Bomet counties.
- iii. Evaluate the relationship between monitoring and control and financial performance of selected tea factories in Kericho and Bomet counties.

1.6 Hypotheses of the Study

The study was guided by the following hypotheses;

- i. H_0 : There is no relationship between budget planning and financial performances in the selected tea factories.
- ii. H_{01} : There is no relationship between budget participation and financial performance of the selected tea factories.
- iii. H_{02} : There is no relationship between monitoring and controlling and financial performance for the selected tea factories.

1.7 Justifications of the Study

The tea sector plays an importance role in the economy of the country through employment to many Kenyans both directly and indirectly and contributes over 26 percent of the total foreign exchange earnings (Kenya's Economic Outlook,2018).

The findings of this study enable Ministry of Agriculture and Tea Board of Kenya examine critical issues surrounding the welfare of employees of tea factories in Kenya and to formulate appropriate and relevant policies to form a guiding framework that will help the employees of the tea factories to feel secure at their places of work and also help the owners of the tea estates to achieve their goals effectively and efficiently.

1.8 Significance of the Study

The research work may be of big significance to the many stakeholders who includes the top management of the tea processing factories for adopting good measures of budgeting process to ensure proper utilization of scarce resources to achieve its long-term objectives and their strategic plans and hence maximizing the wealth of the shareholders. The study gave more insight on the benefits of budgeting process on the financial results of selected tea factories in Kericho and Bomet Counties. Findings of this research will enable the tea factories understand the importance of budget planning, monitoring and control and budget participation in improving their performances. The top management will see the need for adequate training to their employees to enable them have good participation in budget preparation and implementation. This will also ensure maximum utilization of resources which leads to achievement of the set goals and targets of the tea factories.

Kenya Tea Development Agency (KTDA), which provides management services to the tea factories owned by the small-scale farmers will benefit from the research findings to further improve on the budgeting processes for better performances. Specifically, the recommendations on budgetary aspects of planning, monitoring and control and the budget participation will lead to improvements of financial performances of the tea factories.

The research may also be beneficial to other researchers and academicians with the results and recommendations use to guide future research in the tea sector on the budgeting processes.

1.9 Scope of the Study

The research work was conducted in the KTDA managed tea factories within Kericho and Bomet counties between June 2019 and December 2021. The focus of the study was appraisal of the components of budgeting process of planning, monitoring and controls and participative budgeting on the effect of the financial performance of the tea factories. The research was conducted in the KTDA managed factories which included Litein, Kapset, Momul, Tegat, Mogogosiek, Kapkoros and Kapkatet with the exception of all the satellite tea factories as the researcher assumes that they have similar budgeting procedures with their parent factory. The respondents of the study were the factory unit managers, the factory accountants, the procurement managers, the plant

engineers, the factory sales managers and their assistants, supervisors or equivalents from the selected tea factories.

1.10 Limitations of the Study

There was lack of full cooperation, the researcher experienced some unwillingness or delay on the part of the respondents in filling questionnaires especially on sensitive information such as profitability and financial disclosures. However, to deal with such situation the researcher made prior visit to the various factories to seek permission from Human resource directors and brief on the research, giving assurance that the questionnaires and interviews are specifically for academic purposes.

1.11 Assumptions of the Study

The main assumption was that the sample of the respondents was a representation of the entire population of the selected tea processing factories in Kericho and Bomet counties. That the respondents answered the questions and returns the questionnaire filled.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The relevant literature was reviewed under theoretical literature and empirical literature that relates to the current research work.

2.1.1 Forecasting and budgeting theory

Hirst (1987) is the proponent of the budgeting theory and it explained that budgeting needs to be effective in order for the organization to execute proper planning when dealing with uncertainties and opportunities through efficient control technique. Estimations are an important component in planning process. To come up with reasonable planning it is necessary to estimates certain items making up the budget. Mostly it is inappropriate to apply a percentage to the previous period's budget figures and assume to get reasonable result (Lucey, 2002). There are several forecasting techniques including simple line, moving average, simple linear regression and multiple linear regressions.

Simple line method is regarded as a clear and easier technique to be applied in predicting the growth in revenue and expenses. The moving average technique tries to ascertain the trend of information to predict future figures for realistic budget figures. The regression analysis is used in assessing the association existing in variables. Multiple linear regression is used in forecasting revenues or cost where there is more than one independent variable affecting the dependent variable.

Several studies have demonstrated that the so-called naive estimating (where the following year is assumed to be the same as current year) normally gives realistic estimates as compared with one recommended by professionals (Horngren, C.T., 2002).

The line-item budget, this is an easier method of budgeting and is commonly used by small and medium size organizations where all similar expenses for the various departments are grouped together. It involves creating columns for the current period and previous period and each line item of expense are shown separately and it's easy to compare the current year figures with the previous year and any adjustment can be made based on the prevailing business condition or the inflationary measures. For this kind of budget, it is easier to predict the future expenses when preparing the strategic plan of the organizations.

However, the line-item budgeting technique have been criticized and other budgeting techniques like Zero Based Budgeting (ZBB) and this kind of planning begins with the premise that the organization units or divisions are starting from zero and costing of the operations must be done afresh without any reference to previous records. There is also activity Based Budgeting (ABB) and is a top-down planning technique used to calculate the inputs needed to produce estimated outputs. The two approaches ZBB and ABB are preferred because budget is in monetary terms, documents of procedure used as a guide by organizations hence the critics of the line-item budgeting method (Suberu, 2010). The budgetary control system enables the organization to plan for the activities for a given period and take the available opportunities and avoid risks which may hinders the organization from achieving its goals and objectives Hirst (1987). Budgeting provides an opportunity to forecast the performances for a given period and assist in ascertaining whether the activity is viable. The budgets are prepared by companies to capture the entire processes and the performances monitored to ensure that they are accomplished as planned. Therefore, budgets are a combination of planning and forecasting (Silva & Jayamaha, 2012). Management benchmarking and controlling are done through comparison of the pre-planned and the actual results and the necessary correction made (Sharma,2012). The budgeting process ensure that the entire organizations activities are factored in the budget which will act a guide to the employees in executing their duties and comparison of the actual results with the pre- determined results and

this act as a guide to future budget preparation and its implementation. In the case of tea factories, planning is the core function of management as the various challenges faced by the tea industry like the global fluctuations in tea prices, the ever-increasing labour costs and other production overheads needs to be factored in their budgets if there are to remain competitive and achieve their set goals and objectives. This theory underpins the independent variable of planning.

2.1.2 Control and responsibility accounting theory

Control is a framework or procedure which involves the comparison of predetermined targets and actual results which enables corrective actions. If control is looked from the point of view of its direct associations to planning, then it is taken as interrelated to planning (Simiyu, 1979).

The basic component of the organization control system is responsibility accounting which involves establishing responsibility centers which assigned accountability for financial outcomes and results to the head of center and other employees working in the organization. The chief executive officer who is the head of the organization set the spending guidelines which enables employees to discharge their functions and evaluations done on the basis of cost control and complying with set rules. For every cost center, targets are set and will be measured by the comparison of the actual results with targets and where there are deviations corrective actions are taken (Otley, 2007). Hopwood (1976) stated that there are three types of controls in organization which comprise; administrative controls, social control and self-control. Administrative controls are the procedures and policies that guide the work performance in organizations to achieve set objectives. The organizations activities are monitored and evaluated on a continuous basis and those responsible are made to account for any discrepancies. Social control works by having employees' share similar understanding. Team work of employees is one example of this. Self-control is a cognitive process that is important for controlling individual behavior with the assistance of suitable methods of rewards, for instance linking pay with performance pay. The three types of controls are linked together. With small establishments managers and supervisors

meet with the employees on a daily basis and social controls prevails with such interactions. This is not the case with big enterprises where the chief executive officer delegates the authority and responsibility to head of departments who should work towards achieving the overall organizational objectives. These calls for such controls as planning and monitoring techniques (Hopwood, 1976). The important component of the administrative control technique in organization is responsibility accounting which consist of creating departments which assigned accountability to employees for monetary related results. The departments in any organization have set targets to be completed within in a set duration and at the end of the specified period the actual results are compared against the predetermined targets and any variances that arises are analyzed and the necessary actions are taken (Hopwood, 1976). This theory underpins the independent variable of participative budgeting.

2.1.3 The budgetary control theory

The theory of budgetary control (BC) gives explanation on the link that exist between budgetary control and financial performance (FP) of any organization. As stated by Robinson and Last (2009), budgetary control (BC) procedure is management tool applied by organization as a structure for allocating its income and costs. Moreover, proper budgetary control technique should be able to handle the organization's revenues and the related cost in an efficient and effective manner to achieve and maintained good performance (Robinson & Last, 2009). Robinson and Last developed Performance-Based Budgeting System (PBBS) which target to increase the organization efficiencies and effectiveness in managing its revenue and costs to achieve the desired objectives.

The theory of budgetary control stipulates that a proper budget control technique should be capable of addressing the organizations expenditure which should be managed in an efficient and effective manner for maximum performance. As stated by Willsmore (2013) budgeting system is a

technique used by firms, companies or governments in establishing their sources of revenues and the allocation of the expenditures for a given financial period. The budgetary control is a tool for measuring the performance of the organizations where the targets for the year are set and actual achievements are compared with predetermined targets and where there are deviations, corrective measures are taken. Such measures enable the organizations, governments to achieve its performances. Well prepared budgets facilitate proper co-ordination of the functions of various departments of an organizations or ministries in a government so that the overall objectives are achieved as its resources will be fully optimized.

Abdullahi *et al.* (2015) opined that budgetary control systems enable organizations or governments in the comparison of the actual performances with predetermined targets and any variations are addressed appropriately for better performances in the future. The budgeting will reveal the organizations or governments efficiencies and effectiveness in managing its scarce resources and this calls for better understanding of budgeting and budgetary control system. Budgeting is a way in which the organizations or governments control its planned expenditure in a given period as they are pegged to the available revenues. Robinson and Last (2009), stated that, for organizations or governments with revenue deficit will go for borrowing facilities to finance its shortfall of expenditure. The theory underpins the independent variable of budgetary control.

2.1.4 The agency theory

Agency theory is used to understand the relationships among agents and principals. It is an agreement where one or more individual (the principal(s)) employs another individual (the agent (s)) to perform some functions for the principal and necessitates delegating some decision-making authority to the agent (Jensen & Meckling ,1976).

The agent acts for the principal on a specific business transaction and is supposed to execute in the best interests of the principal without any conflict of interest. The unique interests of principals

and agents can be a source of conflict and companies should try to reduce such situations with an appropriate corporate policy to deal or avoid such conflict.

Organizations should align the interest of the agent with those of the principals through such incentives like performance-based bonuses and salary increments being pegged on performance and other incentives like share option schemes to the senior management and the directors. The agency cost is incurred by the principals as they execute the monitoring and control of the agent's activities. The management on behalf of the board of directors prepares the financial statements and have them audited by independent auditors. The audited accounts are presented to the shareholders at the annual general meeting for their approval and declaration of dividends. All these activities constitute a cost to the organizations. The agency cost can be reduced by way of coming up with remuneration packages to the board of directors and the top management that will motivate them to execute their duties in the best interest to the owners of the organizations. The remuneration packages would be pegged to such achievement of both long- and short-term objectives. The agency cost can also be reduced by having high proportion of debt in the capital structure of the company. Jensen and Mackling (1976) in their argument stated large firms that are highly profitable though lower growth in profits have big challenges with the principal and agent relationship and such firms generate large cash which the board of directors and the management can spend without shareholder's authority. To reduce such problems is to finance the firm's investment by the debt capital which forces the directors and the management to pay interest on the loans. It also ensures that there is growth in profits which ensures the continuity of interest payment and declaring dividend to the shareholders. The other approach of reducing the agency problem is to have the board of directors to monitor the actions of the top management. This can be done by having independent non-executive directors to monitor the actions of management as argued by Fama and Jensen (1983).

Legally, public organizations are required to hold annual general meeting to give control system to the owners as a method for taking agency problems. This is in views of the possibility that owners are able and willing to monitor board of directors and management. Annual general meetings are done purposely to give the owners the chance to deliberate on issues affecting the company and this is a way of controlling the management authority and power. Checking and endorsement of company's audited financial statements, declaration of dividend payments and review and approval next financial year company's spending plans are the functions executed during annual general meetings (Roberta, 2010).

In the tea factories directors and the managers are the agents of the owners and may act in their own interest, the relevancy of agency theory underpins the variables monitoring and control and the financial performance.

2.2 Empirical Literature

The following literature on budgeting process have been reviewed in different sectors.

2.2.1 Budget planning

Budget Planning can either be short or long-term planning. Planning involves the setting of organization's goals or targets for a given one financial year and putting in place the processes to be executed to accomplish them. For the long-term planning it should be aligned to strategic plan of the organization, putting into consideration harsh economic conditions which might greatly affect the plan performance and in which case proper measures are put in place to mitigate effect of such conditions. There is no organization which can operate without planning and it's really impossible to operate in the absent of a plan. Planning as a management tool for decision making, enables organization to see the future and anticipate what will happen and thus put in place the procedures to guide the organization in achieving its targets. It needs to take into consideration the working environment of the organization and both the human resources and financial resources at the disposal of the organization (Enya, 2012). Planning helps to put into perspectives the processes,

procedures and operating activities which guide the employees of the organization in discharging their functions to achieve set budget targets. Therefore, the continuity of organization relies entirely on the effectiveness of budgeting process in instituting proper planning and control (Idegwe, 2013)

The purpose of planning must be known to all the employees of the organization starting from the chief executive officer to the lower-level employees if organizations are to achieve its objectives. Planning guides the employees in their day-to-day operations as everything is done as per the budget and the individual performance will be evaluated at the end of the period on the basis of set targets. The objective of planning enables the arrangement of organizations activities in order of their importance and in the absence of any planning the daily routine activities may encourage management to ignore budgeting for future operations (Nyongesa, A., Odhiambo, A. & Moses, N., 2016)). Budgeting ensures that the organization functions such as planning, organizing, controlling and coordination are effective for good decision making if the resources at their disposal are to be maximize. Budget assist the organization in making decisions concerning huge investment undertaking after analyzing their viability in terms of the expected returns. Budgeting is the tool that facilitates decision making on the firm's operations such as the quantities to be produced, expected sales, procurement of raw materials and human resource to be engaged in the production. Budgeting in any organization enables accountability to every manager. The functions of the organizations are divided along many departments and each departmental head are given adequate authority and responsibility to executes the tasks according to the budget. Each manager is accountable to resources allocated which should be used to generate returns as per approved budget.

Hemsing and Baker (2013), conducted a research on the effect of rigid budgetary control system on the Managerial behaviors in Sweden Public Sector. Their study utilized descriptive survey

design with a sample of sixty-two managers selected from various local authorities. The study found out that most of the managers are faced with rigid budgetary controls. However, the researchers were not clear on the effect of budgetary controls on organization's financial performance, moreover the research was done in Europe. Therefore, there is a gap in literature with respect to effect of budgeting process on financial performance of tea factories in Kenya by which this research intends to fill. The research undertaken will address the relationship between budget planning, budget participation and monitoring control and financial performance of tea processing factories in Kenya.

Marcomick and Hardcastle (2011), carried out a study on relationship that exist between Budgetary Control and Organizational Performance in government parastatals in Europe. The researcher utilized a sample of 40 government parastatals in undertaking research study. Secondary data for a period of ten years was used for purpose of the study and regression model was used for data analysis. The results indicated a positive relationship between Budgetary Control and Organizational performance of government parastatals. Government parastatals in Europe and Tea factories have different revenue streams, financing methods, systems of operations and objectives. Therefore, a gap in literature exists in relation to effect of budgetary control measures on financial performance of Tea factories in Kenya which the study seeks to fill more specifically the variable of budget planning.

Mukah (2018), in his study sought to established the relationship between budgetary control and performance of local government councils in Northwest Cameroon. The study utilized correlation and multiple regression techniques based on SPSS version 20 for the analysis of data. The findings indicated that the key budgetary control variables adopted (planning, participation, monitoring and control) had statistically significant positive influence on performance of the local councils. However, the study being undertaken is on tea processing factories in Kenya which have different

streams of cashflows and the findings will be of great significance in addressing the challenges currently faced.

Imo and Des-Wosu (2018) carried out a research to analyzed the effect of budgetary control on performance of state-owned companies in Rivers State of Nigeria. The study utilized Pearson product moment correlation coefficient based on SPSS 20 version for the analysis of data. The results confirm that there exists a significant positive link between budgetary control and financial performance of state-owned companies. The researcher concluded that the government should adopt budgetary control measures to improves its performance. The study being undertaken is on private tea factories in Kenya and the findings of this study would go a long way in addressing challenges faced by the tea processing factories in order to maximize resource utilization for better performance.

Nwoye (2015), conducted a study on Budgeting and Budgetary Control as the metric for corporate performance. Descriptive research design was the methodology adopted in the study with 30 organizations selected from a number of States in the Federation, Nigeria. The researcher established that putting a lot of efforts in achieving operational targets and goals without effective budgeting and budgetary control measures would lead to inadequate utilization of resources. However, in the study the researcher was only concern on budgeting and budgetary control and its merit as a predictor of general corporate performance without focusing on any specific measure of financial performance, besides this study was done in Nigeria, a gap which this study sought to fill by using specific variables of planning, budget participation and monitoring and control and their relationship with the financial performance.

Olaoye and Ogunmakin (2014) conducted a research work on the effect of budgetary control and performance for state corporations in Osun state, Nigeria. The aim of the research was to establish

the associations between income and expenses estimates and the actuals figures. Five state corporations were chosen and their budgets and performances for the last five years used. The study used the Pearson Product Moment Correlation to assess the present of any associations and the findings showed that there was a strong and weak negative association between generated incomes, expenses and the estimated figures of the five state corporations within the chosen years. The study only focused on the associations of budgeting control on the performance without any particular indicator of financial performance, a gap which this study intends to fill by looking at such indicators as return on equity, return on assets.

Kaguri (2015) conducted a study to ascertain the associations existing between the budget process and the performance of the Insurance companies operating in Kenya. The independent variables chosen for purposes of this study were the extent of planning, monitoring processes and employees taking part in budget preparation. Descriptive research design was used and primary and secondary data utilized in the study. A sample size of 220 was taken from selected forty-four insurance firms listed by insurance regulatory authority, Secondary data obtained from the extract of audited financial statements was used for computation of return on assets. The findings of the researcher were that all the variables of budgeting process have direct associations with financial results of the insurance firms with an improvement on return on assets. The study therefore concluded that the three control measures should be incorporated by the organizations in their budgeting process in order to increase their financial performances. The study, though it uses independent variables planning, monitoring and control and participative budgeting, there are differences in terms of industry. This research was done in the insurance industry while the current study is in the tea industry which are difference in the forms of revenue and cost challenges which this study seeks to fill. Again, the study used descriptive design while for this research it will employ correlational research design.

Oduor (2013) carried out a research on the associations of budget controls and monetary results of government parastatals. The research was carried out to ascertain the important factors of budgetary controls in government parastatals, assess the role of employees in budgetary controls, determine the sequence of events in budgetary control for government parastatals, and establish the problems faced in budgeting. Descriptive survey design was utilized in the data collections and the researcher found a close association exist between budget controls and results of the government parastatals. There is a knowledge gap as the study did not specified the independent variables of budgetary controls in the study and again the research was done on the government parastatals while this study is done on tea factories with planning, monitoring and control and budget participation by the employees being taken as independent variables.

Onduso (2013) conducted a research to ascertain influence of budgeting on financial performance of assembling firms in the county of Nairobi. The researcher used cross-sectional research method on a population of eighteen assembling firms trading their shares in Nairobi stock exchange (NSE) with census survey being used to collect the data from the firms operating within Nairobi County. Both primary and secondary data were used in collecting the required data. The researcher found out that there exists a relationship between budgeting process and financial performance of the assembling firms. There is a gap in this study as it was done in assembling firms in Nairobi County with Cross-sectional method research design used while for the research undertaken on tea processing factories in Kericho and Bomet counties with correlational research being employed in the study. The specific independent variables in this study are budget planning, budget participation and monitoring and control and the findings will be beneficial to the tea factories in the counties in improving their financial performances which in the last three years has been a decline.

2.2.2 Participative budgeting

Budget participation is where the lower-level managers in organizations are involved in the budget preparations. Their inputs are taken into considerations and forms part of the budget formulations. The employees as a resource are an important element in budgeting process as they are charged with the responsibility of preparation and implementation of budget in organizations. There should also be adequate communication to staff participating in the budgeting process to enable them prepare for details contributions during the budget making process and all items of the activities are captured in the plan. It is imperative for enterprises to offer continuous training and development to their staff if they are to succeed in achieving set financial performances. The training in itself needs to be budgeted to enable employees plan in advance their trainings need in any given financial period. The employees should be able to improve their skills through such training programs and in the long run improve the organizations performance (Batool & Batool, 2012). Employees training and development in any organization leads to improvement of the individual staff skills and the company's performance (Solkhe & Chaudhary, 2011). It is also important that the top management and other middle level managers of any organization have full commitment in the execution of the budgetary controls if the they are to achieve the set performance. Training plays an important role in ensuring employees are well equipped with the required knowledges and skills to execute assigned duties better and hence set targets are met. Previous scholars had researched on participative budgeting and found out different conclusions. Cress and Pettijohn, (2015) carried out a research on two hundred and nineteen public firms in united states of America (USA) and found out that seventy-nine percent of the firms under the study shows that lower-level managers play a key role in the preparation of budgets. However, this research was done in USA while the current study is in Kenya on the tea processing factories.

Mulani *et al.* (2013) carried out a research on the impact of budgeting process on Small and Medium term enterprises performances in India. The exploratory design was used in the study. A

sample of 268 SME's were taken from Mumbai, Pune and Solapur districts. The research adopted a questionnaire for the purpose of the study. The researcher found out that a positive correlation exists between budgeting process and SME's performance. The researcher also established that employees' participation in budgeting process motivates them in achieving the set objectives which improves the SME's performances. The study was done in India on SME's and utilized exploratory design while this study is in the tea industry and will utilized correlational research design. The study undertaken specified the independent variables of budget planning, budget participation and monitoring and control and their relationship with the financial performance of tea processing factories. The findings of the study will be of great significance in addressing the challenges faced by the tea factories in order to improve their performance.

Siyanbola, (2013) carried out a study on the effects of budgeting and budgetary controls on the Cadbury Nigeria PLC performance. The study adopted descriptive research design with a questionnaire used to collect the data and chi square was applied in analyzing it. The researcher found out that the lower level employees were being involved in budgeting and the budgets are well communicated to the all employees in different departments for their timely execution. The conclusion was that the budget and budgetary control contribute to 'the positive financial performance of Cadbury Nigeria PLC. In this study, correlational research design was utilized and done in tea processing factories in Kenya.

Rutto and Oluoch (2017) carried out a research to establish the role of budgetary control human resource and cash flow aspects and their relationship with financial performance of savings and credit cooperative (SACCO's) organization in Nairobi County. The independent variables for the study are human capital and cash flow aspect of budgetary control. The theory of budgeting and budgetary control model guided the study and the research used explanatory research design. The research sample was selected from forty SACCOs in Nairobi County regulated by the Sacco

Societies Regulatory Authority (SASRA). The researcher used questionnaire in collecting the required data. The researchers found out that there is a link between human capital resource and financial results of SACCOs. The researchers recommended for more similar research in other regions of the country using other alternative research designs. The study was conducted in SACCO's and guided by explanatory research design while the study being undertaken is in tea industry with correlational research design being utilized. The findings of the research will be of great significance to the tea processing factories on the measures to improve on their performances.

Chirchir and Simiyu (2017) carried out a study to assess the relationship between budgetary controls on monetary results of three Coca-Cola bottling companies in Kenya under the umbrella of Almasi Beverages Group Limited. The study utilized four independent variables that is planning; employee participation; financial resource availability, monitoring and evaluation procedures to establish their associations with monetary results of the group. The researchers employed concurrent triangulation research design with purposive sampling and stratified random sampling methods being utilized to select the respondents. The findings of the research confirmed that the four budgetary controls factors have an impact on the financial results with planning having the lowest impact and human capital having the highest impact. Literature gap exists as the study focused on a different business having different source of revenue and costs to that of tea factories.

Mutai (2015) carried out study to assess the effect of budgetary controls on the monetary results of ten chosen biggest assembling firms in Kenya. A descriptive research design was utilized in this study and stratified sampling method used in collection of data. Both primary and secondary data were employed. The findings obtained were that senior managers or supervisors from different departments play the bigger role in the preparations of budgets and the approved budgets are shared with other employees in the respective departments for implementation. The study also confirms

that there was a strong association between monetary results in assembling companies and the budgetary control variables (planning, monitoring and control and participative budgeting), with coefficient of determination, $R^2=0.785$. For the study being undertaken, it is on the tea industry and will utilize correlational research design. The findings will address the challenges faced by the tea factories and basis of future research.

Warue and Wanjira (2013) conducted a research on the budgeting process in hospitality industry SME's in Nairobi. Descriptive design was employed by the study. The target population was 96,608 registered small enterprises located in central business district (CBD), taking a sample of 526 for purpose of the study. The variables of the study are accounting system, worker's participation, skill and powers of managers, ownership structure. The findings of the study concluded positive effect on the budgeting process on the SME's performance and the researcher recommended workers participation on all stages of budgeting. The study undertaken is in the tea industry with different streams of cashflows and the findings will be of big significance in addressing the challenges in the tea industry in Kenya.

Adongo and Jagongo (2013), carried out a study on the relationship between Budgetary Control and Financial performance of State Corporations in Kenya. Specifically, it sought to examine the salient features of Budgetary Controls in state corporations, examine the Human factors within budgetary controls, establish the process of budgetary control in public organizations and establish the challenges affecting budgetary controls. A descriptive survey design was utilized to gather data from respondents of the sampled state corporations. Purposive sampling was used to select the samples. The findings indicated that there was a positive significant relationship between budgetary controls and financial performance of state corporations. The study focused on independent variables such as; human factors within Budgetary Control, processes of Budgetary Control and challenges of Budgetary Control which are different from those considered by this

study. A literature gap therefore still exists on effect of budgetary control uses such as planning, Monitoring and Control on Financial Performance of Tea processing factories, that this study seeks to fill.

Obwaya, (2011) studied the relationship between participatory budgeting and performance of local authorities in Kenya, with a case study of Nairobi City Council just before the implementation of County Governments in Kenya. The study was conducted through a survey study with population of 44 respondents selected from the employees of Nairobi city council. Data was complemented by secondary data from published reports as well as descriptive data and analyzed by multiple regression analysis. The study established a direct relationship between budget participation and performance. Further, the study found that, the indirect relationship between budget participation and performance running through job relevant information. The study therefore recommended that in order to avoid many obstructions, organizations should ensure that its budgetary participatory strategies are sufficient to enable budget implementation and evaluation more efficient.

2.2.3 Budget monitoring and control

Monitoring and control as an aspect of budgeting process is the keeping track of the activities of the organization to ensure that they are being performed or executed as per the set targets for a given period. Where there are deviations, the necessary corrections are done to align the activities to predetermined plan. The monitoring is a continuous process usually performed by managers or supervisors in an organization and any improvements on the operations are done so that the budgeted performances are achieved. It involves keeping track of the organizations incomes and expenses to obtain detailed information on their fluctuations and factors contributing and these enable the management to take corrective action.

Budget analysis involves the evaluations of the budget allocation which is done at the start of any financial year and keeping track of the expenses and revenue in line with the plan expenditure or

revenue generation to access the level of its achievements (Aiyar & Behar,2005). Budget analysis enables the managers of any tea factory to critically examine how the resources have been utilized in generating revenue and to make any improvement in their expenditure. Budget evaluation is the making of the comparison of the actual performance and the planned position and taking the necessary corrective measures for improvement of future performance. For the organization to achieve its set objectives, the top managers must operate in an effective and transparent manner and plays a key role in the evaluation of budgetary control system (Hancock, 2009).

Controlling is the comparison of the actual performance against the set targets in a given period and any variations are corrected. According to Enya (2012), there should be proper controls procedures so that actual results are achieved based on set targets. The control procedure cannot be performed by the organization if there are no predetermined plan. The control process is normally done by the head of departments in an organization and therefore the need to have details information of the operation of their respective departments in order to manage their costs and improve on incomes or revenues. The control process must be effective if it is to achieve the objectives which were designed for and should be fully communicated to the employees of the organization at the right time.

According to Igbinosun and Ohiokha (2012), control activities involve comparison of the actual results against the set targets and any variances are investigated for the necessary corrective action to be taken. Budget analysis involves the evaluation of the budgeted activities from the start of a financial year to the end in order to established how they have been executed so as to meet the organization objectives. It is important that for any controls to be instituted budget analysis needs for be performed before taking any corrective actions.

The study carried out by Silva and Jayamaha (2012) to assess the effect of budgeting process on the financial results of apparel industry in Sri Lanka. The independent variables such as planning, coordination, control, communication and evaluation were used to evaluate the impact of the budget process on the performance and ROA used to analyze the financial performance. The researcher's findings were that the financial performance is influenced by the budget planning, coordination, control and evaluations and there exist significant associations and thus confirms the efficiencies in apparel companies as far maintaining good budgetary process which leads improved organizational performance. The research being done is in the tea sector in Kenya which is different in terms of the operations and work environment.

Harelimana (2017) conducted a study on the influence of budgetary control systems on financial results of Kigali Serena hotel in Rwanda. A case Study design was used for the Kigali Serena hotel with twenty-five employees taken from a population of fifty-two employees. Both primary and secondary data were used in the study and the scholar found out existence of positive associations between budgetary controls process and financial results with a coefficient of, $r=0.752$. Therefore, financial results as measured by ROA is influenced by budgetary control systems. The research used independent variables as planning and controlling as aspect of budgetary control but the aspect of budget participation was not considered to which this research has included. Moreover, Serena hotel in Rwanda and tea factories are in Kenya have distinct operations in terms of costs and revenues sources. That being the case, a knowledge gap exists on the effects of budgetary control on financial results on the tea factories in Kenya for which this research intends to fill.

Kerosi (2018), carried out study to examine the association between Budgetary Control Practices and the Management of Micro and Small Enterprises at Kangemi Town in Kenya. A descriptive survey design was utilized in the study population. A sample size of 75 out of 160 registered micro and small enterprises in Kangemi, Kenya was taken. The study findings were that management of

micro and small enterprises is positively related to Budgetary Control Practices. There is a literature gap as independent variables considered never included budget participation as a variable under budgetary control which this study did. Besides, it focused on micro and small enterprises other than on Tea processing factories in Kericho and Bomet which have different revenue streams, methods of operations, a gap this study explored.

Machoka (2014) conducted a study to find out whether there exist any relationship of budgeting process and the monetary results of the public firms in Kenya taking Nzoia Sugar Company (NSC) as a case study. The purpose of the study included; to ascertain influence of budgetary planning on firm's results; establish impact of budgetary monitoring on firm's results and to find out the contribution of budgetary feedback on results of NSC. Therefore, the independent variables are planning, monitoring and feedback. The sample for the research targets a population of 132 employees of the firms and a census research design was used in collecting the data from the heads of departments, heads of sections and supervisors. The primary sources of data were used with the questionnaires and interviews being used as the data collection techniques. The research discovered no significant link that exist between budgetary monitoring and the financial results. The study uncovered that there are no significant associations existing among budgetary feedback and performance. But there exist significant associations among budget planning and financial results. In the research, the budget participation was not included in the independent variables which this research has included. Further, the study had employed case study design but this study will use correlational research design hence a gap exists which this study intends to fill.

Serem (2013) did a research on budget controls and their contributions on performance of thirty NGOs chosen for the research with the use of convenience judgmental sampling method. A descriptive survey design was utilized for collecting data and the questionnaires was developed with closed ended questions which were send to non-profit organizations. The associations that

exist between budgetary controls and performance of the non-profit organizations was analyzed using correlation and regression analysis methods.

The findings of the research were the existence of weak positive influence of budgetary controls on performance and the researcher recommended more studies on factors that might be affecting the performance of such non-profit organization. The study was done in NGO's while the study undertaken is in the tea industry which have different streams of cash flows and costs. The study also used descriptive research design while correlational design was employed in this study, hence a gap existed.

Nyongesa et al. (2016), carried out a study on the effect of Budgetary Control on Financial performance of Institutions of Higher Learning in Western Kenya. Finance Officers, Accountants, Bursars and Principals were the respondents. Descriptive survey design was used in the study with a target population of 109. The results of the study indicates that budgetary control had a statistically significant effect on Financial Performance in Public Institutions of Higher Learning. There is a literature gap as the researcher considered budgetary control measures such as; Budget Process, Projected income, Allocation of funds and Variance Analysis whereas this study considered variables of budgetary control such as; Planning, Budget Participation and Monitoring and Control and their effect on Financial performance of Tea processing factories in Kericho and Bomet. Besides, Correlational research design was used in this study.

2.2.4 Financial performance

Financial performances are the results of an organization in terms of profitability which confirms its effectiveness and efficiencies on their processes over a given period. Financial performance is the extent to which financial objectives and goals have been realized (Pimpong & Laryea, 2016). The financial performance can be analyzed by use of several measures which assist both potential and existing investors in making their investment decisions. Venanci (2012), stated several measures that can be used to measure performances which includes, return on investment

(ROI), return on assets (ROA), revenue/sales, gross profit, net profit, current ratio among others. Return on investment is a performance indicator used for calculating the profitability of a project. It is calculated by taking the net profit and then dividing by the cost incurred in the asset's investment.

Therefore, return on investment is a monetary ratio that is used to ascertain the amount of income accruing to an investor based on the investment cost. Higher ratio means good performance realized by an organization. ROA is a good indicator of an organization's financial performance as it states the extent to which profit is generated from the use of its assets than just the level of revenue (Akeem, L., B., Terer, E., K., Kinyanjui, M., W., & Kayode, A., M., 2014). The revenue or income is raised from the sales of products by any organizations during any particular duration of time. The organization is formed to achieve certain goals and objectives and the owners get their rewards in form of profits which are distributed to the owners in form of dividend. Therefore, the high dividend payment confirms good performance being realized by the organization through the sales of goods or services rendered. The gross profit is the contribution of an organization and is calculated by computation of the different between the revenue and the costs incurred in the production of the goods sold. The gross profit measures the efficiency at which an organization is able to control the manufacturing costs or the direct costs incurred in generating the sales. Therefore, with the gross profit margin, the management of an organization can make comparison of performance with other firms operating in the same industry or similar economic conditions. The net profit is the income calculated by deducting the operating expenses and interest on bank loans from the gross profit. The net profit is used as a measure of how efficient the management of an organization in controlling the operating expenses. A high ratio means better dividend payment to the owners. The management are normally rewarded on the basis of the firm's performance and high profits means good remuneration to the employees in form of bonuses and commissions. Current ratio looks at how many times current resources will cover the current liabilities in a given period. Normally a ratio of 2: 1 is a good ratio meaning the current assets are

able to cover current liabilities twice and this healthy for an organization's growth. In most cases, investors and financial analysts are mainly interested in such ratios as ROA and ROE in assessing the business growth (Johnson & Soenen, 2013).

2.3 Conceptual Framework

The conceptual framework plays an important role in guiding the entire process of the research study. To assess the financial performances of the tea factories the independent variables were budget planning, the budget participation and the monitoring and controls. The budgeting process was expressed in terms of variance as the main control technique and financial performance was measured in terms of ROA, ROE and net profit. The conceptual framework for the study shows the relationship between budgetary process and financial performance of tea processing firms in Kericho and Bomet Counties is shown in the figure below.

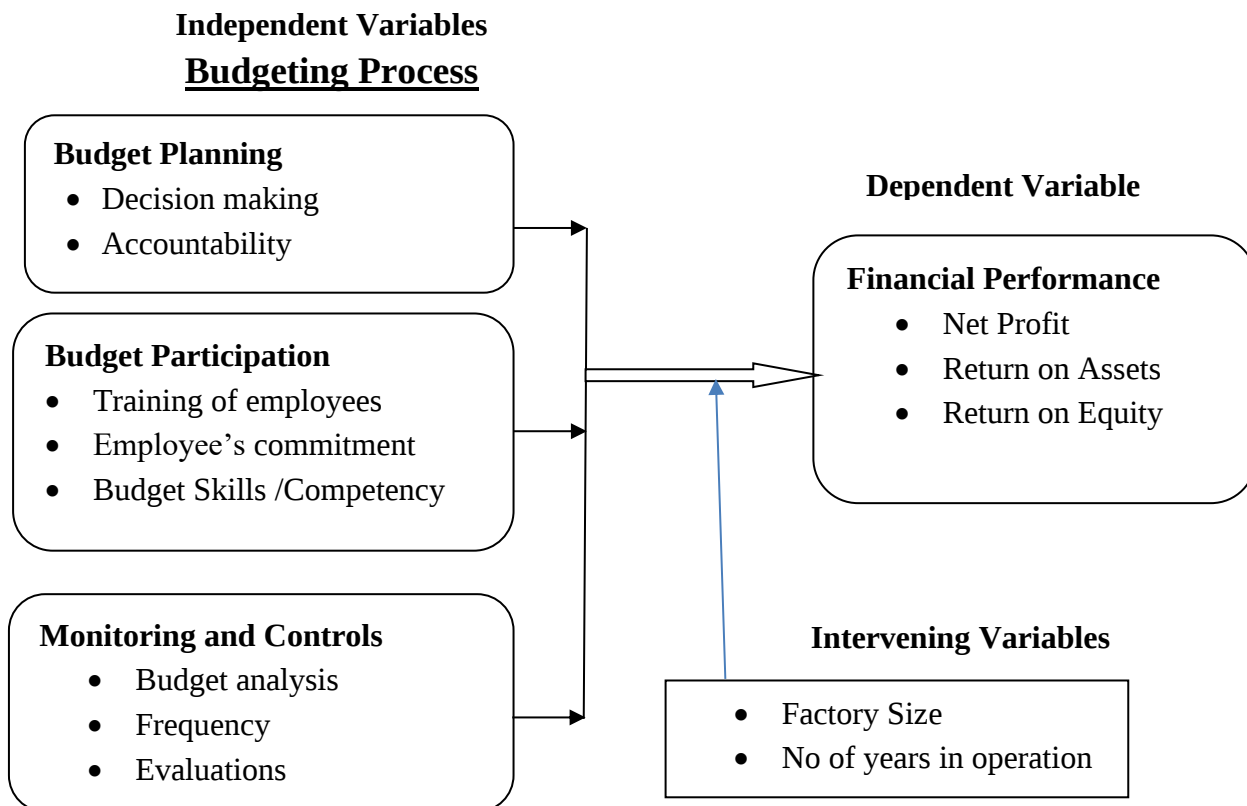


Figure 2.1: Conceptual Framework

Source: Researcher (2021)

2.4 Identification of Knowledge Gap

The researcher reviewed previous empirical studies on the associations that exist between budgeting processes and the financial performance of different organizations. However, in the literature reviewed the scholars have conflicting conclusions on the associations existing between the budgeting processes and financial performances of tea factories.

Mulani *et al.* (2013) carried out a research on the impact of budgeting process on Small and Medium term enterprises performances in India. The exploratory design was used in the study. A sample of 268 SME's were taken from Mumbai, Pune and Solapur districts. The findings were that there exists a link between budgetary process and the SME's performances.

Rutto and Oluoch (2017) carried out a research to establish the role of budgetary control on financial performance of savings and credit cooperative (SACCO's) organization in Nairobi County. The research used explanatory research design. The research sample was selected from 40 SACCOs in Nairobi County regulated by the Sacco Societies Regulatory Authority (SASRA). The researchers found out that the independent variable of human resource budgetary control had an influence on the SACCO's performance.

Harelimana (2017) did a research on the influence of budgetary control on financial performance of Kigali Serena hotel in Rwanda. A case Study design was employed in this study with 25 employees taken from a population of 52 employees. This being a case study, Serena hotel was taken for purposes of the research and have distinct operations in terms of costs and revenues sources. The researcher findings were that there exist an association between budgetary controls and performance.

Chirchir and Simiyu (2017) carried out a study to assess the relationship between budgetary controls on financial performances of three Coca-Cola bottling companies in Kenya under the

umbrella of Almasi Beverages Group Limited. The study used concurrent triangulation research design. The target population were the head of department, section heads and supervisors from various departments with a sample of 147. The findings of the research confirm that there exist close associations between the four independent variables and the firm's performance.

Onduso (2013) conducted a research to ascertain influence of budgeting on financial performance of 18 assembling firms listed in the Nairobi stock exchange (NSE). The researcher used cross-sectional research method and the target population was the accountants who are responsible for the budget making. The researcher findings confirm a strong positive impact of budget preparation to the firm's financial performance

The research undertaken employed correlational research design with a target population of 96. The target population were factory unit manager, the factory accountant, the procurement manager, the plant engineer, the factory sales manager and their assistants, supervisors or equivalents. The scope of the study was selected tea factories in Kericho and Bomet counties. Therefore, there were gaps in the literature reviewed because of differences in the research design, target population, scope of the study and sample size. Besides, tea factories have different streams of revenue and operating costs compared to reviewed literature in other sectors.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the methodology used in the research in terms of the research design, population, sample size, data collection methods, data validity and reliability, data analysis and reporting.

3.2 Research Design

According to Chinedum (2014), research design is a set of procedures or techniques for the collection, measurement and analysis of data to find solutions to research questions. Research design is a process of giving solutions to research problems being investigated in a study. Correlational research design was adopted in the study in order to examine the budgeting processes in the tea firms. The correlational research design is useful in ascertaining the extent to which two or more variables are associated. In measuring such association, correlation coefficient statistic was used to establish the strength of the relationship. Data was cross-sectional as it was collected relating to the variables at one point in time rather than longitudinal. The adopted research design allowed the researcher to collect both qualitative and quantitative data and apply both descriptive and inferential statistics in analysis.

3.3 Location of the Study

The study was done on Kenya Tea Development Agency (KTDA) managed factories from Kericho and Bomet Counties. The tea factories included Momul, Tegat, Litein, Kapkatet, Mogogosiek, Kapkoros and Kapset tea factories. All the satellite tea factories were not considered for the purposes of this study as it was assumed that the satellite factories have similar budgeting procedures. With the reviews of past literature, there is limited research in the counties selected

and the researcher's recommendation will go a long way in improving the factories' performances within the counties. The study area was also selected since, factories managed by KTDA lying west of Rift valley have been shown to attract less pay and bonuses to farmers compared to factories in Mt. Kenya region. According to Kothari (2014) and Mugenda and Mugenda (2003) the existence of problem in a study area is an important justification for its selection for a study.

3.4 Target Population

According to Odoh and Chinedum (2014), target population refers to the whole group of persons in a particular place to which researcher has chosen to conduct a study and to make a conclusion on the basis of data collected to the entire group.

Singh and Masuku (2013), explained population as the entire group of objects or persons to which a conclusion will be made based on research findings. In the case of this study the entire population of the rank of the factory unit managers, the factory accountants, the procurement managers, the plant engineers, the factory sales managers and their assistants, supervisors or equivalents from the selected tea factories were the respondents from all the 7 tea factories in the two counties. There were total of 96 employees composed of 35 managers and 61 being the supervisors and others in the mentioned categories in all the selected factories as shown in Table 3.1

Table 3.1

Study Population Size

Factory	Study population
Litein Tea factory	15
Kapset Tea factory	13
Mogogosiek Tea factory	18
Kapkoros Tea factory	16
Tegat Tea Company	12
Kapkatet Tea Company	11
Momul Tea Company	11
Total	96

The study adopted a census survey sampling technique since the population was small. This method ensures that the researcher get responds from the entire population by filling the questionnaire and the respondents were, the factory unit manager, the factory accountant, the procurement manager, the plant engineer, the factory sales manager and their assistants, supervisors or equivalents.

3.6 Data Collection Instruments

The instrument for the data collection was questionnaires which was formulated based on the objectives of the research. Questionnaires is an instrument consisting of questions which the respondents are supposed to fill as a way of collecting data from the field. The questionnaire is more suitable and easier to administer in gathering the data from a large respondent for a study (Alshenqeeti, 2014).

Structured questionnaires were appropriate as a data collection instrument with closed end questions was chosen and delivered direct to the respondents. However, in cases where this was not possible due to the inadequate time and travelling charges, questionnaires was sent through emails and asking the respondent to response through the same emails. Secondary data required for the calculations of the return on assets (ROA) and return on equity (ROE) and net profit was available from the extract of audited financial statements of the tea factories.

3.6.1 Validity

Validity refers to the extent to which a tool measures what is expected to measure. Validity means how accurate a piece of research really measures what is sets out to, or how well it gives the reality it claims to state. Mugenda and Mugenda (2003) stated that, the completeness of data to be obtained greatly rely on the collection instruments in terms of validity and is measured by the extent to which the outcome to be obtained from the analysis of the data represent the phenomenon being measured. There are various types of validities and includes construct, content and face. The construct validity refers to a measurement tool that correspond to the concept to be measured. The questionnaire used should be able to measure what is intended to measure (Haynes *et al.*,1995; de Von *et al.*, 2007). Content validity states the extent to which a test is a representative of the entire population.

Content validity establishes if the tool to be applied in research will includes all the items that will measure what the researcher is hoping to measure. The questions in the questionnaire should to a large degree be a representative to the area of focus. Face validity requires that the researcher looks at the questions in a questionnaire and concludes that the instrument validly measures what is intended to be measured just on the face of it. For purposes of this research work content validity was adopted as a measurement of the degree to which the data collected by questionnaire is a representative of a particular domain.

According to Kothari (2009), validity is the criteria that indicate the level to which an instrument measures what was intended to measure. The content of questionnaire must be relevant and objective to enhance its validity. The validity of the instrument was also confirmed with the panel of expert drawn from accounting profession and practitioners.

3.6.2 Reliability

Reliability is the capability of the instrument to give similar results if it is dispensed to the same respondents more than once. It is the ability of a measurement or tool to produce similar results with a repetition. Reliability gives the consistency of the research instrument (Sakaran, 2006). To verify reliability, the researcher conducted piloting to check if the instrument will give reliable results. The piloting study was conducted in Chebut and Kaptumo tea factories in Nandi County. Pilot data was collected from 10 respondents from selected tea factories. These were excluded from the main study. Data from the pilot study were analyzed using Cronbach's Alpha coefficient, mathematically expressed as shown in equation 3.1. Adjustments were then made where necessary on the Questionnaire to increase its reliability.

$$\alpha = \frac{N\bar{c}}{v + (n-1)\bar{c}} \dots\dots\dots (3.1)$$

Where α is the Cronbach's Alpha coefficient, $\bar{c}$ is the average inter-item covariance among the items, $\bar{v}$ is the average variance and N is equal to the number of items/observations. The reliability of the tool was determined by the use of the Cronbach's Alpha coefficient. The items which did not meet the 0.7 Cronbach alpha coefficient threshold were excluded. A coefficient of 0.715 was found which showed that the data collection instruments were reliable after calculating the Cronbach's Alpha coefficient for this study.

Table 3.2

Reliability Test Results (Pilot study)

Variable	No. of Items	Cronbach's Alpha
Budget Planning	6	0.721
Monitoring and Control	8	0.701
Participatory Budgeting	4	0.728
Financial Performance	3	0.946
Overall		0.715

The results of reliability analysis indicated that the measures of financial performance had the highest reliability index of 0.946. This means that the respondents had consistent understanding of the selected measures of performance. Budget panning was measured by 6 items which returned a Cronbach alpha of 0.721 whereas monitoring and control was measured by 8 items with reliability alpha coefficient of 0.701. Participatory budgeting was measured by 4 items with alpha coefficient of 0.728. Overall, the instrument was considered reliable with reliability Cronbach alpha of 0.715.

3.7 Data Collection Procedures

The questionnaires were pre-tested with 10 respondents from Chebut and Kaptumo tea factories in Nandi County to verify its reliability and corrections were made where the researcher considered necessary. On piloted, the questionnaire was then sent to the various tea factories for the respondents to fill.

As a procedure for conducting the research work, the head of human resource departments from the 7 tea factories were notified about the research and its purpose before administering the questionnaires. The researcher took questionnaires personally and where not possible, sending through e-mails was chosen as an option. The email option allowed a faster response rate where internet is available. The main information from the primary data was collected through

questionnaires and secondary data was collected from documents, records and reports by visiting and obtaining the required data.

3.8 Data Analysis and Presentation

Data analysis is the collection and organizing of data for purposes of research (Johnston, 2014). Data which was collected by use of questionnaires was edited for completeness and consistency and analyzed using Statistical Package for Social Sciences (SPSS) version 26 computer Packages. Data was analyzed through descriptive statistics such as mean, standard deviations and frequencies. The findings were presented by using pie charts and tables. Inferential statistics applied were the correlation and regression analysis. Correlation analysis was applicable in the determination of the strength of relationship between the variables while the linear regression analysis was used to determine the extent of associations between the independent variables (budgeting process) and the dependent variable (financial performance). The reason for selecting regression technique was that, regression normally gives better results in testing the correlation between two or more variables than other statistical methods.

The study applied the following regression model

$$\text{Model } Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Given that Y = Firm's performance, X_1 = Planning, X_2 = Monitoring and Control,

X_3 = Participative Budgeting, β_0 = Constant, β = Coefficient of independent variables, and

ε = error term

The researcher made a decision based on coefficient of determination which is the product of regression analysis. The coefficient of determination is that part of changes in the dependent variable that can be estimated from the independent variables. The coefficient of determination shows how best the regression model fits the data under the study and usually lies between 0 and

1. For instance, a coefficient of determination of 0.65 confirms that 0.65 of data fits the regression model. A coefficient of determination of zero (0) implies that performance (dependent variable) cannot be influenced by budgeting process (independent variable) and coefficient of 1 implies that performance can be estimated from the budgeting process with no error. The regression model will determine all coefficient of the independent variables for the researcher to assess the extent to which each of the variables influences changes on the financial performance.

3.9 Ethical Consideration

The researcher was guided by the ethical issues while working on the research and seek prior permission from the tea factories before the collections of data. The researcher equally obtained permission from the National Commission for Science, Technology and Innovation (NACOSTI).

The University of Kabianga equally granted permission to the researcher to proceed with the research work. The privacy of the respondents from the various tea factories will be observed and also the information in respect of the secondary data will remain confidential and purely for research purposes.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results and discussion of the major findings of this study. The presentation of the results is in line with the specific objectives of the study. The specific objectives are:

Established the relationship between budget planning and financial performance of selected tea factories in Kericho and Bomet counties. Determined the relationship between budget participation and financial performance of selected tea factories in Kericho and Bomet counties. Evaluate the relationship between budget monitoring and control and financial performance of selected tea factories in Kericho and Bomet counties.

Further, the study tested the following hypotheses:

H_0 : There was no relationship between budget planning and financial performances in the selected tea factories. H_{01} : There was no relationship between budget participation and financial performance of the selected tea factories. H_{02} : There was no relationship between budget monitoring and controlling and financial performance for the selected tea factories.

Descriptive techniques such as means and standard deviations were used to analyse the data and the findings were presented by using figures and tables. The regression analysis and correlation analysis were utilized in order to determine the relationship between budgeting process and the financial performance of the tea factories.

4.2 Response Rate

A sample size of 96 respondents was selected to participate in this study. A questionnaire distributed and returned. However, data was analyzed from 78 respondents, translating to 81.25% response rate. According to Fincham (2008), a response rate of 60% and above is adequate for data analysis in a study. According to Mugenda and Mugenda, (2003) a response rate of above 80% is considered enough for a study. In a study where the researcher is interested in utilizing correlation and regression analysis, Field (2017) suggests that a threshold of at least 30 cases. With complete responses from 57 cases, the data is considered adequate for the analysis technique chosen. Therefore, for this study, the response rate meets the minimum requirement for data analysis.

The response rate is summarized in Fig 4.1

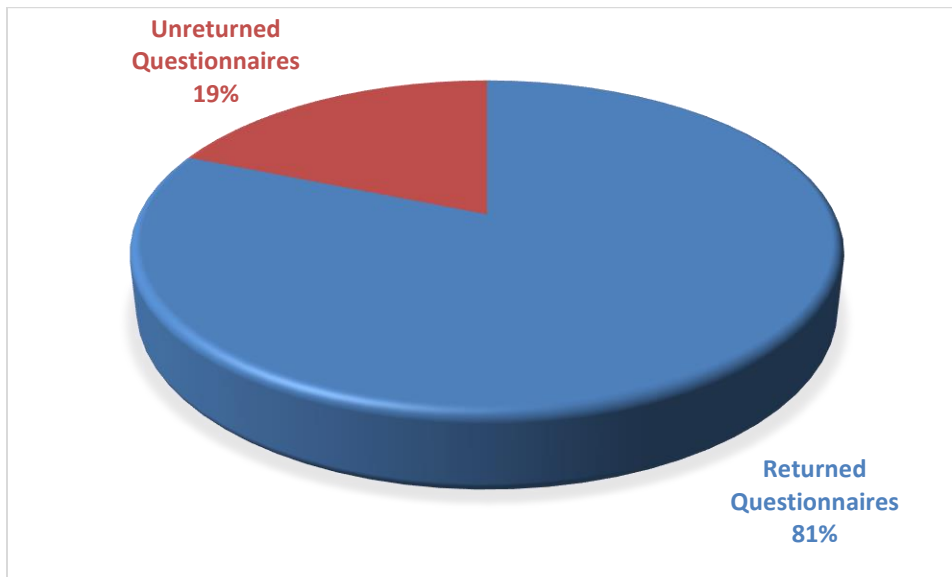


Fig 4.1: Response Rate

Source: Survey data, 2021

4.3 Demographic Information

The study presented the sample characteristics using frequency distribution to point out the variations between the respondents based on age, level of education, and professional training the study also included the classification of the industry investigated by type.

Table 4.1

Department of the respondents

Department	Cumulative		
	Frequency	Percent	Percent
Accounts and finance department	21	26.9	26.9
production department	23	29.5	56.4
selling and marketing department	16	20.5	76.9
human resource and procurement department	8	10.3	87.2
information, communication and technology department	10	12.8	100.0
Total	78	100.0	

Source: *Author's Computation from Survey Data, (2021)*

The results indicate that majority of the respondents (29.5%) worked in the production department, 26.9% worked in the accounts and finance, 20.5% of the respondents worked in the selling and marketing department, 10.3% worked in the human resource and procurement department while those who worked in the information, communication and technology were 12.8%. These results imply that the respondents were conversant with budgeting process and financial performance of their organization.

4.3.1 Educational level of the respondents

The level of education of the respondents were distributed in three categories certificate/diploma, Undergraduate and postgraduate as shown in table 4.2.

Table 4.2

Educational level of the respondents

	Frequency	Percent	Cumulative Percent
certificate/ Diploma	20	25.6	25.6
Undergraduate	47	60.3	85.9
Postgraduate	11	14.1	100.0
Total	78	100.0	

Source: Author's Computation from Survey Data, (2021)

Summary statistics results on education levels as shown in Table 4.2 shows that 25.6% of the respondents had certificate/diploma while 60.3% and 14.1% had attained undergraduate and postgraduate levels of education respectively. These results show that most of the respondents (100%) in the study had formal education that could enable them make the necessary budgetary decisions and would respond to the questionnaire.

4.3.2 Experience level of the respondents

The respondents were asked the duration they have been involved in the budget making process in their company and the results were analysed and presented as shown in Table 4.3.

Table 4.3**Experience level of the respondents**

	Frequency	Percent	Cumulative Percent
0-3 years	7	9.0	9.0
3-5 years	35	44.9	53.8
5-7 years	17	21.8	75.6
over 7 years	19	24.4	100.0
Total	78	100.0	

Source: Author's Computation from Survey Data, (2021)

The results in table 4.3 indicate that majority of the respondents had experience of 3- 5 years (44.9%), 24.4% had experience of over 7 years, whereas 21.8% and 9% had experience of 5-7 years and 0-3 years respectively. The results imply that all of the respondents had experience in the budget making process in their company.

4.3.3 Duration of budget cover

The respondents were asked the duration that their firms budget cover and the results analysed and summarized as shown in table 4.4.

Table 4.4**Duration of budget cover**

	Frequency	Percent	Cumulative Percent
less than 1 year	3	3.8	3.8
1 to 5 years	74	94.9	98.7
6 to 10 years	1	1.3	100.0
Total	78	100.0	

Source: Author's Computation from Survey Data, (2021)

The results in table 4.4 indicate that 3.8 % of the respondents indicated that their budget cover less than 1 year, 94.9 % showed that their budget cover 1 to 5 years while 1.3% indicated that their budget cover 6 to 10 years.

4.3.4 Frequency of budget review

The respondents were asked the frequency of budget change and the results analysed and summarized as shown in Table 4.5.

Table 4.5**Frequency of budget review**

	Frequency	Percent	Cumulative Percent
Monthly	10	12.8	12.8
Quarterly	62	79.5	92.3
Annually	6	7.7	100.0
Total	78	100.0	

Source: Author's Computation from Survey Data, (2021)

The results in table 4.5 indicated that 79.5% of the respondents indicated that their budget is usually changed quarterly, 12.8% of the respondents indicated that their budget is changed monthly and only 7.7% of the respondents indicated that their budget is usually done yearly.

4.4 Budgeting Process

The results of the study shows that all the seven tea factories have well structured budgeting process. In this section, the study focused on determining the extent to which budgeting process variables (budget planning, budget participation and monitoring and control) have been put in place by tea factories in Kericho and Bomet counties.

The statements were rated on Lickert Scale where 5=Strongly Agree, 4=Agree, 3=Undecided 2=Disagree 1=Strongly Disagree. The responses obtained were analyzed using the means and standard deviations. The mean scores were interpreted by using the interpretation scale; 4.5 to 5.0=Strongly Agree, 3.5 to 4.49=Agree, 2.5 to 3.49=Undecided 1.5 to 2.49=Disagree 1 to 1.49=Strongly Disagree

4.4.1 Budget planning

The study focused on determining the extent to which the tea factories in Kericho and Bomet used budget planning. The results are shown in table 4.6

Table 4.6

Budget planning

Budget planning	Mean (M)	Standard deviation (SD)
Clear goals and objectives are well stated in our budgets.	4.66	0.480
The budgets guide in decision making about firm's resources	4.62	0.544
The budgets are used for accountability in the organization	4.41	0.532
Budgets are aligned to the organization processes	4.30	0.657
Are all the head of departments involved in the preparation of budgeting plans for the next period.	4.07	0.563
Are the organization priorities for the next period agreed during departmental meetings	3.68	0.844
Average	4.29	0.603

Source: *Author's Computation from Survey Data, (2021)*

The tea factories in Kericho and Bomet counties perform budget planning as confirmed by the aggregate mean (M=4.29, SD=0.603). To a very great extent, Clear goals and objectives are well stated in our budgets and the budgets guide in decision making about firm's resources as confirmed

by mean scores of (M=4.66, SD=0.480) and (M=4.62, SD=0.544) respectively. To a great extent budgets are used for accountability in the tea factories and budgets are aligned to the organization processes as evidenced by the mean scores (M=4.41, SD=0.532) and (M=4.30, SD=0.657) respectively. To a certain extent all the head of departments are involved in the preparation of budgeting plans for the next period and the organization priorities for the next period agreed during departmental meetings evidenced by the mean scores (M=4.07, SD=0.563) and (M=3.68, SD=0.844) respectively. The standard deviations recorded shows that the respondents have different understandings as to the extent to which budget planning is practice in the tea factories in Kericho and Bomet counties.

4.4.2 Budget monitoring and control

The study focused on determining the extent to which the tea factories in Kericho and Bomet practice budget monitoring and control. The results are shown in table 4.7

Table 4.7**Monitoring and control**

Monitoring and control	Mean (M)	Standard deviation (SD)
Top Management meets frequently for reviewing budget implementation and financial results	4.36	0.638
Analysis is done by making comparison between actual figures against the budget figures and variances are reported regularly	4.26	0.798
The head of division/departments are charged with the responsibility of controlling the planned activities	4.03	0.728
The spending's on the operations of the organization are analyzed and reviewed by the top management	3.97	0.969
Budget variances are reported to head of departments on regular basis for corrective action	3.96	0.736
The head of departments makes corrections where there are adverse variances on the performance.	3.91	0.755
Average	4.08	0.770

Source: *Author's Computation from Survey Data, (2021)*

The tea factories in Kericho and Bomet counties perform budget monitoring and control as confirmed by the aggregate mean (M=4.08, SD=0.770). To a very great extent, top Management meets frequently for reviewing budget implementation and financial results and analysis is done by making comparison between actual figures against the budget figures and variances are reported

regularly as evidenced by mean scores of ($M=4.36$, $SD=0.638$) and ($M=4.26$, $SD=0.798$) respectively. Also, to a great extent the head of division/departments are charged with the responsibility of controlling the planned activities and the spending's on the operations of the organization are analyzed and reviewed by the top management as confirmed by mean scores of ($M=4.03$, $SD=0.728$) and ($M=3.97$, $SD=0.969$) respectively. To a great extent, budget variances are reported to head of departments on regular basis for corrective action and the head of departments makes corrections where there are adverse variances on the performance as evidenced by the mean scores of ($M=3.96$, $SD=0.736$) and ($M=3.91$, $SD=0.755$) respectively.

The standard deviations recorded shows that the respondents have different understandings as to the extent to which monitoring and control is practice in the tea factories in Kericho and Bomet counties.

4.4.3 Budget participation

The study focused on determining the extent to which the tea factories in Kericho and Bomet embrace budget participation. The results are shown in table 4.8

Table 4.8**Budget participation**

Budget participation	Mean (M)	Standard deviation (SD)
I take part in the preparation of budget	4.59	0.471
The supervisors, lower-level managers, top managers make contribution to the budgeting making process	4.42	0.559
The organization divisions/departments participate in the budgeting processes	4.38	0.729
The budgets are communicated to all departments after approval by the Board of directors	4.26	0.798
There is coordination of the budget implementation by the head of division/departments during the year	3.79	0.681
Every department is tasked with coming up with departmental budgets which becomes the basis for Overall combined budget	3.81	0.695
Average	4.21	0.655

Source: *Author's Computation from Survey Data, (2021)*

The tea factories in Kericho and Bomet counties embrace budget participation as confirmed by the aggregate mean (M=4.21, SD=0.655). To a very large extent, employees take part in the preparation of budget and the supervisors, lower-level managers, top managers make contribution to the budgeting making process as evidenced by the mean scores of (M=4.59, SD=0.471) and (M=4.42, SD=0.559) respectively. To a large extent, the tea factories divisions/departments

participate in the budgeting processes and the budgets are communicated to all departments after approval by the Board of directors as evidenced by the mean scores of ($M=4.38$, $SD=0.729$) and ($M=4.26$, $SD=0.798$) respectively. Also, every department is tasked with coming up with departmental budgets which becomes the basis for Overall combined budget and there is coordination of the budget implementation by the head of division/departments during the year as evidenced by the mean scores of ($M=3.81$, $SD=0.695$) and ($M=3.79$, $SD=0.681$) respectively.

The standard deviations recorded shows that the respondents have different understandings as to the extent to which budget participation is embraced by the tea factories in Kericho and Bomet counties.

4.5 Pearson Correlation Analysis

Correlation between variables is a measure of how well the variables are linearly related. The correlation coefficients results are between -1 and 1. A result of -1 means that there is a perfect negative correlation between the two variables, while a result of 1 means that there is a perfect positive correlation between the two variables. Result of 0 means that there is no correlation between the two variables (Gujarat, 2004).

Pearson correlation coefficient was used to examine correlation between Planning, participative Budgeting, Monitoring and Control and Financial performance. The analysis is shown in the table

4.9

Table 4.9**Correlations**

		P	MC	PB	FP
P	Pearson Correlation	1			
	Sig. (2-tailed)	0.001			
MC	Pearson Correlation	.195**	1		
	Sig. (2-tailed)	.009			
PB	Pearson Correlation	.194**	.394**	1	
	Sig. (2-tailed)	.010	.000		
FP	Pearson Correlation	.315**	.221**	.439**	1
	Sig. (2-tailed)	.000	.003	.000	

**. Correlation is significant at the 0.05 level (2-tailed)., N = 78

P = Planning, MC= Monitoring and control, PB=Participative Budgeting, FP= Financial Performance

Source: Researcher (2021)

As shown in table 4.9 there was significant relationship between Planning and Financial performance since it had a Pearson Correlation of ($r=0.315$, $p = 0.000$), Monitoring and Control had a significant positive relationship with financial performance delivery since it had a Person Correlation of ($r =0.221$, $p = 0.003$), Participative Budgeting had significant positive relationship with financial performance since it had a Person Correlation of ($r=0.439$, $P < 0.000$). The correlation between the independent variables suggests absence of the existence of multicollinearity.

4.6. Budgeting Process and Financial Performance of Tea Processing Factories

Table 4.10

Model Summary of Budgeting process and financial performance

Model	R	R ²	Adjusted R ²	Std. Error	Significance
1	0.722 ^a	0.521	0.489	0.1491	0.000

***Predictors:** Budgetary Planning, Monitoring and control, Participatory budgeting*

***Dependent variable:** Financial performance*

N=78

***Source:** Survey Data, 2021*

Table 4.10 shows results from the regression model summary used to establish the relationship between budgeting process and financial performance of selected tea processing factories. According to the results, R² value is 0.521 indicating that the independent variable explains 52.1% of the variation in the dependent variable and only 47.9% of the variation is explained by other factors which are beyond the scope of the study. These results are significant at 95% confidence level ($p < 0.05$). The model also reveals a strong positive relationship between budgeting process and financial performance ($R^2 = 0.521$). The small shrinkage of only 0.032 ($0.521 - 0.489$) between the R squared and adjusted R – squared indicates that addition of variables in the regression model did not compromise the model fit. Field, (2010) suggests that such shrinkage should not exceed 0.075.

Table 4.11**Coefficient**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.i
	B	Std. Error	Beta		
(Constant)	0.438	1.305		7.072	0.000
Planning	0.299	0.084	0.261	3.61	0.001
Monitoring and Control	0.281	0.094	0.231	3.115	0.003
Participative Budgeting	0.357	0.089	0.262	4.019	0.000

Source: Researcher 's Calculations from the Survey Data, 2021

Based on the results from the regression analysis, it was established that budgeting process accounts to 52.1 % of the variance in the financial performance. It can be deduced that planning has an impact on financial performance of selected tea estates as a unit increase in planning holding other factors constant would lead to an increase in financial performance by 0.299. Monitoring and control have a positive impact as frequent monitoring and control have an impact on financial performance and a unit increase would lead an increase in financial performance by 0.281 holding other factors constant.

The results further show that participative budgeting improves financial performance of an organization and therefore an important aspect that organization should consider it crucial as a unit increase would result in an increase in financial performance by 0.357. This indicates that budgeting process variables have a positive effect on the financial performance of the tea processing factories. This finding was consistent with the findings of Obwaya, (2011) which established that the relationship between participatory budgeting and performance of local authorities in Kenya, was positive and significant. Further, the study found an indirect relationship between budget participation and performance running through job relevant information. The

study therefore recommended that in order to avoid many obstructions, organizations should ensure that its budgetary participatory strategies are sufficient to enable budget implementation and management more efficient.

The findings in Table 4.9 further shows that the t statistics for the variables $t=3.61$ for planning, $t=3.115$ for monitoring and control and $t=4.019$ for participative budgeting with all the t statistics being higher than 1.96 and p values of less than 0.05. This indicates the independent variables are statistically significant in influencing performances of the tea factories. The results were consistent with the findings by Maziriri (2017), Lius (2015), Maas et al., (2016) and Pimpong and Laryea (2016).

4.7 Summary of the Results of Hypothesis

The summary of the results of hypothesis is as shown in Table 4.12

Table 4.12

Summary of the Results of Hypothesis

Hypothesis	Results	Conclusion
H₀: There was no relationship between budgeting process aspect of planning and financial performances in the selected tea factories.	Positive significant effect of budgeting planning on financial performance (p=000), p<0.05)	H₀: Rejected
H₀₁: There was no relationship between budgeting process aspect of budget participation and financial performance of the selected tea factories.	Positive significant effect of budget participation on financial performance (p=000), p<0.05)	H₀₁: Rejected
H₀₂: There was no relationship between budgeting process aspect of monitoring and controlling and financial performance for the selected tea factories.	Positive significant effect of monitoring and controlling on financial performance (p=000), p<0.05)	H₀₂: Rejected

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides a summary of the findings based on research objectives and hypotheses, conclusion, recommendations and suggestions for further study.

5.2 Summary of the Findings

The purpose of the study was to establish the relationship between budgeting process and financial performance of selected tea processing factories in Kericho and Bomet Counties. The study employed descriptive statistics such as means and standard deviations to analyzed the data and the findings were presented in pie charts, tables and figures. The study found out the budget planning, budget participation and monitoring and control have been implemented to a great extent by the tea factories. In order to establish the relationship between the budgeting process variables (budget planning, monitoring and control, budget participation) and financial performance, regression analysis was done using Statistical package for social science (SPSS) version 26. The correlation analysis was also performed to established the strength of relationship between budgeting process and financial performance. The study recorded a respond rate of 81% and Cronbach alpha of 0.715 which confirm internal consistency.

On the relationship between budgeting process and financial performance, the study found out that there exist a positive association. Further, the study establishes that the variables of planning, budget participation and monitoring and control has a positive effect on the financial performance of tea processing factories.

5.3 Conclusions

Based on the findings, the study reached specific conclusions. Based on the findings, budget planning had a positive significant relationship on financial performance which implies that a unit increase financial performance can be enhanced by having a well-structured budgetary planning. Therefore, in conclusion the estimated results of this study rejected the null hypothesis that there was no relationship between budget planning and financial performance for the selected tea factories.

Secondly, the results for the second specific objective of this study on relationship between budget participation and financial performance of selected tea factories in Kericho and Bomet counties showed that the relationship were significant. The study hence concluded that participatory budgeting is an important predictor of successful budgeting hence improvement of firm performance. From this finding, the study further concluded that budget participation parameters such as training of employees, employee commitment and budget skills competency influences financial performance. Therefore, in conclusion the estimated results of this study rejected the null hypothesis that there was no relationship between budget participation and financial performance for the selected tea factories.

Regarding the third specific objective in which the study found that the relationship monitoring and control and financial performance of selected tea factories in Kericho and Bomet counties was positive and significant and the study concluded that frequency of monitoring and control enhances firm performance. Therefore, in conclusion the study rejected the null hypothesis that there was no relationship between monitoring and controlling and financial performance for the selected tea factories

5.4 Recommendations

The following recommendation were made on the research findings and conclusions.

Budget planning of tea factories in Kericho and Bomet Counties have a significant effect on financial performance. The study recommended that tea factories be empowered with the most efficient method of planning for effective budgeting. The empowerment on budgeting process should enable them identify issues that the organization should manage and help them adjust to improve the financial performance.

It was recommended that tea factories have tight budgetary control in their enterprises to improve financial performance in the organization. The tea factories should become more conscious on budgetary control through constant search for more effecting budgetary process relevant for the organization.

It was also recommended that business mentorship should be carried out by relevant government ministries to enhance tea factories operators the capacity to use effective budgeting system to control their operations. Through stakeholder's involvement such as financial institutions to have capacity to foresee and overcome financial problems for effective performance in the business.

It was also recommended that tea factories be empowered to be able to keep proper records for performance appraisal both for financial and non-financial operations. Recommendation was made that tea factories be empowered through couching on performance measurement system for effective operations appraisals to improve financial performance.

5.5 Areas for Further Research

The study utilized correlational research design that was based on KTDA factories. In future research, the use of panel models should be considered where panel data permits. Also, future

study that explores other functional forms and compares the findings with those of this study would inform the growth of literature in the accounting in developing countries.

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APPENDICES

Appendix I Introductory Letter

Thomas Korir

P.o Box 2030 – 20200

University of Kabianga

Greetings Sir/Madam,

Dear respondent, I am doing a research work on the relationship between budgeting process on the financial performances of selected tea factories in Kericho and Bomet counties as a requirement of my academic work at the University of Kabianga. Being part of the respondents, the contribution you will input to this research is really critical for my success. This questionnaire is purely for the objective of learning and the answers given will not be passed to other individual or organization but rather kept confidential purely for the research.

Much appreciation in advance.

Yours faithfully,

Thomas K.Korir

Tel: 0724 418 946

Appendix II Questionnaire

SECTION A: BIO DATA

(Kindly choose on the options given below).

1. Which department are you working with in your organization? (Kindly choose)

- a) Accounts department ☐
- b) Production department ☐
- c) Selling & Marketing department ☐
- d) Human resource & Procurement department ☐
- e) Information, communication and technology department ☐

2. What are the highest academic qualifications attained?

- Certificate /Diploma ☐
- Undergraduate ☐
- Postgraduate ☐

3. For how long have you been employed in the company?

- Below 5 years ☐
- 5-10 years ☐
- 11-15 years ☐
- Over 15 years ☐

4. For what duration have you been involved in the budget making process in your company?

- 0-3 years ☐
- 3-5 years ☐
- 5-7 years ☐
- Over 7 years ☐

5. What is the duration that your firms budget Cover?

Less than 1 year []

1 to 5 years []

6 to 10 years []

Above 10 years []

6. How frequent is the budget review?

Monthly []

Quarterly []

Annually []

None []

SECTION B: PLANNING

Please tick the statements below against the appropriate answer choice in the Lickert Scale where

SA=Strongly Agree, A=Agree, U=Undecided D=Disagree SD=Strongly Disagree

Statements	SA	A	U	D	SD
7. Clear goals and objectives are well stated in our budgets.					
8. The budgets guide in decision making about firms resources					
9. The budgets are used for accountability in the organization					
10. Budgets are aligned to the organization processes					
11. Are the organization priorities for the next period agreed during departmental meetings					

12. Are all the head of departments involved in the preparation of budgeting plans for the next period.					
---	--	--	--	--	--

SECTION C: MONITORING AND CONTROLLING

Kindly answer the statements by selecting the appropriate choice from the given options

SA=Strongly Agree, A=Agree, U=Undecided, D=Disagree SD=Strongly Disagree

Statements	SA	A	U	D	SD
13. Top Management meets frequently for reviewing budget implementation and financial results					
14. Analysis is done by making comparison between actual figures against the budget figures and variances are reported regularly					
15. We have procedures that guide budget execution					
16. The head of division/departments are charged with the responsibility of controlling the planned activities					
17. The spending on the operations of the organization is analyzed and reviewed by the top management					

18. Budget variances are reported to head of departments on regular basis for corrective action					
19. The head of departments makes corrections where there are adverse variances on the performance.					
20. The Chief executive and head of departments regularly monitors budgeted activities to ensure compliance					

SECTION D: PARTICIPATIVE BUDGETING

Kindly answer the statements given below by choosing any of the alternatives given. SA=Strongly Agree, A=Agree, U=Undecided D=Disagree SD=Strongly Disagree

Statements	SA	A	U	D	SD
21. I take part in the preparation of budget					
22. We are familiarized with the budget control processes					
23. The supervisors, lower-level managers, top managers make contribution to the budgeting making process					
24. The organization divisions/departments participate in the budgeting processes					
25. The budgets are communicated to all departments after approval by the Board of directors					
26. There is coordination of the budget implementation by the head of division/departments during the year					

27. Every department is tasked with coming up with departmental budgets which becomes the basis for Overall combined budget					
---	--	--	--	--	--

SECTION E: FINANCIAL PERFORMANCE

Kindly indicate the percentage performances during the last five years using the parameters below.

Financial year	2018	2019	2020
Performance indicators -Percentages (%)			
28. Net Operating Profit			
29. Return on Assets (ROA)			
30. Return on Equity (ROE)			

Thanks for the feedback

Appendix III Maps

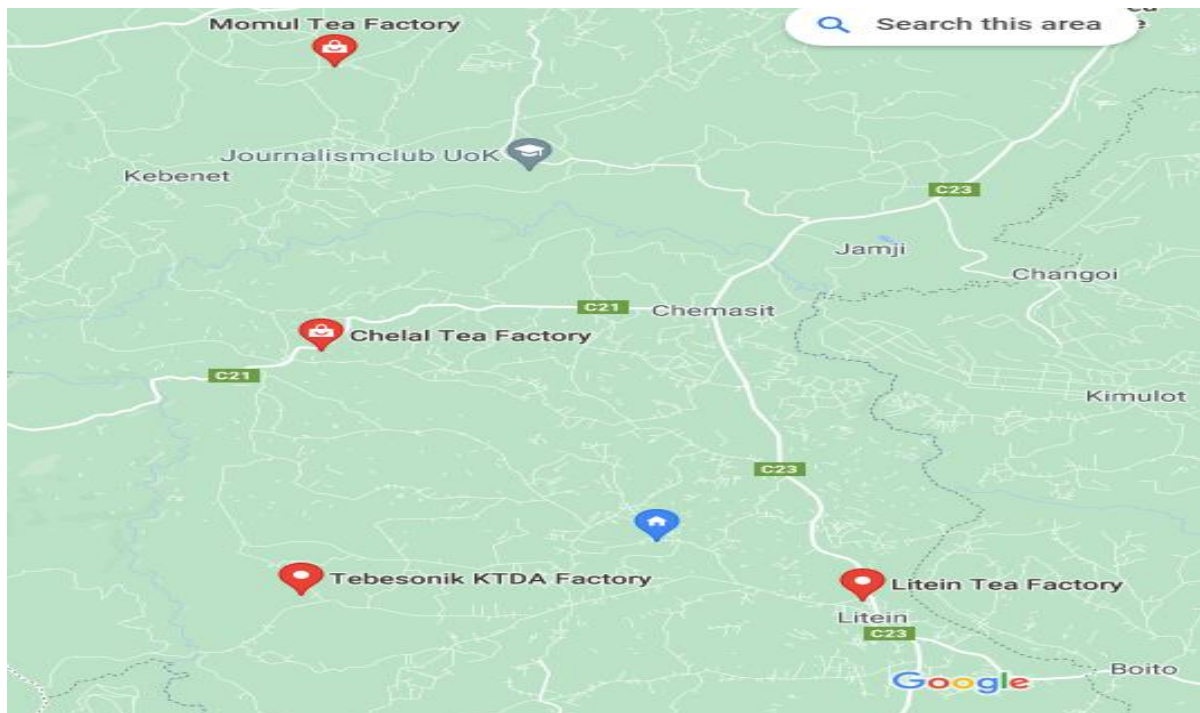
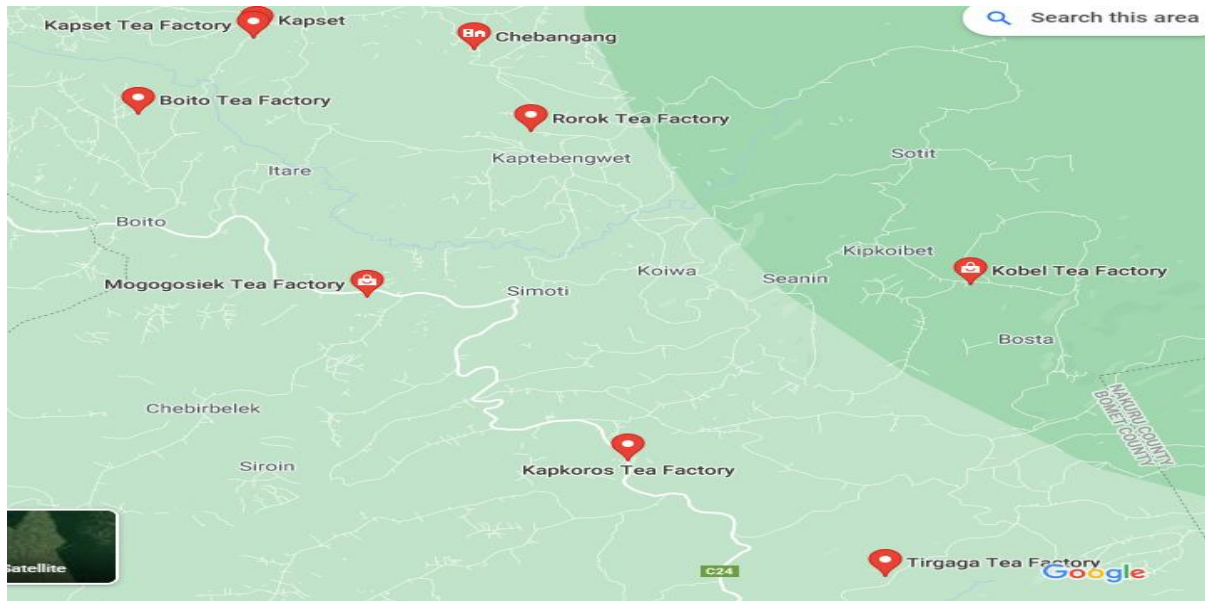
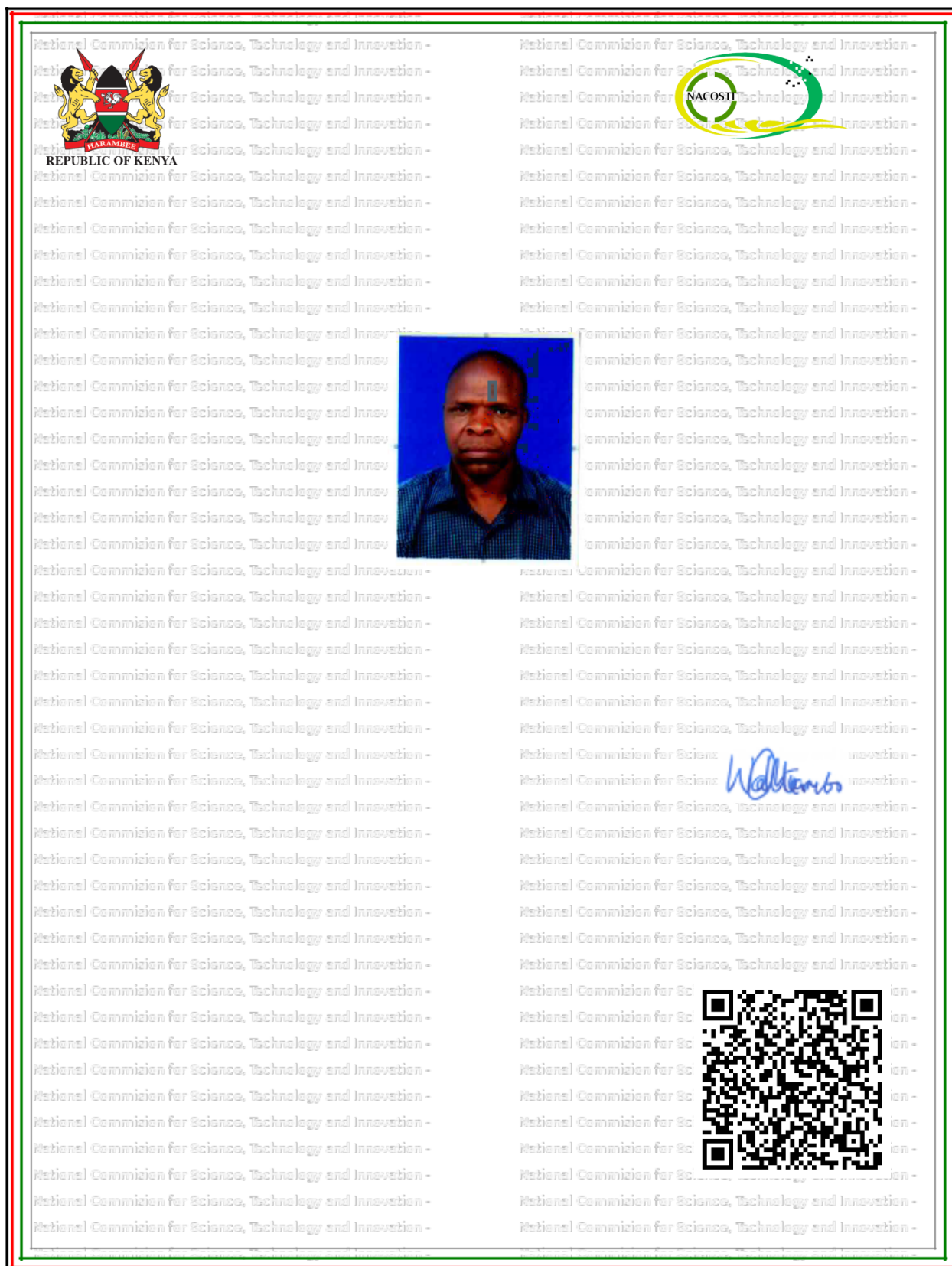


Figure 3.1: Maps of Bomet and Kericho counties, Source: Internet

Appendix IV National Commission for Science, Technology and Innovation



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**DOES BUDGETING PROCESSES AFFECT FIRM FINANCIAL
PERFORMANCE? EVIDENCE FROM TEA FACTORIES IN RIFT
VALLEY REGION, KENYA**

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Abstract

The tea sub-sector plays an important role in the economy of the country through employment to many Kenyans both directly and indirectly and contributes over 26 percent of the total foreign exchange earnings according Kenya's Economic. Nevertheless, tea factories in Kenya have had many problems ranging from the high manufacturing costs and other operating costs together with the declining global tea prices due to oversupply of tea to the world market and this results to low returns to the farmers. The purpose of the research was to established the relationship between budgeting process (independent variable) and financial performance (dependent variable) of tea processing factories. The study employed correlational research design as it enabled establishment of relationship between variables. The census survey method was appropriate as the sample size was small. The study targeted all the KTDA parent tea factories in Kericho and Bomet counties

with a sample of 96 respondents drawn from 7 factories. The study found that 52.1% of variations in financial performance was predicted by the dependent variables ($R^2 = 0.521$; $p < 0.05$). Specifically, there was positive relationship between budgeting process variables (planning, monitoring and control and participative budgeting) and financial performance and as indicated by $b = 0.299$ ($p < 0.05$), $b = 0.281$ ($p < 0.05$) and $b = 0.357$ ($p < 0.05$) respectively. The research findings may be used by policy makers in emphasizing the importance of budgetary control on companies' performances. Equally, the findings may serve as a basis for further research in similar field.

Keywords: Budgeting processes, Financial Performance, Rift valley, Kenya

1. Introduction

1.1 Background of the study

Budgeting process involves budgeting and budgetary control. Budgeting is an estimate of revenue and expenditure of organizations and of persons for specified future period and helps

improve the growth of businesses through effective and efficient management of resources. Budgetary control in a management control tool used to monitor and control the firm's expenditure for a given period on the basis of predetermined targets and if there are any variations of actual with planned expenditure, corrective actions are taken.

Globally, organizations build up diversity of systems and strategies to facilitate the planning and controlling of activities. Budgeting is part of these systems which is mainly used by tea factories in setting their targets that guide the execution of their functions. The actual results are compared with the predetermined targets and corrective measures are taken where deviations are not favorable (Abdullahi *et al.*, 2015). The tea production in Kenya is a major foreign exchange earner and thus a source of revenue to the government and the individual farmers in the tea growing areas (World Bank, 2013). In Kenya tea growing is practice in large scale and small scale (Kagira *et al.*, 2012). The small-scale tea farming is done by local farmers who are the shareholders of 54 factories and 15 satellite factories managed by Kenya Tea Development Agency (KTDA). The tea factories are owned by the farmers and collect green leaf and processed which are then marketed locally and internationally. The tea factories are faced with numerous problems ranging from the ever-increasing labour costs, electricity and firewood costs and other production costs (Ongong'a & Ochieng, 2013). The tea farming is also affected greatly by the farm inputs mainly fertilizers resulting in low returns to the farmers as the tea prices have been declining in the three consecutive years for instance in the year 2020 KTDA teas prices dropped to an average of USD 2.18 from USD 2.54 per kg recorded in 2019 (Business daily, Thursday 15 April 2021). The ever-increasing factory overheads which reduce payment to the farmers together with farm inputs such as fertilizers greatly affect the viability of tea farming (Kagira *et al.*, 2012).

To mitigate on the production costs, other operating costs and the effect of declining tea prices an effective and efficient budgeting process for optimal allocation of limited resources need to be adopted by the tea factories as this may help improve their performance. Budgeting is applied by organizations as a way of planning for the future activities. They are made for critical functions of organizations such as purchases, sales, production, labour resources, cash flow projections giving a comprehensive detail plan covering a period of one year. Budgeting is used to in monitor and control the activities of organizations so as to minimize variances, costs and improve operational efficiency (Alesina & Perotti, 2014). This may assist in making decision on whether to change the approach of running the business activities, or even revised the budget if it becomes unachievable due to unfavorable conditions. Budget motivates the management of the organizations to align their interest to that of the owners of maximizing their wealth and the long-term growth of the business. The degree to which this is executed will mainly rely on how well the spending plans were done, most importantly whether it is a participative budget in which case the employees are the owners of the budget as they know the detail content of the budget and all will work towards

accomplishing the set targets (Mulani *et al.*, 2013). Kelly (2015) opined that an organization budget process act as a motivating factor to the employees by having the employees participate in the entire process so that the activities are executed in an efficient and effective manner. It is imperative for firms who desire to achieve a competitive advantage to

have an effective budgeting and budgetary control system over their operations (Chenhall & Langfield, 2014).

In budgeting, predetermined goals are set and outcomes measured and timely corrective actions are executed where deviations occur (Nwoye, 2015). The budget process starts by generating budget assumptions for the plan period. These assumptions are aligned to projected sales volume and value trends, the related cost centres with the anticipated changes in the economic environment and industry changes. The underlying assumptions which might affect the related operating expenses are also agreed. Budgets are prepared for all the respective units of the tea factories by the Factory unit manager and the Factory accountants which is then submitted to the KTDA for reviewed and approval by the Board of Directors. The budgets once approved are implemented by the respective factories. Therefore, budget plays a critical role in decision making in any of the factories and there are several types of budgets which form part of the overall budget which includes Capital, Production, Marketing, Sales and Cash budgets. Capital budgeting involves the allocation of resources to major capital assets which generate revenue to the company and usually requires large amount of funds. Capital investment need thorough analysis as it involves many other activities associated with the asset and its viability must be critically analyzed to avoid huge losses in future. The techniques such as net present value; payback period is used to evaluate the viability of such project. The capital investments are taken to improve the shareholders' value in the future and are normally funded from the internally generated funds which are cheaper source of funding or external financing from borrowings where internal funds are inadequate. The production budget involves making estimates for production of goods in a given period based on the projected sales volume for the same period.

Obwaya, (2011) studied the relationship between participatory budgeting and performance of local authorities in Kenya, with a case study of Nairobi City Council just before the implementation of County Governments in Kenya. The study was conducted through a survey study with population of 44 respondents selected from the employees of Nairobi city council. Data was complemented by secondary data from published reports as well as descriptive data and analyzed by multiple

regression analysis. The study established a direct relationship between budget participation and performance with ($p \geq 0.05$). Further, the study found that, the indirect relationship between budget participation and performance running through job relevant information. The study therefore recommended that in order to avoid many obstructions, organizations should ensure that its budgetary participatory strategies are sufficient to enable budget implementation and management more efficient.

Budgetary control ascertained how well management of each tea factory have used the budget in monitoring and controlling the planned expenditures in the financial year. Budgetary control account for the revenue and expenses of different departments and each employee is held responsible for the various expenses incurred by those departments and each manager will be assessed based on its performance. A budgetary control system ensures that factories achieved results that are in compliance with the budgets (Kpedor, 2012). The analysis of budgets and

actualized amount assists managers of any tea factory to come up with any variances and take corrective actions so that planned objectives are realized.

The financial performance refers to the level of performance attained by a tea factory over a given period of time, expressed in terms of overall profits and losses during that time and usually assessed by use of ratios such as organization's liquidity ratios, efficiency ratios, profitability ratios, return on assets, and return on equity and leverages ratios. Performance gives an indication of the organization accomplishment of its objectives (Premchand, 2012). In the tea sector financial health status is of great significance as it enables tea factories to pay its creditors and other obligations as they fall due. This in away confirms the importance of budgeting which enables organization to forecast on the future and improve financial performance. It is therefore imperative for the organization to use budgeting process to allocate its resources for optimal results which increases the shareholder's wealth. Such budgetary control needs to be effectively organized due limited resources required to generate profits (Kpedor, 2012). Financial performance is therefore vital for the survival of firms (Isaboke & Kwasira, 2016). It is measured by use of return on assets (ROA) and returns on equity (ROE) (Siyanbola, 2013).

1.2 Statement of the Problem

The tea sub-sector plays a key role in the social-economic development in the country. It is among the best sectors which contributes a lot to the Gross Domestic Product (GDP) and it accounts to over 26% of the overall foreign income according to Kenya's Economic Outlook, 2018. Despite this, KTDA managed tea factories have recorded low returns in the past 3 years (KTDA report, 2021). The declined in tea prices together with high cost of production have resulted to low returns and greatly affected the economic activities in the tea growing regions since farmers depends mainly on income from tea production. To curb on the huge costs, the KTDA managed tea factories have instituted measures to improve on the production and operational efficiencies through tight budgeting and budgetary control for better financial performance. However, it is not clear whether these controls have yielded results owing to limited literature. Globally and locally, several researches have been done on various fields on the effect of budgeting and budgetary controls on the financial performance and the scholars gave different findings depending on the independent variables chosen. From the literature reviewed, it was evident that budgeting process have an impact on an organization's performance. Therefore, there is need to establish the relationship between budgeting processes adopted by KTDA managed factories within Kericho and Bomet counties and their financial performance.

1.3 Hypotheses

The study was guided by the following hypotheses;

- ix. ***H₀₁***: *There is no relationship between budget planning and financial performances in the selected tea factories.*
- x. ***H₀₂***: *There is no relationship between budget participation and financial performance of the selected tea factories.*

- iii. *H₀₃: There is no relationship between budget monitoring and controlling and financial performance for the selected tea factories.*

2. Methodology

2.1 Research Design

According to Chinedum (2014), research design is a set of procedures or techniques for the collection, measurement and analysis of data to find solutions to research questions. Research design as a process of giving solutions to research problems being investigated in a study. Correlational research design was adopted in the study in order to examine the budgeting processes in the tea firms. The correlational research design is useful in ascertaining the extent to which two or more variables are associated. In measuring such association, correlation coefficient statistic was used to establish the strength of the relationship. Further, multiple regression analysis was adopted to ascertain the extent to which the independent variables predicted the dependent variable. Data was cross-sectional as it was collected relating to the variables at one point in time rather than longitudinal. The adopted research design allowed the researcher to collect both qualitative and quantitative data and apply both descriptive and inferential statistics in analysis.

2.2 Population and sampling procedures

According to Odoh and Chinedum (2014), target population refers to the whole group of persons in a particular place to which researcher has chosen to conduct a study and to make a conclusion on the basis of data collected to the entire group. Singh and Masuku (2013), explained population as the entire group of objects or persons to which a conclusion will be made based on research findings. In the case of this study the entire population of the rank of the factory unit managers, the factory accountants, the procurement managers, the plant engineers, the factory sales managers and their assistants, supervisors or equivalents from the selected tea factories were the respondents from all the 7 tea factories in the two counties. There was a total of 96 employees in the mentioned categories of all the selected factories. Since the population of the study was fairly small and accessible the study adopted a census survey.

2.3 Data collection

Primary data was collected by use of self-administered questionnaire. Prior to actual data analysis, the questionnaire piloted with 10% of the target population size. The research instrument was scrutinized by panel of experts for consistency and validity. Reliability was ascertained by computing Cronbach alpha coefficient. The items which did not meet the threshold of at least 0.7 were dropped from the questionnaire.

2.4 Data analysis

Data analysis is the collection and organizing of data for purposes of research (Johnston, 2014). Data which was collected by use of questionnaires was edited for completeness and consistency and analyzed using Statistical Package for Social Sciences (SPSS) version 26 computer

Packages. Inferential statistics applied were the correlation and regression analysis. Correlation analysis was applicable in the determination of the relationship between the variables while the linear regression analysis was used to determine the extent of associations between the independent variables (budgeting process) and the dependent variable (financial performance). The reason for selecting regression technique is that, regression will normally give better results in testing the correlation between two or more variables than other statistical methods.

The study will apply the following regression model

$$\text{Model } Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Given that Y = Firm's performance, X_1 = Planning, X_2 = Monitoring and Control,

X_3 = Participative Budgeting, β_0 = Constant, β = Coefficient of independent variables, and ε = error term

3. Results

Correlation between variables is a measure of how well the variables are linearly related. The correlation coefficients results are between -1 and 1. A result of -1 means that there is a perfect negative correlation between the two values, while a result of 1 means that there is a perfect positive correlation between the two variables. Result of 0 means that there is no correlation between the two variables (Gujarat, 2004).

Pearson correlation coefficient was used to examine correlation between Planning, participative Budgeting, Monitoring and Control and Financial performance. The analysis is shown in the Table 1

Table 1: Correlations

	P	MC	PB	FP
P				
Pearson Correlation	1			
Sig. (2-tailed)	0.001			
MC				
Pearson Correlation	.195**	1		
Sig. (2-tailed)	.009			
PB				
Pearson Correlation	.194**	.394**	1	
Sig. (2-tailed)	.010	.000		
FP				
Pearson Correlation	.315**	.221**	.439**	1
Sig. (2-tailed)	.000	.003	.000	

**. Correlation is significant at the 0.05 level (2-tailed), N = 78

P = Planning, MC= Monitoring and control, PB=Participative Budgeting, FP= Financial Performance

Source: Researcher (2021)

As shown in table 4.12 there was significant relationship between Planning and Financial performance since it had a Pearson Correlation of ($r=0.315$, $p = 0.000$), Monitoring and Control had a significant positive relationship with financial performance delivery since it had a Person Correlation of ($r =0.221$, $p = 0.003$), Participative Budgeting had significant positive relationship

with financial performance since it had a Person Correlation of ($r=0.439$, $P < 0.000$). The correlation between the independent variables suggests absence of the existence of multicollinearity.

Table 2: Model Summary of Budgeting process and financial performance

Model	R	R ²	Adjusted R ²	Std. Error	Significance
1	0.722 ^a	0.521	0.489	0.1491	0.000

Predictors: Budgetary Planning, Monitoring and control, Participatory budgeting

Dependent variable: Financial performance

N=78

Source: Survey Data, 2021

Table 2 shows results from the regression model summary used to establish the relationship between budgeting process and financial performance of selected tea processing factories. According to the results, R² value is 0.521 indicating that the independent variable explains 52.1% of the variation in the dependent variable and only 47.9% of the variation is explained by other factors which are beyond the scope of the study. These results are significant at 95% confidence level ($p < 0.05$). The model also reveals a strong positive relationship between budgeting process and financial performance ($R^2=0.521$). The small shrinkage of only 0.032 ($0.521-0.489$) between the R squared and adjusted R – squared indicates that addition of variables in the regression model did not compromise the model fit. Field, (2010) suggests that such shrinkage should not exceed 0.075.

Table 3: Coefficients

Model Summary

	Unstandardized		Standardized	T	Sig.i
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	0.438	1.305		7.072	0.000
Planning	0.299	0.084	0.261	3.61	0.001
Monitoring and Control	0.281	0.094	0.231	3.115	0.003
Participative Budgeting	0.357	0.089	0.262	4.019	0.000

Source: Researcher 's Calculations from the Survey Data, 2021

Based on the results from the regression analysis, it was established that selected budgetary process on financial performance accounts to 52.1% of the variance in the financial performance. It can be deduced that planning has an impact on financial performance of selected tea estates as a unit increase in planning holding other factors constant would lead to an increase in financial performance by 0.299. Monitoring and control have a positive impact as frequent monitoring and

control have an impact on financial performance and a unit increase would lead an increase in financial performance by 0.281 holding other factors constant.

The results further show that participative budgeting improves financial performance of an organization and therefore an important aspect that organization should consider it crucial as a unit increase would result in an increase in financial performance by 0.357. This indicates that budgeting process variables have a positive effect on the financial performance of the tea processing factories. This finding was consistent with the findings of Obwaya, (2011) which established that the relationship between participatory budgeting and performance of local authorities in Kenya, was positive and significant. Further, the study found an indirect relationship between budget participation and performance running through job relevant information. The study therefore recommended that in order to avoid many obstructions, organizations should ensure that its budgetary participatory strategies are sufficient to enable budget implementation and management more efficient. The findings further shows that the t statistics for the variables $t=3.61$ for planning, $t=3.115$ for monitoring and control and $t=4.019$ for participative budgeting with all the t statistics being higher than 1.96 and p values of less than 0.05. This indicates the independent variables are statistically significant in influencing performances of the tea factories. The results were consistent with the findings by Maziriri (2017), Lius (2015), Maas et al., (2016) and Pimpong and Laryea (2016).

4. Discussion

Based on the findings, the study reached specific conclusions. First, following the finding that Decision making and accountability (measures of budgetary planning) had a positive significant relationship with financial performance implies that a unit increase financial performance can be enhanced by having a well-structured budgetary planning.

Secondly, the results for the second specific objective of this study on relationship between budgeting process aspect of budget participation and financial performance of selected tea factories in Kericho and Bomet counties showed that three variables were significant. The study hence concluded that participatory budgeting is an important predictor of successful budgeting hence improvement of firm performance. From this finding, the study further concluded that budget participation aspect such as training of employees, employee commitment and budget skills competency influences financial performance.

Regarding the third specific objective in which the study found that the relationship between budgeting process aspect of monitoring and control and financial performance of selected tea factories in Kericho and Bomet counties was positive and significant, the study concluded that frequency of monitoring and evaluation enhances firm performance. Therefore, in conclusion the estimated results of this study rejected the third null hypothesis that there was no relationship between budgeting process aspect of monitoring and controlling and financial performance for the selected tea factories

The following recommendation were made on the research findings and conclusions. Budgeting process aspect of planning of selected tea factories in Kericho and Bomet Counties have a

significant effect on financial performance. The study recommended that tea factories be empowered with the most efficient method of planning for effective budgeting. The empowerment on budgeting process should enable them identify issues that the organization should manage and help them adjust to improve the financial performance. It was recommended that tea factories to ensure budgetary control in their enterprises to improve financial performance in the organization. The tea factories should become more conscious on budgetary control through constant search for more effecting budgetary process relevant for the organization. It was also recommended that business mentorship should be carried out by relevant government ministries to enhance tea factories operators the capacity to use effective budgeting system to control their operations. Through stakeholders' involvement such as financial institutions to have capacity to foresee and overcome financial problems for effective performance in the business.

It was also recommended that tea factories be empowered to be able to keep proper records for performance appraisal both for financial and non-financial operations. Recommendation was made that tea factories be empowered through couching on performance measurement system for effective operations appraisals for effective financial performance. The study utilized correlational research design that was based on a KTDA factories. In future research, the use of panel models should be considered where panel data permits. Also, future study that explores other functional forms and compares the findings with those of this study would inform the growth of literature in the accounting and development economics.

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