**EFFECTS OF BUDGETING ON FINANCIAL PERFORMANCE: A STUDY OF SELECTED MANUFACTURING FIRMS IN KINONDONI DISTRICT, DAR ES SALAAM TANZANIA**

**ASANTINA YOLLA SEBASTIAN**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF PROJECT MANAGEMENT OF THE OPEN UNIVERSITY OF TANZANIA**

**2018**

# **CERTIFICATION**

The undersigned certifies that he has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation entitled: “Effects of Budgeting on Financial Performance: A Study of selected Manufacturing firms in Kinondoni District Dar es salaam Tanzania”, in partial fulfillment of the requirements for the award of a Degree of Master of Project Management (MPM) of the Open University of Tanzania.

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Dr. Salvio Macha

(Supervisor)

…………………………………

Date

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# **DECLARATION**

I, Asantina Yolla Sebastian, do hereby declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

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Date

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# **DEDICATION**

My grateful thanks to my late mother, Donasiana Mwasu, for facilitating my primary and secondary education. She always reminded me that education is the best asset a woman can possess.

Special thanks to my lovely husband, Sebastian John Shana, who has been a pillar of strength on which I can lean any time. Many thanks for his moral support and affection. Also, my sincere thanks to my beloved children; Jimmy, Mose and Mika for their patience and tolerance for enduring my absence as I worked on this study. You will always remain a piece of joy and inspiration.

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Lastly, I would like to thank all selected manufacturing companies for this study and all who took their time to fill in my questionnaires.

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# 

# **ABSTRACT**

This study intended to examine the effects of budgeting on financial performance of manufacturing firms in Kinondoni district Dar es Salaam Tanzania. A descriptive research design was adopted. A sample of 75 respondents from selected manufacturing firms was employed. Purposive sampling was used to select seventy five (75) respondents (managerial staffs) from selected manufacturing firms. Self-administered questionnaire composed of closed ended questions, open-ended questions and five point likert scale questions were used to collect data from seventy five (75) respondents. Data were analyzed descriptively using SPSS version 20. The findings indicated that more formalized budgeting planning leads to higher sales revenues. Secondly; the results revealed that formalized budgetary control leads to a higher growth of profit of a firm.It was also found that the formal budgeting planning and the formal budgetary control show different patterns in terms of their effect on financial performance. The formal budgeting planning has a stronger impact on the growth of sales of manufacturing firms, compared to the formal budgetary control. However; its impact on the growth of profit becomes very weak compared to formal budgetary control. It was recommended that manufacturing firms need to establish a strong link between the planning and control processes and the budget process. Companies need to adopt a medium term plan to define priorities for their daily tasks.

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# **LIST OF ABBREVIATIONS**

ABB Activity Based Budgeting

ABC Activity Based Costing

ABM Activity Based Management

ACCA Association of Charted Certified Accountants

BP Budgetary Participation

BPP Budget Participation and Performance

CIMA Charted Institute of Management Accounting

DSE Dar es salaam Exchange Stock

DWS Durbin Watson Statistics

DWT Durbin Watson Test

EFA Explanatory Factor Analysis

FBM Faculty of Business Management

FP Financial Performance

HQ Head Quarters

IAA Institute of Accountancy Arusha

IFM Institute of Finance Management

LSC Lilliefors Significance Correction

MPM Master of Project Management

OLS Ordinary Least Square

OUT Open University of Tanzania

RG Revenue Growth

ROA Return on Assets

ROE Return on Equity

ROI Return on Investment

SME Small and Medium Enterprises

SPSS Statistical Package for Social Sciences

SWT Shapiro Wilk Test

VIF Variance Inflation Factor

VBB Value Based Budget

ZBB Zero Based Budgeting

WWW World Wide Web

# **CHAPTER ONE**

# **1.0 INTRODUCTION**

## **1.1 Background to the Study**

The subject of Financial Performance (FP) has received significant attention from scholars in various areas of business and strategic management. Financial performance has implications on an organization’s health and ultimately its survival (Onduso, 2013). Financial performance is referred to as the degree to which financial objectives are being or have been accomplished. Extensive literature regarding the firm’s objectives, places much emphasis on the maximization of shareholder’s wealth. Managers are thus concerned about maximizing shareholder’s wealth as it connotes future prospects, reflects steady growth, and provides a risk shield. In order to achieve this, Naser and Mokhtar (2014), argue that high performance reflects management effectiveness and efficiency in making use of company’s resources

Generally, firms operate using several resources including financial, human, capital and others. Financial resource is one of the key elements in achieving organizational objectives and goals (Drury, 2008). However, in order to achieve the objectives the budget has to be prepared effectively and adhered to. According to Hongreen (2007) a budget is a quantitative expression of a plans and the process of converting plans into budget is known as budgeting. Budget is one of the most widely used tools for planning and controlling business organization (Lazaridis, 2014). The budgeting process may be quite formal in a large institution with committees set up to perform the tasks. On the other hand in a very small firm the owner may write down the budget on a piece of paper or just budget in his head about the items he can remember easily.

A properly managed budget can promote sustainable profits in many business organizations. The actions that follows managerial decisions normally involve several aspects of business, such as the marketing, production, purchasing and finance functions, and it is important that the management should coordinate these various interrelated aspect of decision-making. If the management fails to do this, there is danger that managers may each make decisions that they believe are in the best interests of that organization when, in fact, together they are not; for example, the marketing department may introduce a promotional campaign that is designed to increase sales demand to a level beyond that which the production department can handle. The various activities within a company should be coordinated by the preparation of plans of actions for future periods. These detailed plans are usually referred to as budgets (Drury, 2008).

Budget is among the major tools for implementation of the objectives and policies of the organizations. In other words budget provides the basis for decision making in the organization. Budgeting plays importance not only to organizations but also to individuals on how to spend in relation to the resources available. Further, budgets play other managerial roles such as planning, controlling, communication and motivation. A well formulated budgeted system enables the organization to reach its goals more successful (Drury, 2008).

The rapid changes in today’s business environment render a rigid approach to budgetary control obsolete. It is no longer helpful to compare actual results to that forecasted anything up to 15 Months previously (Pandey, 2002). He argues that amongst the requirements of a more appropriate system, would be the building in of accountability to explain the differences between actual and planned performance. This demands a more immediate time frame of information reporting. Thus, there is a need to integrate strategic management and budgeting. These authors conceptualized that to be effective, budgets must be aligned with the Organization’s strategies, appropriate strategic planning, and performance management processes introduced, and must involve processes that are value based, consequential and Continuous.

The work of Arora (2010) could be viewed as further contributions to the above stand point as he recognizes the need for organizations to integrate strategic management and budgeting. What seems rather unfortunate according to Arora (2010) is the fact that most organizations still treat the budgeting and strategic management processes separately and also, a significant portion of small and medium-sized enterprises do not engage in strategic planning. Therefore the aim of this research work is to examine the effects of budgeting process in manufacturing firms in Dar es Salaam Tanzania.

## **1.2 Statement of the Research Problem**

Budgets play effective role in achieving organizational strategic goals, in this sense budgets are ways through which one can reach the goals set (Drury, 2008). In budget development process one tries to foresee whether strategic goals can successfully reached or not. Budgets set standards to achieve goals and can help in evaluating the fluctuations occurring during the year and try to ascertain the reasons from deviating from achieving the defined goals.

Different organizations have different goals. For example increasing number of customers (Tabachnick, 2015), increasing net profit (Trevor, 2014), increasing quality of services provided and improving performance to a certain better level (Upadhaya, 2014). Organization resources need to be employed so as to enhance its achievement. Thus budgeting is thus vital to any organization that needs to progress positively. High performance in organizations reflects management effectiveness and efficiency in making use of company’s resources and this in turn contributes to the country’s economy at large (Naser and Mokhtar, 2014).

The effect of budgeting on firms’ financial performance has been studied in various countries across the world. For example, worldwide Subramaniam and Ashkanasy (2011); Swieringa and Moncur (2013), in Africa Onduso (2013) and Mohammed (2013). However, according to researcher’s knowledge, not much research has been covered in the area of manufacturing firms in Dar es Salaam Tanzania. Whereas Kenis (2012) supported the argument that budgeting is positively and significantly associated with performance, Milani (2011) found that there is a weak positive association between budget and performance. With reference to the ambiguities arising in previous studies as well as the absence of extensive research in this area of study in Tanzania, this research seeks to find out the effect of budgeting on financial performance of manufacturing firms in Dar es Salaam Tanzania.

## **1.3 Research Objetives**

### **1.3.1 General Objective**

The general objective is to examine the effects of budget processes on financial performance of manufacturing firms in Tanzania.

### **1.3.2 Specific Objectives**

The study was guided by four objectives namely,

1. To examine the influence of formalized budgeting planning on the growth of sales revenues in manufacturing
2. To examine the influence of formalized budgeting planning on the growth of profit of manufacturing firms in Tanzania
3. To analyze the influence of formalized budgetary control on the growth of sales revenue of manufacturing firms in Tanzania
4. To examine the influence of formalized budgetary control on the growth of profit of manufacturing firms in Tanzania

## **1.4 Significance of the Study**

The findings of the study are expected to contribute on improvement of performance of organizations in the future by critically analyzing how effective the budgeting process can be in achieving organization goal. The findings from the study are expected to be useful to the organization by enhancing the attainment of the organization goal through the timely budget processed by the organization as this will enable the forward movement of the organization and its growth.

The study findings would be important to the management as it portrays the major challenges facing their organization in budgeting. Also the organization could improve their effectives and efficiency by implementing best practices and improving the relationship with their subordinates in organization daily activities towards attaining same goals. The management could also use the study findings to help detecting weaknesses that may arise in budgeting process. Finally the study has significance to the researcher by having exposed by undertaking investigations in this fertile area of research. The experience obtained will act as capacity building platform that could provide impact in terms of carrier development and provide database for learning purposes in various institutions.

## **1.5 Scope of the Study**

This research examined budgeting processes of the selected manufacturing firms in Kinondoni, Dar es Salaam in Tanzania. The study was carried out within a period of six months.

## **1.7 Organisation of the Study**

Chapter one of this study introduced the background of the study, statement of problem, the objectives of the study and significance of the study and the scope of the study. Chapter two presents a review of literature and relevant research associated with the problem addressed in this study. The study is supported by literatures from different researchers from different areas within and outside the country. It will also present the research gap and conceptual framework. Chapter three presents the methodology that is used in this study and which comprises the research design, area of the study, population of the study, sample size and sampling design, sources of data, data collection tools, reliability and validity of data, data analysis and data analysis procedures. Chapter four presents research findings/results and discussion. This is followed by chapter five which covers summary of the main findings, conclusion, recommendations and areas for future studies.

# **CHAPTER TWO**

# **2.0 LITERATURE REVIEW**

## **2.1 Overview**

This chapter presents the literature review related to the topic under study. The purpose of this chapter is to review different studies and views from other researchers and authors, their theories and problems they face in order to add knowledge and familiarize the researcher about the problem being studied. This chapter gives the theoretical base of the study and explains what has already been done by other researchers in the similar field. It specifically reviews literature concerning the performance of different firms in relation to budgeting. In this chapter various conceptual definitions are given, followed by theoretical literature review, empirical literature review, research gap and the chapter will end up with conceptual framework.

## **2.2 Conceptual Definitions**

### **2.2.1 Budget**

Lucey (2002) defined budget as a quantitative statement, for a defined period of time, which may include planned revenues, expenses, assets, liabilities and cash flows. A budget provide a focus for the organization, aids the co-ordination of activities and facilities control. Planning is achieved by means of a fixed master budget, whereas control is generally exercised through the comparison of actual costs with a flexible budget. Saleemi (1990) defines budget as a financial or quantitative statement prepared and approved prior to a defined period of time. It may include income, expenditure and the employment of capital. Drury (2008) defined budget as a detailed plan that coordinates various activities within the company for further actions. Hongreen (2007) defined budget as a quantitative expression of plan of action and an aid to the implementation of this plan.

### **2.2.2 Budgeting Processes**

According to Drury (2008) a budget is a detailed and quantitative plan which shows the information about the acquisition and use of financial and other resources over a specific time period, either along-range period (two-to ten-year) or a short-term period (one-to two-year, or monthly, or daily-based).Hongreen (2007) contended that budgets require management to specify expected sales in the case of a market organization, cash inflows and outflows, and costs. Budgets provide rational and tangible data facilitating and enabling decision-making of organizations. Instead of expressing a budget as a statically financial plan or blueprint, the term “budgeting” refers to the act of preparing a budget or the activities of predicting and qualifying future requirements for finance (Garisson,etal.,2013).

In theoretical management accounting literature, some theorists (e.g.Drury,2008; Joshi,2013; Garrisonetal.,2013) believe that through budgeting in the process of financial decision-making and internal operation of organization, multiple functions regarding budgeting behavior can be achieved. These functions are planning, coordinating, communicating, control, and evaluating. If administered wisely, budgeting can do the following: compels management planning, provides definite expectations that are the best framework for judging subsequent performance, and promotes effective communication and coordination among various segments of the organization (Horngreen, 2007).

### **2.2.3 Budgetary Planning**

Budgeting planning (budget-setting or budget preparation) refers to developing quantitative goals of the organization and preparing various budgets (Bodie and Merton, 2010). Business organizations use long-term budgets to layout the planned financial goals and actions over periods ranging from two to ten years. Long- term budgets are part of an integrated business strategy that along with production and marketing plans, guides the firm toward strategic goals (Gitman, 2016).Capital budgets, as one example of long-term budgets, is emphasized in financial accounting and budgeting literature. Budgetary processes refer to the budgeting approaches that have been adopted by various organizations to achieve various goals.

### **2.2.4 Budgetary Control**

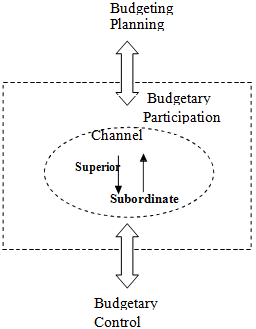
Control, briefly, is the process of ensuring that a firm’s activities conform to its plan and that its objectives are achieved (Drury, 2008).The mechanism of budgetary control can be dated back to the contribution of Anthony (2009) on management control. In Anthony’s framework, control activities in an organization are categorized into three major types, namely strategic planning, management control and operational control.

Management control is the process that links strategic planning and operational control. As we have mentioned before, strategic planning is concerned with setting overall corporate strategies and objectives over the long-term; it belongs to one kind of long-term planning. Operational control is the process of ensuring that specific and immediate tasks are carried out. A budgetary control is a system of controlling costs through preparation of budgets. According to Drury (2008) budgetary control as the establishment of budgets relating to the responsibility of executives of a policy and the continuous comparison of the actual with the budgeted results, either to ensure by individual action the objective of the policy or to provide a basis for its revision.

Batty (2013) found in Sharma and Gupta (2010) argue that budgetary control is “A system which uses budget as a means of planning and controlling all aspects of producing and or selling commodities and services,” While Welsch (2010) in Sharma and Gupta (2010) defined budgetary control as the use of budget and budgetary reports throughout the period to co-ordinate, evaluate and control day operations in accordance with the goals specified by the budget”. Charted Institute of Management Accounting (CIMA) has defined budgetary control in the following words “The establishment of departmental budgets relating the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with budgeted results either to secure by individual action the objectives of that policy or to provide a firm basis for its revision”. The indicator of a formal budgeting process in Wijewardena and De Zoysa’s model is the presence of written budgets, the specification of operating budget, and the frequency of calculating budget variances and taking corrective actions.

### **2.2.5 Budgetary Participation**

Another crucial benefit of the budgeting process, not to be ignored, is the sharing of information (Hopwood, 1976; Parker and Kyi, 2006) between organizational members. McLaney and Atrill (1999) argue that the value of the budget as a plan of what is to happen and as a standard against which actual performance will be measured, depends largely on whether and how skillfully this negotiation is conducted. When setting a budget, members of the organization are supposed to participate in defining explicit budgetary goals and to be involved in subsequent revisions to these goals with the management (Chalos and Poon, 2000). And when budget variance(s) occurs, participation and discussion among different levels of management facilitate and enable accurately identifying the possible reasons for such variance(s) and also the corresponding corrective actions to be taken. Therefore, budgetary participation (BP) refers to the involvement of managers in the budgetary process and their influence over the setting of budgetary targets (Subramaniam and Ashkanasy, 2011).



**Figure 2.1: Participation in Budgeting Process**

**Source:** Subramaniam and Ashkanasy (2011).

Budgetary participation has always received considerable interest among researchers. It can be regarded as a negotiation channel linking the communication especially between superiors and subordinates (Shields & Shields, 1998). Numerous scholars state that through budgetary participation, information sharing can be accomplished. For example, Poon (2001) states that budgetary participation provides a setting in which managers can exchange information and ideas to make budgetary planning and control more effective.

#### 2.2.5.1 Budgetary Participación and Performance

The relationship between budgetary participation and performance (referred to as BPP) has been studied closely by many researchers (Becker and Green,1962;Brownell,1981; Birnberg and Shields,1989;Gul *et al*.,1995;Magner *et al*.,1995;Tsui,2001).Generally, there are two major conceptual models linking budgetary participation with performance in current management accounting literature. Firstly, psychological theories (e.g.,Murray,1990) state that the opportunity given to subordinates through participation (the upward information sharing) in budgeting process can stimulate their motivation and commitment with budget-setting, which in turn improves the subordinates’ job satisfaction and performance (Brownell and McInnes,1986;Chenhall and Brownell, 1988;Kren,1992).

Shields and Shields (1998) also explore budgetary participation and performance relationship from a psychological aspect. They state that participation enhances a subordinate’s trust, sense of control, and ego-involvement with the organization, which then leads to more acceptance of, and commitment to, the budget decisions, in turn causing improved performance. Secondly, the BPP relationship is also explained from a cognitive point of view. It states that, through budget participation (the downward information sharing), subordinates gain information from superiors that helps clarify their organizational roles, including their duties.

#### 2.2.5.2 Formal Budgeting Process

Budgeting has many aspects according to different identifications and classifications. However, this study focuses on one aspect of budgeting i.e. the formal budgeting process. Rue (2009) first defines the “planning formalization” referring to the completeness of the planning process used by the organization. By examining the planning practice of 386 small and medium-sized enterprises in manufacturing and service sectors, firms are accordingly classified into four classes: the first class is “no plan or documented plan” used in firms; the second class refers to those firms which have a “written plan covering at least three years in advance and including specification of goals and objectives” and those firms use long-range strategies; all firms in the third class must reach the criteria in the second class,

Additionally, those firms are also responsible for making “the determination of resources required in the form of pro forma financial statements and other quantitative projections”; firms in the final class are involved in procedures for anticipating or detecting errors in, or failures of, the plan for preventing or correcting them on a continuing basis, and some attempt to account for factors outside of the immediate environment of the firm. Subsequent researches (Robinson and Pearce, 2011; Bracker and Pearson, 2012; Berman, *et al*., 2014; Rue and Ibrahim, 2015) further develop classification schemes of formalized planning in small and medium organizations. However, the most common indicators of a formal planning process are the presence of a written long-range plan covering at least three years, the formulation of goals and strategies, and some method for evaluating progress toward the plan.

#### 2.2.5.3 Value Based Budgeting

This is a formal and systematic approach for managing the creation of shareholders value over time. All expenditure plans are evaluated as project appraisals and assessed in terms of the shareholders value they will create. This helps to link strategy and shareholder value to planning and budgeting.

#### 2.2.5.4 Zero based Budgeting (ZBB)

According to Lucey (2002) Zero Based Budgeting (ZBB) also called priority based budgeting, requires all activities to be justified and prioritized before decisions are taken relating to the amount of resources allocated to each activity. Zero based budgets are complied as if the programmers were being launched for the first time on the basis of cost benefit analysis.

#### 2.2.5.5 Activity based Budgeting (ABB)

Adams *et al* (2003) contended that Activity Based Budgeting (ABB) is similar to Activity Based Costing (ABC) and Activity Based Management (ABM). It involves planning and controlling along the lines of value adding activities and processes. Resource and capital allocation decisions are consistent with ABM analysis, which involves structuring the organization’s activities and business processes so that they better meet costumers and external need. ABB can be applied in all industries and functions, including services industries and overhead functions. It also can be used in manufacturing. It is really a management process, operating at the activity level, for continuous improvement on performance and costs (Wilhelmi and Kleiner, 1995).

The key features of ABB include: a planning process linked to the organization’s strategic objectives, a use of well-proven activity analysis techniques-the heart of all activity based systems, identification of cost improvement opportunities, analysis of discretionary spending options and priority ranking, establishment of performance targets for control, integration with activity planning and accounting to provide effective control, a participative process to control and sustain continuous improvement. The benefits of ABC are that it highlights the cost of activities, puts resource allocation in the context of rising/falling activity levels, encourages new thinking; how can the activity be carried out more effectively (process improvement),links to TQM (Total Quality Management) programmes, as the activity cost can be related to the service level achieved. Facilitates cost cutting by taking the activity level into account, thus making cost targets more realistic to achieve, enables trend analysis and benchmarking of costs to take place, can be used for day-to-day operational control.

According to Horngreen (2007), ABB involves defining the activities that underlie the financial figures in each function and using the level of activity to decide how much resource should be allocated, how well it is being managed and to explain variances from the budget. ABB recognize that, it is activities, which drive costs, and the aim is to control the causes of costs directly rather than the costs themselves. According to Hanley (1990), ABB involves the programmed plans that focus on the end objective and the gross categories of output. That is overall goals and objectives are established first, followed by identification of programmes necessary to achieve the desired objectives and expected benefits. All programmes to be vanished are ranked and select the least cost programme to accomplish, “the programme with lower cost will be undertaken.”

### **2.2.6 Budget Guideline**

The Budget guidelines present the macro-economic assumptions and forecasts at the time when the budget is prepared, procedures for preparation of the budget, the outline of the information required for budget preparation, budget ceiling and floors for the departments, and the organizational policies, authorities and responsibilities in budget preparation. Firms in Tanzania have to make sure that their budgets are prepared in accordance with the guidelines.

### **2.2.7 Operational Budget**

These include revenue or sales budget, production budgets, direct labors cost budget, direct material purchase budget, manufacturing overhead budget, choosing stock budgets, cost of goods sold budget, marketing cost budget, distribution cost budget and administrative budget.

### **2.2.8 Functional Budget**

### These include budgeted profit and loss account, budgeted balance sheet, cash budget and budgeted statement of cash flow.

## **2.3 Financial Performance and its Measurement**

### A well designed and implemented financial management is expected to contribute positively to the creation of a firm’s value (Padachi, 2016). Dilemma in financial management is to achieve desired trade- off between liquidity, solvency and profitability (Lazaridis, 2014). The subject of financial performance has received significant attention from scholars in the various areas of business and strategic management. It has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization’s health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company’s resources and this in turn contributes to the country’s economy at large (Naser and Mokhtar, 2014).

### There have been various measures of financial performance. For example return on sales reveals how much a company earns in relation to its sales, return on assets determines an organization’s ability to make use of its assets and return on equity reveals what return investors take for their investments. The advantages of financial measures are the easiness of calculation and that definitions are agreed worldwide. Traditionally, the success of a manufacturing system or company has been evaluated by the use of financial measures (Tangen, 2013).Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business.

### Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. Solvency measures the amount of borrowed capital used by the business relative the amount of owner’s equity capital invested in the business. In other words, solvency measures provide an indication of the business’s ability to repay all indebtedness if all of the assets were sold. Solvency measures also provide an indication of the business’ ability to withstand risks by providing information about the operation’s ability to continue operating after a major financial adversity (Harrington and Wilson, 2013).Efficiency analysis deals with the relationships between inputs and outputs.

### Because inputs can be measured in both physical and financial terms, a large number of efficiency measures in addition to financial measures are usually possible (Tangen, 2013). Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business. Four useful measures of profitability are the rate of return on assets (ROA), the rate of return on equity (ROE), operating profit margin and net income (Hansen and Mowen, 2005). Repayment capacity measures the ability to repay debt from both operation and non-operation income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure. The short-term ability to generate a positive cash flow margin does not guarantee long-term survivability (Jelic and Briston, 2011).

### **2.3.1 Effects of Budgets on Financial Performance**

Without losing its control and accountability mechanisms, modern budgeting can better support performance management by integrating known financial outcomes with frequent re-forecasting of the budget and linked to analysis of performance trends. A manufacturing firm’s financial performance management reporting systems will draw on a number of information sources and reflect the range of stakeholder and departmental perspectives (Melekker, 2007). There are a variety of approaches to developing the performance metrics and the reporting of performance. But without integration of the financial resources consumed, the firm cannot measure value for money or make informed choices about future resourcing and service priorities.

One way in which the in-year operational performance and financial information can be integrated more closely is to develop a system which encourages the issues to be considered together and to develop management reports that provide a rounded picture (Hansen and Mowen, 2005).Manufacturing firms should develop an approach that consciously attempts to consider the financial and non-financial processes together. A key feature is that before any review of the financial variances takes place, the firm asks questions about the expected position, based on the understanding of what has happened, what happened that was unexpected and what planned events did not take place.

The best management reports detail what has happened and what is expected to happen in the future. The accounts and report provide the information needed to take any corrective action required. Such action needs to take place for the firm as a whole, so it is important that all areas are covered. This implies that the operational data and financial data are presented together in a comparable and consistent form (Kariuki, 2010). It also implies that risk and other aspects of performance are reported along with the financial headlines. The risks are thus quantified financially and uncertainty in the financial forecasts is made explicit. Some firm have found it helpful to present a regularly updated board-level report of risks and opportunities, in which the main possible financial up- and downsides are shown alongside each period’s forecasts. This permits focus on a range rather than a spot forecast (Horngreen, 2007).

Where big deviations from budget have occurred, it may be necessary to formulate and report on a recovery plan alongside the routine budget profile. Getting the reporting framework right is critically important so that the Board has the full picture on which to base its decisions. It ensures that everyone is considering issues within the context of a consistent reporting template and using a consistent language. For management it brings the benefit that a common framework for reporting can enhance co-operation between the operational managers and the finance function (Engler, 1995).

## **2.4 Theoretical Literatura Review**

The theory which guided this study is goal setting theory propounded by Locke and Latham.

### **2.4.1 Goal Setting Theory (Locke and Latham: 1990 - 2002)**

Locke and Latham (1990-2002) developed a goal setting theory within industrial organization psychology over a 25 year period based on some 400 laboratory and field studies. According to Locke, goal setting is effective on any task where the person has control over his or her performance. The question was: How do you get goal commitment? The initial belief was: through participation. Participation in decision making was a popular topic of study following World War II.

Locke (1968) predicted that participation would enhance goal commitment. After reviewing all the reviews and controversies regarding participation in decision making Locke and Latham (1990) concluded that participation in decision making is more fruitfully conceived as a method of information exchange or information sharing rather than as a method of gaining goal commitment. Hollenbeck, Williams, and Klein (1989) developed a useful measure of goal commitment, which they have subsequently refined. They and others found that goal commitment was most important when goals are difficult. This suggests that commitment acts in two different ways: as a moderator when there is a range of goal difficulty and as a main effect when goal level is held constant at a high level.

In discovering goal mechanism, Locke and Latham documented the directive effect of goals by showing that when feedback is given for multiple performance dimensions, performance only improves on those dimensions for which goals are set (LockeandBryan,1969).Them effort dimension was validated implicitly by showing that people with hard goals work harder, and later others did study involving direct ratings of effort. La Porte and Nath (1976) and Latham and Locke (1975) showed that goals affect persistence. Direction, intensity and persistence, of course, are the three aspects of motivated action. Each of these mechanisms easily verifiable by introspection.

Knowledge is another goal mechanism, Locke and Latham (1990) rest on the premise that goal-directed necessitate essential attribute of human action and that conscious self- regulation of action, though volitional is the norm.Locke,etal,1989 differentiated the effects of goal difficulty from those of goal specificity by showing that specificity alone affected performance variance whereas difficulty affected performance level.

They concluded that all goal effect a remediated by task knowledge. Motivation without cognition is useless. Conversely, cognition without motivation is also useless because the individual will have no desire to act on what is known. A budget is a way of setting organization goals for a specific period of time. The prime axiom of goals leads to higher performance than when people strive To simply “do their best” (Locke and Latham 1990) the performance benefits of challenging specific goals have been demonstrated in hundreds of laboratory and field studies (Locke and Latham 1990, 2002).Budgets should therefore beset to a standard that is quite challenging for employees to achieve, obtaining a high standard set goal creates a sense of efficiency and this will bring about yearn to achieve more. This theory was used to guide this study.

## **2.5 Empirical Literature Review**

This section reviews the work done by other researchers, which relate to this topic. The purpose is to relate the theoretical literature review with the findings of other researchers.

### **2.5.1 Review of Studies done Worldwide**

Wijewardena and Zoysa (2011) conducted a study in Australia to examine the impact of budgeting processes on performance of SMEs.In their study, performance was measured by two financial indicators: sales growth and return on investment. Data was collected from two thousand manufacturing SMEs in Australia. The results showed a positive and significant relationship between budgeting planning and sales growth, and between budgetary control and sales growth. However, no significant difference was found between budget planning and return on investment (ROI), nor between budgetary control and return on investment.

To explain the insignificant relationships between budget planning and ROI, as well as budgetary control and ROI, they explain that, although firms with a greater extent of planning or control report higher rates of growth in sales,“these revenues are not bringing about higher profits because of internal inefficiencies.” Qing (2010) conducted a study on the impact of the budgeting process on performance in SMEs in China. The main objective for the study was to examine whether the budgeting process significantly and positively impacts the performance of Chinese SMEs. The findings showed that there was a positive effect of the formal budgeting process on firm performance.

First, the study revealed that more formalized budgeting planning leads to higher sales revenue. Secondly, budget goal characteristics strongly affect the budgetary performance of Chinese SMEs, thus clear budget goals lead to higher goal achievement, whereas, difficult (but attainable) budget goals increase the motivation of employees to achieve budget standards. Thirdly, the study discovered that the more formalized budgetary control tends to lead to a higher growth in profit of a firm. Tromp (2009) conducted a study in England on “the participative budgeting process and its impact on employees’ performance”. He used a sample of 98 firms. Data collection methods were questionnaires. Results of this study showed that budgeting participation is a complex process, affected by many variables and conditions. He concluded that it is hard to measure the absolute effect of participative budgeting on employee performance.

Sugioko (2010) studied on “the impact of budget participation on job performance of University Executives: a study of APTIK- member Universities in Indonesia”.Thisresearchaimedtotestempiricalevidenceregardingtheroleofmediating variables on the impact of budget participation on job performance. The study concluded that budget participation has a positive and significant impact on job performance, while structural equation tests showed that, trust, organizational commitment, budget adequacy, and job satisfaction variables positively and significantly mediated the relationship between budget participation and the job.

### **2.5.2 Review of Studies done in Africa**

Onduso (2013) conducted a study in Nairobi Kenya to examine “the effect of budgets on financial performance of manufacturing companies in Nairobi” He used a sample of 56 manufacturing firms in Nairobi. A case study design was employed in his study. Data collection methods were questionnaires. Findings showed that the financial performance as measured by ROA is strongly influenced by using budget and managerial performance respectively. Mohammed and Ali (2013) in a study “the relationship between budgeting and performance of Remittance companies in Somalia “concluded that the correlation between budgeting and firm performance is 0.514,which means that one level increase of budgeting effectiveness leadsto0.514 higher firm performances. The probability of this correlation coefficient occurring bychanceis0.00.This coefficient shows that a statistically significant moderate positive relationship between budgeting and firm performance.

Faith (2013) conducted a study in Lagos Nigeria entitled “the effects of budgeting process on financial performance of commercial and manufacturing parastatals in Nigeria”. The aim of this study was to examine how budgeting processes affect financial performance of firms in Lagos. The key findings of this study showed that more formal budgeting planning promotes higher growth of sales revenues in the parastatals, formal budgetary control leads to a higher growth of profit in parastatals and greater budgetary participation leads to better managerial performance. The study enhances the researcher’s understanding regarding budgeting activities.

### **2.5.3 Review of Studies done in Tanzania**

Jensen (2001), in his paper entitled “Paying People to Lie: The Truth about the Budgeting Process”, he analyzed the counterproductive effects associated with using budgets or targets in an organization's performance measurement and compensation systems. He pointed out that paying people on the basis of how their performance relates to a budget or target causes people (both managers and employees) to game the system and in doing so to destroy value. To stop this highly counterproductive behavior people must stop using budgets or targets in the compensation formulas and promotion systems for employees and managers.

Jacobs (2014) in his paper entitled “Budgeting and Budgetary Control” spoke out that Operational management needs to know the causes of off-standard performance in order to improve operations. The knowledge of variances (real result versus budget) will aid control, at least if and when these variances are understood well enough. A deeper understanding of the state of the company is the ultimate goal of all representations in budgeting and budgetary control. Management's task is to find the reasons for the variances and to take proper action to bring operations into line with the budget. In some cases the variances and trends might indicate that the standards need amendment.

Katiti (2015) concluded that:-In achieving organizational goals there is a need to plan on how to arrive at targeted positions. These plans have to be made by making comparison on the benefit to be attained at low possible costs. King’ori (2015) concluded that:- the program accountant is not involved in preparation of program annual work plan and budget; therefore it is recommended that the program accountant should be involved in process because of an important role an accountant plays as a key person on the financial matters and planning.

Bert (2003) who submitted a report from the topic “The role of budget and budgetary Control in district council concluded that: The role of budget is achieving the goals of organization, hence the organization has to exercise a proper budgeting system and laying down proper budget policies and guidelines otherwise the organization can find itself wasting resources without meeting expectations. Writing on the role of budget in achieving organization performance, Vitus (2004) from Institute of Finance Management (IFM) revealed that ‘by the start of an annual budget cycle the Managers of any organization should have formalized their views and identified the most likely outcomes and targets they will work to for the coming year in terms of profits, Sales and Cost.

In another research paper done by Gambries Veronica (2015) submitted to Institute of Accountancy Arusha (IAA) with the title “Effectiveness of budget and budgetary control in local government. A case study: Mwanza City Council”, the researcher concluded that Budgeting Officers in Mwanza City stand in their positions to resist changes and challenges of any kind in the budgeting process. This may be due to several factors such as conservatism, insecurity, lack of understanding due to poor and/or lack of knowledge concerning the role of budget.

## **2.6 Research Gap**

Many studies (e.g. Brownell, 2011; Brownell and Hirst, 2012; Frucot and Shearon, 2013; Guletal., 2014) relating to relationships between budgeting and performance have incorporated non-financial measures such as job satisfaction, job related tension, organization goals. Brownell (2011) examines the interaction between supervisory evaluative style and budgetary participation impacting job satisfaction. There is a need to conduct a research which will incorporate financial measures in underdeveloped markets as well. Moreover, although in the research more and more extensive attention has been paid; statistical data of impacts of budgetary processes in underdeveloped markets is still lacking (Hillary, 2016). Taking budgeting research of manufacturing firms as an example, most previous studies focus on the relevance and application of budgets to large, complex and listed organizations or in advanced countries.

Furthermore, literature (Anthony, 2013;Swieringa and Moncur,2013;Bruns and Waterhouse, 2014) has for a long time supported the claim that budgeting is a means for facilitating and enabling the process by which resources are acquired, allocated among sub units, and consumed in the achievement of organizational objectives. The mission that results from this definition is to make budgetary practices more reflective of organizational processes to arrive at better resource allocation decisions. Based on previous research, the present study attempts to analyze the process character of budgeting in the context of manufacturing firms in underdeveloped countries specifically in Tanzania and to investigate how budgeting process impact performance in such firms.

## **2.7 Conceptual Framework**

A conceptual framework can be defined as a set of broad ideas and principles taken from different relevant fields of enquiry and used to structure subsequent presentation (Kombo and Tromp, 2006).In this chapter, on the basis of specific objectives, research questions and literature review, conceptual framework was developed. This framework is constructed to direct and organize data collection.

Independent variables Dependent variable

**Formal budgeting processes Firm Performance**

Formal budgetary planning

Formal budgetary control

Financial Performance

* Growth in sales revenue
* Growth in profit

**Figure 2.2: Conceptual Framework**

**Source:** Researcher, 2017

## **2.9 Independent Variable**

Independent variable is the variable that can be controlled and manipulated. In this study the independent variables were:-formal budgetary processes namely budgetary planning and budgetary control.

## **2.10 Dependent Variable**

A dependent variable is a variable to be measured in the experiment or what is affected during the experiment. The change in dependent variable is due to change in independent variable(s). In this study, the dependent variable was firm performance this is measured by financial performance (i.e. growth in sales and growth in profit).

# **CHAPTER THREE**

# **3.0 RESEARCH METHODOLOGY**

## **3.1Overview**

According to Leedy and Ormoed (2001) research methodology refers to “the general approach the researcher takes in carrying out a research project”. On the other side, Kothari, (2006) defines research methodology as a scientific and objective understanding of how research is conducted. Through it; various steps are employed in studying a research problem along with the logic behind them. This chapter is organized into subsections as follows; chapter overview, research design, study area, target population, sample and sampling procedures, data collection methods, validity and reliability, data analysis and research ethics.

## **3.2 Research Philosophy**

A research philosophy is a belief about the way in which data about a phenomenon should be gathered, analysed and used (Saunders, Lewis and Thornhill, 2005). The researcher employed a Positivism and Interpretive philosophy. The positivism philosophy is based on the highly structured methodology to enable generalization and quantifiable observations and evaluate the result with the help of statistical methods (Saunders *et al*., 2005). The researcher has used a quantitative research approach to quantify finding and hence generate meanings from figures.

On the other hand the interpretive philosophy plays an important role producing end results from the collected data. In this research philosophy, the researchers seek to make sense of environment through their interpretation of events and the meaning that they draw from these (Saunders et al., 2005). The researcher has used interpretive philosophy to make meanings for data gathered by using observation method. Here the researcher asked questions and observed individuals who experience a difference in budget processing which affects the financial environment. Therefore the researcher, in this research, has combined the positivism and interpretive philosophies, in order to make meaning from both aspects which are quantification and observation. In this way the research was able to make the findings to be qualitatively and quantitatively translated.

## **3.3 Research Design**

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims at combining relevance to the research purpose with economy in procedure (Kothari, 2006).There are different types of research design namely exploratory, explanatory, descriptive, experimental and analytical research design (ibid).This study employed exploratory research design, as it sought to explore the effects of budgeting on firm financial performance of manufacturing firms in Tanzania. Across- sectional research study was used because it employed a single point of data collection for each participant. The study engaged different respondents who differ regarding their interest, but share other characteristics such as socioeconomic status, educational background and ethnicity. Quantitative research approach was used to collect data about the problem under investigation.

## **3.4 Area of the Study**

## Dar es salaam was selected among other regions as it has many manufacturing firms whereby inefficient budgeting processes were expected to have hampered the organization in great multitude. The region was chosen since it was thought to be a representative of other regions and it was expected to be the central of all budgeting procedures and constitute a good number of higher managerial level staff who could produce enough data regarding effects of budgeting processes on firm performance.

## **3.5 Target Population**

Population is defined as a full set of cases from which a sample is taken (Saunders *et al*, 2005). Thus population refers to the people that the researcher has in mind from whom data can be obtained. In this study, the target population was 750 officers from some manufacturing firms listed at Dar es salaam Stock Exchange (DSE) in Tanzania. The respondents were in managerial positions such as chief accountants, financial managers, general managers, human resource managers, marketing managers and production managers who usually participate in budgeting activities of their organizations.

## **3.6 Unit of Analysis**

The unit of analysis is the major entity under study in the research (Babbie, 2013). Even though the data is retrieved at individual level, the researcher used aggregates in the analysis. In this study, the unit of analysis was therefore staff who mostly participate in budgeting processes in their organizations, namely (chief accountants, financial managers, production managers, general managers, human resource managers, marketing managers and production managers) of 50 manufacturing firms registered in Dar es salaam Stock Exchange (DSE,2015) in Kinondoni Municipality making a total number of 750 people.

## **3.7 Sampling and Sampling Procedures**

Sampling is referred to as the process of selecting units from a population of interest so that by studying the sample a researcher may fairly generalize his results back to the population from which they were chosen. Churchill and Iaccobucci (2002) have defined sampling as a selection of a subset of elements from a large group of objects. Sampling is done due to constraints of time, money and accessibility of data to the entire population (Cohen, *et al*., 2007).

### **3.7.1 Sampling Design**

This research employed non-probability sampling. Non-Probability sampling involved purposive sampling. Purposive sampling was used to select staff from different selected manufacturing firms in Kinondoni District. These staff included chief accountants, financial managers, production managers, general managers, marketing managers and human resource managers from different manufacturing firms. The aim of using purposive sampling was to make sure that each staff that has some attributes pertaining to budgetary processes had participated. This technique was used for this group of people who are among the management personnel who participate in budget preparation. These respondents were selected purposively because they hold specific positions in the firms they serve when it comes to matters related to budgeting activities.

### **3.7.2 Sample Size**

According to Kothari (2006) sample is a collection of some parts of the population on the basis of which judgment is made, small enough for convenient data collection and large enough to be a true representative of the population from which it has been selected. Sample size refers to a number of items to be selected from the universe to constitute a sample. In this study the population includes 750 respondents. According to Kothari (2006) in order for the sample to be a true representative of the population, it must be at least 10 % of the population, depending the nature of the study. Due to time and financial constraints, the sample size consisted seventy five (75) staffs of manufacturing firms.In this case the sample size was about ten percent (10%) of the population, hence was a true representative of the population. This sample included chief accountants, financial managers, production managers and general managers, marketing managers and human resource managers.

## **3.8 Data Collection Methods**

Krishnaswima and Ranganatham (2005) define data as the “facts, and other relevant materials, past and present, serving as base for study and analyses”. Also according to Polit and Hungler (1999) data means the information obtained in a course of a study. Therefore data is raw, unorganized facts that need to be processed. In order to accomplish the objectives in this research and come up with the correct results the researcher used primary data collection method.

### **3.8.1 Primary Data**

Kothari (2006) define Primary data as the original data collected for the first time. He further contended that primary data are “those which are collected afresh and for the first time, and thus happen to be original in nature. Likewise, Krishnaswami and Ranganatham (2005) further contend that primary data are fresh source from which the researcher directly collects data. Primary data collection allows for the interaction between the researcher and the respondents, hence it facilitates explanation and description of the subject under study. In this study, primary method was used to collect data from chief accountants, financial managers, production managers, general managers, marketing managers and human resource managers.

## **3.9 Data Collection Tools**

In collection of primary data, questionnaires were used as data collection tool.

### **3.9.1 Questionnaires**

A questionnaire is a set of questions, which are usually sent to selected respondents to answer at their own convenient time and return back the filled questionnaire to the researcher (Kothari, 2006; Cohen *et al*., 2000). Kothari (2006) contends that questionnaires are the most important means of data collecting instrument. The use of questionnaires has some advantages; less expensive, convenient and unbiased. Self administered questionnaires were distributed to the selected respondents who filed them and the researcher administered the process. A researcher used open ended questions, closed ended questions and a five (5) point Liker scale questions. The administered questionnaires had three sections composed of: General Information, Formal Budgetary Process and Firm Performance and Budget participation and Managerial performance. The formal budgetary process comprised themes such as budgetary planning and budgetary control.

## **3.10 Validity and Reliability**

### **3.10.1 Instrument Validity**

Validity refers to the degree to which a study actually measures what it purports to measure (Claire and Craig, 2000).In order to ensure validity; content validity measurement was employed whereby serious efforts to reduce errors were employed. These efforts included using pilot questionnaires whereby ten questionnaires were distributed to ten respondents and the results tested. This aimed at avoiding poor sample selection, avoiding biasness, sample coding errors, management errors and misunderstanding of questions by the respondents to ensure accuracy. Close supervision and monitoring by the researcher herself and respondents were the key issue from the preparation, during the field and after fieldwork (during data analysis and report writing).

### **3.10.2 Instrument Reliability**

Reliability is an estimate of the accuracy and internal consistency of a measurement instrument (Claire and Craig, 2000). Reliability is used to ensure the consistency of the results for the various items being tested within each component (Foster, 2001). It is normally evaluated by assessing the internal consistency of the items representing each construct using Cronbach’s alpha test (Cronbach’s, 1951). The value of Cronbach’s Alpha should have to be positive and even greater than .700 (Nunnally, 1978).In this study Cronbach’s Alpha test was used to test the research instrument.

## **3.11 Data Processing, Cleaning and Analysis**

Data processing implies editing, cleaning, coding, classification and tabulation of the collected data so that they are amenable to analysis (Kothari, 2006).This is an immediate stage between data collection and data analysis. Quantitative data from the questionnaires were categorized, coded and entered into the computer for computation of descriptive statistics and cleaned before starting the analysis. The Statistical Package for Social Sciences (SPSS) version 20.0 was used to run descriptive analyses to produce frequency distribution, percentages means and standard deviations based on various characteristics of the respondents. Correlation analysis and regression model was used to analyze data for assessing the effects of budget processes on financial performance. Before analysis was done, the dataset was cleaned to take out potential errors and to avoid contamination of the dataset.

### **3.12 Multivariate Analysis**

In order to determine the effect of budgeting processes on firm performance, we used the following equations:

Y1= a1+ b1Xa +b2Xb + ε......................................................................................... (1)

Y2 = a2+b3Xc + b4Xd *+*ε........................................................................................... (2)

Y3= a3+b5Xe+ b6Xf + ε ........................................................................................(3)

Y4=a4+b7Xg+ b8Xh +ε.............................................................................................. (4)

Where:

Y1=firm performance; Xa = the formal budgetary planning Xb = the formal budgetary control and ε is the error term,

Y2 = financial performance; Xc = the formal budget planning, Xd = the formal budgetary control and ε is the error term,

Y 3= Growth on sales revenue; Xe = the formal budget planning, Xf = the formal budgetary control and ε is the error term

Y4=Growth on Profit; Xg= the formal budget planning, Xh= the formal budgetary control and ε is the error term

a1, a2, a3 and a4 are intercepts of the regression lines while b1 through b8 are parameters associated with formal budgetary planning and formal budgetary control and the symbol **‘ε’** is the error term.

## **3.12 Definition and Measurement of Variables**

The following are the definitions and measurement of various variables used in this study.

**Table 3.1: Overview of the Variables under Discussion in this Research**

|  |  |  |
| --- | --- | --- |
| **Types of Variable** | **Name of Variable** | **Definition of variable/Measurement** |
|  |  |  |
| Dependent Variable | Firm Performance | Growth in Sales Revenue and Growth in profit margin. |
|  |  |  |
| Independent variables | Budgetary planning | Success factors that measure the effectiveness of Financial performance |
| Budgetary control | Success factors that measure the effectiveness of Financial performance |
| Budgetary participation | Success factors that measure the effectiveness of managerial performance |

**Source:** Research Findings, 2017

## **3.13 Ethical Consideration**

Wells (1994) defined ethics in term of code of behavior appropriate to academic of research. The ethical consideration was observed in getting informed consent from the management staff, academic staff, administrative staff and technical staff, production and manufacturing staff. The researcher abode with confidentialities from the people who needed information. There was no exposure or leakage of information without consent of the person who provided information. The researcher was humbled to cultural and belief of respondents.

# **CHAPTER FOUR**

# **4.0 FINDINGS AND DISCUSSION**

## **Chapter Overview**

This chapter comprises of the presentation and analysis of the research findings. It focuses on presenting and analyzing the data by using descriptive statistics and correlation between variables. Results are presented and analysed as tested according to the specific objective which was as follows: To examine whether formalized budgeting planning influence the growth of sales revenues in manufacturing; to examine whether formalized budgeting planning influence the growth of profit of manufacturing firms in Tanzania; to analyze whether formalized budgetary control influence the growth of sales revenue of manufacturing firms in Tanzania and to examine whether formalized budgetary control influence the growth of profit of manufacturing firms in Tanzania.

## **4.2 Test of Validity and Reliability**

To test the reliability of data collection instruments, the Cronbach’s Alpha was used to measure the internal consistency by the use of SPSS. The Cronbach’s alpha usually ranges between 0 and 1 (Grayson, 2004). The closer the Cronbach’s alpha coefficient is towards 1.0, the greater the internal consistency of the items in the scale (Grayson, 2004). In this study the reliability test indicate the results as shown in table 4.1 wchich illustrates the results of reliability test, by using the Cronbach’s alpha approach in SPSS. According to Nunnaly (1978) and Grayson (2004), a reliability coefficient of 0.7 or higher is considered acceptable in most social science research situations. George and Mallery (2003) established the following rule of thumb:

Table 4.1: Reliability of the Research Variables

|  |  |  |
| --- | --- | --- |
| **Variables** | **Cronbach’s alpha** | **Number of items** |
| Budgetary planning | 0.945 | 2 |
| Budgetary control | 0.971 | 2 |
| Growth in sales revenue | 0.860 | 1 |
| Growth in profit | 0.798 | 1 |

**Source:** Field data, 2017

## **4.3 Descriptive Results: The Formal Budgeting Process and Firm Performance**

The overall formalization degree of the budgeting process is, as can be seen in Table 4.2.

**Table 4.2: Mean and Standard Deviation of the Formal Budgeting Process of Manufacturing Firms in Tanzania (N = 75)**

|  |  |  |
| --- | --- | --- |
| **Formal Budgeting Process** | **Mean (the middle value is 4)** | **Std. Deviation** |
| The formal budgeting process (overall) | 3.75 | 0.73 |
| The formal budgeting planning | 3.83 | 1.34 |
| The formal budgeting control | 2.42 | 0.77 |

**Source:** Field Data, 2017

Note: the Likert scale to measure the variables above is used from “1” to “5”. The overall mean value of formal budgetary process was 3.75 (the mean number is 3.75 with the Likert Scale ranging from 1 to 5). There is a slight variance regarding the mean for each dimension of the formal budgeting process (i.e., the formal budget planning and the budgeting control). The difference is 2.39 with the 3.Two firms out of 75 firms in the sample do not employ any forms of budget planning and control. Maximum score 3.83 and the minimum score 2.42. The formal budget planning stands at the first position with a mean value of 3.83.Budgetary control takes the lowest position (the average score is 2.42). This distribution suggests that it is more difficult for manufacturing firms to accomplish a higher level of the formal budgeting process.

**Table 4.3: Mean and Standard Deviation for the Performance of Manufacturing Firms in Tanzania (N=75)**

|  |  |  |
| --- | --- | --- |
| **Performance** | **Mean (the middle value is 3)** | **Std. Deviation** |
| Overall firm performance | 3.08 | 0.71 |
| The growth of sales revenues | 2.71 | 1.75 |
| The growth of profit | 1.72 | 1.03 |

**Source:** Field Data, 2017

Note: the Likert scale ranged from “1” to “5” is used to measure all variables in the table 4.3. The results from descriptive statistics (in Table 4.4) show that the average overall firm performance for the investigated manufacturing firms in Tanzania was 3.08. However, financial performance, especially the growth of profit is much lower than the average level. The mean value for profit growth is 1.72 which is 1.36 points less than the average score of overall firm performance. The mean of sales growth is 2.71, which is 0.37 less than the average.

**Table 4.4: The Distribution of Budgetary Control in Different Scales of Sales Revenue Growth**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **The Level of the Formal Budgeting Process** | | | | | | | | |
| **Sales Revenue Growth** | **Low level** | | **Medium Level** | | **High level** | | **Total** | |
| **Number of firms** | **%** | **Number of firms** | **%** | **Number of firms** | **%** | **Number of firms** | **%** |
| Below 10% | 12 | 41 | 5 | 16 | 2 | 25 | 19 | 25% |
| Between 11% and 20% | 7 | 24 | 13 | 41 | 0 | 27 | 20 | 27% |
| Between 21% and 30% | 6 | 21 | 9 | 28 | 5 | 27 | 20 | 27% |
| Between 31% and 40% | 2 | 7 | 3 | 9 | 3 | 11 | 8 | 11% |
| Between 41% and 50% | 2 | 7 | 1 | 3 | 2 | 6 | 5 | 7% |
| Between 81% and 90% | 0 | 0 | 1 | 3 | 2 | 4 | 3 | 4% |
| **Total** | **29** | **100** | **32** | **100** | **14** | **100** | **75** | **100%** |

**Source:** Field Data, 2017

Table 4.4 summarizes the descriptive results of the budgeting process and financial performance. As we can see from Table 4.5, the sales growth rate for most firms in the sample is between 11 per cent and 30 per cent, which accounts for 54 per cent of the total. If we consider the sales growth rate between 21 per cent and 30 per cent as a breaking point, it can be seen in Table 4.5 that sales growth sharply decreases from this growth rate onward. For the firms that adopt a low level of budgeting, 41 per cent of firms report less than 10 per cent of the growth of sales revenue. Also 41 per cent of firms at the second category (represent medium-level of budgeting use) report a sales growth rate between 11 and 20 per cent. The profit growth between firms shows a similar pattern. Over half of the firms (38 firms in total) report less than 10 per cent of profit growth. Most firms have a growth percentage up to 30%.

## **4.4 Descriptive Results: Budget Planning**

The classification criterion used for the formal budgeting process above is also applied to classify different levels of the formal budget planning. Accordingly, firms in the first category with average scales interval from 1.67 to 3.33 points stand for the lower level of the formal budget planning. Firms with average scales from 3.34 to 5.00 belong to the second category representing a moderate level of the formal budget planning. Firms with average scales from 5.01 to 6.67 are in the last category representing a higher level of the formal budget planning.

**Table 4.5: The Level of the Formal Budget Planning in General**

|  |  |  |
| --- | --- | --- |
| Level of formal budget planning | Number of Firms (N) | Percent (%) |
| Low level | 33 | 44 |
| Medium level | 28 | 37 |
| High level | 14 | 19 |
| Total | 75 | 100 |

**Source**: Field Data, 2017

Descriptive statistics in Table 4.5 show that 81 per cent of the sample firms are either in the first category or in the second category and 19 per cent of the firms is in the third category.

**Table 4.6: The Distribution of the Formal Budget Planning in Different Scales of Sales Revenue Growth**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **The Level of the Formal Budgeting Planning** | | | | | | | | |
| **Sales Revenue Growth** | **Low Level** | | **Medium Level** | | **High level** | | **Total** | |
| **Number of Firms** | **%** | **Number of Firms** | **%** | **Number of Firms** | **%** | **Number of Firms** | **%** |
| Below 10% | 13 | 40 | 4 | 14 | 2 | 25 | 19 | 25% |
| Between 11% and 20% | 9 | 27 | 10 | 36 | 1 | 27 | 20 | 27% |
| Between 21% and 30% | 7 | 21 | 9 | 32 | 4 | 27 | 20 | 27% |
| Between 31% and 40% | 2 | 6 | 3 | 10 | 3 | 11 | 8 | 11% |
| Between 41% and 50% | 2 | 6 | 1 | 4 | 2 | 6 | 5 | 7% |
| Between 81% and 90% | 0 | 0 | 1 | 4 | 2 | 4 | 3 | 4% |
| **Total** | **33** | **100** | **28** | **100** | **14** | **100** | **75** | **100%** |

**Source:** Field Data, 2017

**Table 4.7: The Distribution of the Formal Budget Planning in Different Scales of Profit**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **The Level of the Formal Budgeting Planning** | | | | | | | | |
| **Profit Growth** | **Low Level** | | **Medium Level** | | **High level** | | **Total** | |
| **Number of firms** | **%** | **Number of firms** | **%** | **Number of firms** | **%** | **Number of firms** | **%** |
| Below 10% | 21 | 64 | 12 | 42 | 5 | 36 | 38 | 51% |
| Between 11% and 20% | 11 | 33 | 13 | 46 | 4 | 29 | 28 | 37% |
| Between 21% and 30% | 1 | 3 | 1 | 4 | 3 | 21 | 5 | 7% |
| Between 31% and 40% | 0 | 0 | 0 | 0 | 2 | 14 | 2 | 3% |
| Between 41% and 50% | 0 | 0 | 1 | 4 | 0 | 0 | 1 | 1% |
| Between 61% and 70% | 0 | 0 | 1 | 4 | 0 | 0 | 1 | 1% |
| **Total** | **33** | **100** | **28** | **100** | **14** | **100** | **75** | **100%** |

**Source:** Field Data, 2017

Table 4.6 and Table 4.7 show how the formal budget planning is distributed among different percentage levels of sales and profit. In general, this pattern is consistent with what we found in the former part for the formal budgeting process and firm performance (see Table 4.5). A declining trend exists for both two models, especially for the second model regarding the formal budget planning and growth of profit. As we can see from the two tables above: with sales and profit growth increasing, the number of firms is decreases. 79 per cent of the firms report their sales growth rate to be lower than 31 per cent. 88 per cent of the firms report their growth rate of profit is no more than 20 per cent. The data from the tables above also tells us that only few firms can actually achieve the most advanced level in terms of both financial performance and the budget planning. Only 4 firms (3 firms with up most 90 per cent of sales growth and 1 firm with up to 70 per cent of profit growth) are in the sample.

## **4.5 Testing Hypothesis1: The Formal Budgetary Process and Firm Performance**

As discussed earlier formal budgeting process as a general independent variable, is subdivided into the variables of the formal budgeting planning and the formal budgetary control. These two sub-variables and their assumed effects on firm to be checked as firm performance”, since these performances show very strong correlations. In the later sections the model is estimated separately for the different aspects of dependent variables (i.e. financial performance).

**Hypothesis1a:** The more formalized the budgetary planning, the better the firm performance.

**Hypothesis1b:** The more formalized the budgetary control, the better the firm performance*.*

The hypotheses above, in general, posit that there is a significant and positive effect of the formal budgeting process on firm performance. They are all tested by OLS regression. All sub-hypotheses in this study are tested by both OLS and Lisrel models. By conducting statistical analysis, we can either reject or accept the hypotheses under 1. For OLS model, it has been verified by linearity and homoscedasticity that the data have met the regression assumptions. The remainder of this section displays their relevant empirical outcomes.

An equation (Eq.1) is shown below to reflect the statistical relationship between all variables under the general variable of the formal budgeting process and firm performance.

Y1= a1+ b1Xa +b2Xb *+* ε**....................................................................................** (1)

Where Y1=firm performance; Xa = the formal budgetary planning Xb= the formal budgetary control and *“*ε” is the error term.

To support the hypotheses, T-statistics must be significant “a”and‘b’in equation (1) must be positive. Table 4.8 presents the regression results for the variables in this model.

**Table 4.8: Regression Results on Firm Performance (Y1): The Impact of All Variables (Xa and Xb) under the Formal Budgeting Process**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **Variables** | **Coefficient** | **Coefficient value (b)** | **T-stat value** |
| 1 | Xa | b1 | 0.29 | 2.18\* |
| Xb | b2 | 0.25 | 1.45 |
|  | a1 | 0.81 | 1.77\* |
| R2= 0.34, N=75 | |  | | |

**Source:** Field Data, 2017

**Results of Regression**

By checking each variable in the model individually, we can see that there is only one sub-variable significantly and positively affecting firm performance. This one variable is the formal budgeting planning (Xa).Its t value is 2.18 and the coefficient value is 0.29.For the sub-variable formal budgetary control, although the coefficient value is positive (b=0.25), the t value is insignificant.

### **4.5.1 Testing Hypotheses 2a and 2b: The Formal Budgeting Planning, the Formal Budgetary Control and Financial Performance**

**Hypothesis 2a**: The more formalized the budgeting planning, the better the financial performance.

**Hypothesis 2b**: The more formalized the budgetary control, the better the financial performance.

These two independent variables in the hypothesis 2a and 2b share the same dependent variable, i.e. financial performance. Therefore they are placed together in one model to be checked. Equation 2 shows the formal budget planning, the formal budgetary control and financial performance relationship (Eq.2):

Y2=a2+b3Xc+b4Xd *+* ε.......................................................................................... (2)

Where Y2 = financial performance; Xc = the formal budget planning, Xd = the formal budgetary control and the symbol “ε” is the error term.

To support the hypotheses, T-statistics must be significant and ‘b’ in equation (2) must be positive. Table 4.9 presents the regression results for the variables in this model.

**Table 4.9: Regression Results on Financial Performance (Y2): The impact of the Formal Budget Planning (Xc) and the formal Budgetary Control (Xd)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **Variables** | **Coefficient** | **Coefficient value (b)** | **T-stat value** |
| 2 | Xc | b3 | 0.49 | 1.81\* |
| Xd | b4 | 0.26 | 0.72 |
|  | a2 | 0.88 | 1.58 |
| R2= 0.10, N=75 | |  | | |

**Source:** Field Data, 2017

**Results of Regression:** By checking each variable in the model individually, we can see that there is only one sub-variable significantly and positively affecting financial performance. This one variable is the formal budgeting planning (Xc).Its t value is 1.81 and the coefficient value is 0.49.For the sub-variable formal budgetary control, although the coefficient value is positive (b=0.26), the t value is in significant.

### **4.5.2 Testing Hypotheses 3a and 3b: The Formal Budgeting Planning, the Formal Budgetary Control and Growth of Sales Revenues**

**Hypothesis 3a**: The more formalized the budgeting planning, the higher the growth of sales revenues.

**Hypotheses 3b:** The more formalized the budgetary control, the higher the growth of sales revenues*.*

The equation (Eq.3) tests the effect of the Formal Budget Planning, the formal budgetary control, on growth of sales revenues.

Y3=a3+b5Xe+b6Xf +ε.............................................................................................. (3

Where Y 3= Growth on sales revenue; Xe = the formal budget planning, Xf= the formal budgetary control and the symbol “ε” is the error term. To support the hypotheses, T-statistics must be significant and ‘b’ in equation (3) must be positive. Table 4.10 presents the regression results for the variables in this model.

**Table 4.10: Regression Results on Growth of Sales Revenues (Y3): The Impact of the Formal Budget Planning (Xe) and the Formal Budgetary Control (Xf)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **Variables** | **Coefficient** | **Coefficient value (b)** | **T-stat value** |
| 3 | Xe | b5 | 0.77 | 2.05\* |
| Xf | b6 | 0.03 | 0.05 |
|  | a3 | 0.94 | 1.2 |
| R2= 0.10, N=75 | |  | | |

**Source:** Field Data, 2017

**Results of Regression:** By checking each variable in the model individually, we can see that there is only one sub-variable significantly and positively affecting growth of sales revenue. This one variable is the formal budgeting planning (Xe).Its t value is 2.05 and the coefficient value is 0.77.For the sub-variable formal budgetary control, although the coefficient value is positive (b=0.03), the t value is insignificant.

### **4.5.3 Testing Hypotheses 4a and 4b: The Formal Budgeting Planning, the Formal Budgetary Control and Growth of Profit**

**Hypothesis 4a:** The more formalized the budgeting planning, the higher the growth of profit.

**Hypotheses 4b:** The more formalized the budgetary control, the higher the growth of profit.

The equation Eq. (4) tests the effect of the Formal Budget Planning, the formal budgetary control, on growth of profit is shown as follows:

Y4=a4+b7Xg+b8Xh *+* ε............................................................................................ (4)

WhereY4=Growth Profit; Xg= the formal budget planning, Xh = the formal budgetary control and the symbol “ε” is the error term. To support the hypotheses, T-statistics must be significant and ‘b’ in equation (4) must be positive. Table 4.12 presents the regression results for the variables in this model.

**Table 4.11: Regression Results on Growth of Profit (Y4): The Impact of the Formal Budget Planning (Xg) and the Formal Budgetary Control (Xh)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **Variables** | **Coefficient** | **Coefficient value (b)** | **T-stat value** |
| 4 | Xg | b7 | 0.21 | 0.93 |
| Xh | b8 | 0.48 | 1.64 |
|  | a4 | 0.84 | 1.79 |
| R2= 0.08, N=75 | |  | | |

**Source:** Field Data, 2017

**Results of Regression:** Comparing the t values (1.64 vs. 0.05) and coefficient values (0.48 vs. 0.03) between the model 3 and the model 4, we can conclude that the formal budgetary control has a much stronger impact on profit than on sales revenues. Its t value increases into 1.64.However, inconsistently with the results from the former models, the impact of the formal budgeting planning on the growth of profit turns out to be insignificant. The R2 in Table 4.12 tell us that all variables (Xg, Xh) together explain 8 percent the variance of the growth of profit.

It is noted that the OLS models (linear regression models) used in the statistical tests above can only estimate the value of the dependent variable (Y) from the independent variables (X).It is impossible for the Ordinary Least Squares (OLS) model to predict the relative contributions from other dependent variables, if dependent variables are correlated. Due to this limitation, the modelY3andthemodel Y4 are checked again by the Lisrel model, since the dependent variables (i.e. growth of sales revenues and growth of profit) are related (Correlation=0.63).The Lisrel model will estimate, for example, how the dependent variable (the growth of sales revenues, Y3) is affected by the independent variables (Xh, Xg) and another dependent variable (rate of profit, Y4).The results from the Lisrel Estimate are reported in Table 4.12.

**Table 4.12: Lisrel Results on Growth of Sales Revenues (Y3) and Growth of Profit (Y4); The Impact of the Formal Budgeting Planning (Xh) and the Formal Budgetary Control (Xg).**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Y3 | | Y4 |
| Variables | Coefficient Value b (T-stat) | | Coefficient Value b (T-stat) |
| Y3 | - - | | - - |
| Y4 | 0.30 (6.60) \* | | - |
| Xg | 0.83 (2.37)\* | | -0.06 (-0.30) |
| Xh | -0.05(-0.10) | | 0.42 (1.80)\* |
| alis-5 | -0.93 (-0.70) | | 0.37 (0.54) |
| R2 (N=75) | 0.29 | | 0.45 |
| RMSEA | 0.000 |  | |
| Chi-square | 0.00 |  | |
| Degrees of freedom | 0 |  | |

We have to point out that two dependent variables (Y3 and Y4) are found to be highly related in the Lisrel model. The t value in the first Lisrel equation is 6.60 and coefficient value is 0.30. As we can see, the R square in this estimate is 0.29, which shows much higher than the R square (0.13) from the OLS regression model.

**Summary:** By using Ordinary Least Squares (OLS) regression and Lisrel estimates, the effect of the variables are examined and displayed in this chapter. The statistical results are summarized in Table 4.13

**Table 4.13: Results Summary as Indicated in Statistical Analysis**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Hypothesis** | **Independent Variables:** | **Dependent Variables** | **Results** | |
| H1 | The formal budgeting planning | Growth of sales revenues | P | + |
|  |  |  | E | + |
| H2 |  | Growth of profit | P | + |
|  |  |  | E | / |
| H3 | The formal budgetary control | Growth of sales revenues | P | + |
|  |  |  | E | / |
| H4 |  | Growth of profit | P | + |
|  |  |  | E | + |

**Source:** Field Data, 2017

Notes: “P” means predicted result and “E” means empirical result; “+” represents a significant and positive impact; “ / ” represents an insignificant impact;“–”represents a significant but negative impact.

## **4.6 Testing the Assumptions of the Multiple Linear Regresión Model**

### **4.6.1 Multicolinearity Test on Independent Variables**

Linear regression model is based on the hypothesis that, there is linear relationship between the dependent variable and the independent variable (s).Thus, the existence of significant regression model is principally based on the existence of linear relationship between the dependent variable and each of the independent variable. Another condition that can be problematic is multicolinearity, which can lead to disingenuous and erroneous results. Multicolinearity or colinearity occurs when there are high inter-correlations among some set of the predictor or independent variables. The existence of colinearity means that, two or more predictors contain much of the same information.

To confirm the existence or otherwise of the multicolinearity, the researchers used Variance Inflation minus covariance between one and other independent variables. A Tolerance close to 1 means there is little multicolinearity, whereas a value close to zero (0) suggests that multicolinearity may be a threat. The reciprocal of the tolerance is known as the Variance Inflation Factor (VIF).The VIF shows us how much the variance of the coefficient estimate is being inflated by multicolinearity. Theoretically, it is good if VIF is smaller than Factor (VIF) and Tolerance to test for colinearity.Tolerance is calculated by 15. The tolerance rate and Variance Inflating Factor (VIF) were used to detect multicolinearity between explanatory variables as follows.

**Table 4.14: Colinearity Statistics Independent Variables**

| **Coefficientsa** | | | |
| --- | --- | --- | --- |
| Model | | Colinearity Statistics | |
| Tolerance | VIF |
|  | Budgetary Planning | .301 | 3.317 |
| Budgetary control | .762 | 1.313 |
| 1. Dependent Variable: FP | | | |

**Source:** researcher, 2017

Table 4.14 indicates that the tolerance is greater than 0.1 (10%) and the VIF does not exceed 5 to 10. The study concluded that there is no problem of multicolinearity among explanatory variables. Therefore, the associated regression coefficients are clearly estimated and reliable.

### **4.6.2 Test of Autocorrelation Assumption**

Table 4.16 illustrates the results of the test of independence of observations. The test was done using Durbin Watson test. Multiple linear regressions assume that the errors are independent and there is no serial correlation. Errors are residuals or different between the actual score for a case and the score estimated using the regression equation. No serial correlation implies that the size of the residual for one case has no impact on the size of the residual for the next case. Durbin Watson statistic is used to test the presence of serial correlation among the residuals. The value of the Durbin Watson statistic ranges from 0 to 4 as a general rule of thumb, the residuals are not correlated if the Durbin Watson statistic is approximately 2 and an acceptable range is 1.5 to 2.50.

**Table 4.15: Independence of Observations**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| --- | --- | --- | --- | --- | --- |
| 1 | .953a | .908 | .895 | 1.71269 | 1.071 |
| a. Predictors: (Constant), Budgetary planning and Budgetary control. | | | | | |
| b. Dependent Variable: Firm Performance | | | | | |

**Source:** Field Data, 2017

The results in Table 4.15 show that the Durbin Watson statistic is 1.701 which falls within the acceptable range. It implies that there is no serial correlation of errors and therefore the model was correctly specified.

### **4.6.3 Test Normality**

The following is the results of test of normality.

**Table 4.16: Test of Normality**

|  | Kolmogorov-Smirnova | | | Shapiro-Wilk | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | Statistic | df | Sig. | Statistic | df | Sig. |
| Budgetary planning | .339 | 75 | .000 | .823 | 75 | .000 |
| Budgetary control | .378 | 75 | .000 | .772 | 75 | .000 |
| Firm Performance | .247 | 75 | .000 | .864 | 75 | .001 |
| a. Lilliefors Significance Correction | | | | | | |

**Source**: Field Data, 2017

Table 4.16 shows that the P-value of budgetary planning is 0.000 and budgetary control is 0.000 using Shapiro-Wilk test of normality, the P-value budgetary coordination variable is 0.000 less than the level of significance at 0.01. The results show that this variable is not normally distributed. According to Ghasemi and Zahedias (2012) a large sample size, which is greater than 30 or 40 like the sample used in this study, violation of normality assumption should not cause major problems meaning that sampling distribution tend to be normal regardless of the shape of data.

## **4.7 Discussion of Findings**

The empirical results summarized above provide some support for the positive effect of the formal budgeting process on firm performance. Firstly, in line with objective one of this study it was found that more formalized budgeting planning leads to higher sales revenues. This finding confirms prior research conducted by Wijewardena and De Zoysa in 2011 who obtained the same results. Secondly, in line with objective two of the study the results revealed that the more formalized budgetary planning tends to lead to a higher growth of profit of a firm. This finding is consistence with the findings from study conducted by Chalos and Poon (2010).Thirdly, in line with the research object three it was found that formalized budgetary control has no significant effects on the growth of sales revenue. These findings are in contrast with the findings conducted by Bodie and Merton (2016) which showed significant results. Forthly, in line with objective four, the findings indicated that formal budgetary control leads to higher growth of profit of firms because of management control, the total expense of a firm will be at most minimized, which thus results into the growth of profit of the firm. This result is consistence with the findings of the study by Wijewardena and De Zoysa in 2011 who obtained the same results.

**CHAPTER FIVE**

**5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

**5.1 Introduction**

This Chapter gives a summary of the main findings, conclusion and what the researcher recommends. The recommendations of the study were derived from the problem under study and the exact situation in Tanzania manufacturing firms.

**5.2 Summary of the Main Findings**

The descriptive results show clearly the level of the formal budgeting process in manufacturing firm in Tanzania. All variables related to the formal budgeting process are classified into low, medium, or high level, derived from the Likert scales (1-5) in the survey. The extent of the formal budgeting process in manufacturing firms in Tanzania is summarized as follows: Firstly, the mean value of the overall formal budgeting process is 3.75. Secondly, for all sub-variables under the formal budgeting process, the mean value of the formal budgeting planning is 3.83.Secondly, the mean value of budgetary control shows the lowest mean value (2.42).It was furthermore found that generally, the formal budgeting process positively affects manufacturing firm’s performance. But some variables under the formal budgeting process show insignificant or even negative impacts on performance.

Firstly, the formal budgeting planning has a very strong effect on the growth of sales revenues. However, its impact on the growth of profit turns out to be insignificant. Secondly, in the model of the formal budgetary control and financial performance, the formal budgetary control is found to have an insignificant impact on the growth of sales revenues. However, it shows a significant and positive effect on the growth of profit. Furthermore, although the extent of budgetary participation among manufacturing firms is at a low level (the mean value is 3.76), the statistical results still prove a significant and positive impact of budgetary participation on financial performance.

## **5.3 Conclusion**

The main question for this study was “whether the budgeting process significantly and positively impacts the performance of manufacturing firms in Tanzania”. The results summarized above provide some support for the positive effect of the formal budgeting process on firm performance. Firstly, it was found that more formalized budgeting planning leads to higher sales revenues. This finding confirms prior research conducted by Wijewardena and De Zoysa in (2011).Secondly; the results also reveal that the more formalized budgetary control tends to lead to a higher growth of profit of a firm.

The underlying reason can be that due to management control; the total expense of a firm will be at most minimized, which thus results into the growth of profit of the firm. I t is also interesting to find that the formal budgeting planning and the formal budgetary control show different patterns in terms of their effect on financial performance. The formal budgeting planning has a stronger impact on the growth of sales of manufacturing firms, compared to the formal budgetary control. However, its impact on the growth of profit becomes very weak and the formal budgetary control, in contrast, strongly affects the growth of profit in manufacturing firms.

## **5.4 Recommendations**

In regards to practice, the study recommends that manufacturing companies should establish formal performance measurement and rewarding individuals for their performance which will encourage maximizing their contribution towards the organizations objectives by: goal congruence to be achieved on productivity, personal development, profitability, market position, product leadership, employee attitudes, public responsibility, and balance between short term and long term goals. The findings recommend that they should be two way flow of information and other facets of a properly organized budgeting system to help in promoting a coalition of interest and to increase motivation.

Effective budget implementation at the company level should be facilitated through capacity building, robust systems and processes, prioritization close monitoring and evaluation. All stakeholders should get involved in budget execution in enhancing the overall budget implementation. The financial management systems need to be supported in order to ensure prudent management of funds. There is a need for adequate sensitization of both the employees and the public on best financial management practices so that the oversight role is enhanced. Manufacturing firms needs to establish a strong link between the planning process and the budget process. Companies need to adopt a medium term plan to define priorities for their daily tasks.

## **5.5 Limitations of the Study**

This study has its limitations. First; the scope of the study was limited by its sample size and industrial coverage. Due to limited time and the difficulty to gain access to data, this study used a modest survey to test all hypotheses. The total number of the firms in this study was 75.All firms were from one industrial sector i.e. manufacturing firms. Compared to other quantitative research, the sample is small. The second limitation of this study concerns the nature of self-reporting questionnaire data. Thornton (1968) argues that self-report measures of performance can be subject to leniency bias. The third limitation is that a growth percentage is used for sales revenue and profit measurement. A similar absolute growth in sales revenues and/or profit can, however, result in different growth percentages for small and big firms. Another limitation of this study is that the author did not fully address the impact of budgetary participation on all performance measures used in this study.

## **5.6 Suggestions for Future Studies**

The study has achieved its aim that is to investigate the effect of budgets on financial performance of manufacturing companies in Kinondoni district. It has therefore opened up avenues for further researches was confined to manufacturing companies in Kinondoni Dar es salaam which may differ in the way they use budget to affect financial performance. Therefore similar studies need to be conducted in other manufacturing firms in Tanzania in order to assess whether the study could yield similar findings regarding effect of budgets on financial performance. Some previous studies on participation and performance, however, also tried to test the relationship between participation and budgetary performance or job satisfaction. Further research can be under taken to test whether budgetary participation also significantly impacts budgetary performance, job satisfaction, and job involvement.

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# **APPENDICES**

Appendix 1: Questionnaires

EFFECTS OF BUDGET ON FINANCIAL PERFORMANCE: A CASE OF MANUFACTURING FIRMS IN TANZANIA.

SECTION ONE: INTRODUCTION

Dear sir/ Madam,

I am Asantina Yolla Sebastian, a student from Open University of Tanzania conducting a research for fulfillment of the requirement for Master in Project Management. I am currently conducting a study on: “Effects of Budget on Financial Performance. The purpose of this questionnaire is to ask for your views. Information to be obtained herein shall be used for academic purposes only. I kindly request you to objectively respond to the questions to enable the researcher to obtain as much relevant data as possible. The data will assist the researcher to fulfill the intended objective.

I will appreciate your cordial cooperation.

SECTION TWO: GENERAL INFORMATION

**PartA: General Information**

i.Your position in your company.................

ii.The year your company started operation..................

iii.The annual sales revenue of your company

- Below 30 million Tshs ( )

-30 million to 0.3 billion Tshs ( )

iv. The legal status of your company

-State owned enterprise ( )

-Private enterprise ( )

-Collective enterprises ( )

-Others namely ( )

**Part B: Performance**

**i. Financial Performance**

The following section of the questionnaire seeks some information relating to your firm’s performance in the recent past three years.If you have no definite figures we would appreciate approximate figures. Please indicate the intervals which best depict your firm’s performance by circling an appropriate number for questions (a) and (b).

1. Please indicate the grow thin sales revenue of your company over the past 3 years:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Below10% | 1 |  |  | 51–60% | 6 |
| 11–20% | 2 |  |  | 61–70% | 7 |
|  |  |  |  |  |  |
| 21–30% | 3 |  |  | 71–80% | 8 |
| 31–40% | 4 |  |  | 81–90% | 9 |
| 41–50% | 5 |  |  | Above90% | 10 |

1. The growth of profit in your company over the last three years is:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Below10% | 1 |  |  | 51–60% | 6 |
| 11–20% | 2 |  |  | 61–70% | 7 |
| 21–30% | 3 |  |  | 71–80% | 8 |
| 31–40% | 4 |  |  | 81–90% | 9 |
| 41–50% | 5 |  |  | Above 90% | 10 |

**Part C: The Formal Budgeting**

The formal process of budgeting in manufacturing firm is measured from two aspects, i.e. the forma budgeting planning and the formal budgetary control. Please respond the following questions by cycling/ticking the relevant number on seven-point scale, which you think best reflecting the budgeting process of your enterprise.(Note: if no budget use in your firms, please pass to the third question).

**i.The Formal Budgeting Planning**

The formalization of budgeting planning refers to the extent of detailed budget use with respect to different operation areas. Please firstly cycle the frequency and the extension of budget use in your company and then tick the exact operation areas that budgets are adopted.

a) How often in a year does your organization use a budget to qualify the firm’s plan for a future period?

1 2 3 4 5

*]Never Few times Quite often*

b)To what extent do you think budgets are prepared to qualify different areas of operation in your organization?

1 2 3 4 5

*Not prepare Small extent Great extent*

c) The operation areas that budgets cover are: (please tick at the front of corresponding items)

Production Sales ( )

Marketing ( )

Human resource ( )

Research & development ( )

Others ( )

**ii.The extent of Formal Budgeting Control**

a)–How often do you think your organization calculate the difference between actual performance and budgeted performance?

1 2 3 45

*Never Few times Quite often*

b)–To what extent do the budget variances (calculating difference between actual performance and budgeted performance) cover with respect to different items of operation activities, revenues, and cost for taking appropriate corrective action?

1 2 3 4 5

*No calculation Small extent Great extent*

c)–The operation areas that budget variances cover are:(please tick at the front of corresponding items)

Production sales ( )

Marketing ( )

Research and development ( )

Human resources ( )

Others namely ( )

d)-Do appropriate corrective actions are taken in the case that the budgeting negative variance occurs in your company?

YES ( )

NO ( )

e)- Are rewards given in the case that positive budgetary variances occurs?

YES ( )

NO ( )

THANK YOU FOR YOUR PARTICIPATION