

**BUDGETARY CONTROL AND ORGANISATION PERFORMANCE  
A CASE STUDY OF BAKHRESA GRAIN MILLING UGANDA  
LIMITED (AZAM)**

**BY**

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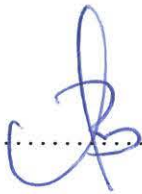
**A RESEARCH REPORT SUBMITTED TO THE DEPARTMENT OF COLLEGE  
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## DECLARATION

I Buyera .M. Michael hereby declare that the work presented in this dissertation has never been submitted for any other degree award to any other university or institution of higher learning before. Therefore all the work contained herein is original unless otherwise stated.

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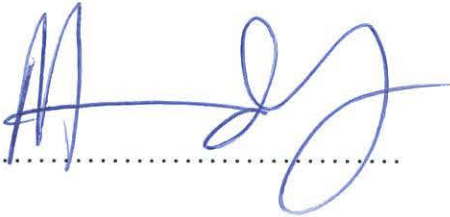



Date:

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## APPROVAL

This is to certify that this dissertation has been submitted in partial fulfillment of the requirement for the award for the degree of bachelors of commerce with the approval of my University supervisors.

Signed .....  


Date.....  


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## **DEDICATION**

This work is dedicated to my dear wife Mrs. Mebra Buyera who tirelessly kept encouraging me while I was writing this research; the Manager Bakhresa Grain Milling Ltd who provided all information and above all my uncle Mr. Wakhakha Samwiri who provided all financial and moral support.

May the almighty God bless you always!

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## **ABSTRACT**

This research focused on the budgetary control and organizational performance in Bakhresa Grain Milling (U) Ltd (Azam) with four major objectives:

Establishing how budgetary control are being used in Bakhresa Grain Milling (U) Ltd (Azam), Whether there is a relationship between budgetary control and organizational performance, establish whether budgetary control has improved occurrence and reliability of the company and to examine the challenges Bakhresa Grain Milling (U) Ltd (Azam) is facing as a result of applying budgetary control systems.

The researcher used a sample of 36 respondents. A stratified random sampling method, simple random and purposive sampling methods were used to select respondents to form the sample as the basis of the survey.

On the part of customers convenience sampling method was used to suit their availability and schedule. A descriptive research design was used in order to establish together all facts to aid in analyzing the relationship between budgetary control and organizational performance.

The researcher used both primary and secondary data in compiling the findings. Primary data was collected using limited observation but to a large extent questionnaire was used. Secondary data was gathered from company management reports, strategic plans, company budgetary control systems and working progress reports together with published texts.

Data was collected and analyzed for purposes of ensuring accuracy, consistency so as to convey meaning to the reader. Frequency tables and graphical presentations

were used to highlight all statistical relational patterns between the dependent and independent variables.

To highlight more about the relationship between budgetary control and organizational performance, a correlation coefficient and the coefficient was used to determine the strength of the relationship. It was discovered that there was a strong negative relationship between budget estimates and actual budget expenditure.

The researcher observed a number of challenges such as negative response from the employees of the company in answering the questions. However, the researcher suggested measures such as training of employees in budgetary control skills so as to curb these challenges in order to improve performance of the organization.

## **CHAPTER ONE**

### **1.0 Introduction**

For any organization to survive, managers must look at objectives which result from strategic planning and then consider methods by which these objectives can be achieved. Planning is therefore an important tool for putting the organizational objectives into action (Pandy, 1996). The most common link between the management function of planning, leading and controlling is the budget (Taylor and Parker, 1996). The budget therefore is the quantitative expression of a plan of action prepared in advance of the period to which it relates (Lucey, 1996).

Despite the existence of budgetary controls, the performance of Bakhresa grain milling (U) Ltd (Azam) is continuing to decline. Actual reporting of results and variances acts in evaluating and measuring the performance of managers and also help in the assessment of the activities of the lower staff (Meigs, 1989). And if the situation is not improved, the company could loose its market share; fail to pay its stakeholders culminating into a financial distress.

### **1.1 Background**

Due to the free enterprise system, business firms take budget as a fundamental tool to establish a means of performance to enable a system of control to be introduced in the business for effective decision making.

Therefore, budgetary control involves the continuous comparison of the actual results against budgets to form a basis of revision of standards and taking corrective action (Din, 1989).

Budgetary control is essential to ensure that the organizational objectives are achieved either on short or long term basis. The essential ingredients of budgetary

control are budgetary system, budgetary control processes, types of budgets and the continuous comparison of budgeted and actual results to ascertain variances (Kotas and Fair, 1976).

Organizational performance is the exploitation of the available resources in an efficient and effective manner in order to meet the organizational goals and objectives (West and Fair, 1994).

However, according to Balunywa (2005), performance entails effectiveness which refers to the firm's ability to serve and provide what the markets require at a low cost with the highest possible benefits. This in turn provides an organization with the ability to meet the required standards, increase market share, improve facilities, and ensure return on profitability and total waste reduction. Once this is done, a business is believed to be performing effectively.

Bakhresa Grain Milling (U) Ltd (Azam) has tried to improve its performance to achieve its objectives but as with many organizations, business is done in a dynamic environment which always creates room for variances between actual budgeted results which should be reviewed and corrective actions taken.

Table 1. Performance of Bakhresa Grain Milling (U) LTd (Azam)

<b>Financial year</b>	<b>Planned annual revenue UGx</b>	<b>Total annual expenditure UGx</b>	<b>Annual surplus/deficit UGx</b>
2007/2008	4,908,205,000	3,943,203,000	965,002,000
2009/2010	5,640,562,000	5,798,652,000	(158,090,000)

A comparative study therefore has to be done to investigate why this situation is occurring in Bakhresa Grain Milling (U) Ltd (Azam) and the resources will be able to answer the following research question:

- i. How are the budgets used as a management tool in Bakhresa Grain Milling (U) Ltd (Azam)?
- ii. What are the levels of performance of Bakhresa Grain Milling (U) Ltd (Azam)?
- iii. What is the relationship between budgetary control and organizational performance?

## **1.2 Statement of the problem**

Budgeting has been described as a planning tool for setting a frame work to guide the achievement of desired performance (reflected in the set targets). However, Bakhresa Grain Milling (U) Ltd (Azam) has continued to have variances between the budgeted and actual results. These lead to budget deficits hence poor performance of the company. This is therefore the reason why the researcher is carrying out the study.

## **1.3 Purpose of the study**

The study seeks to establish the relationship between budgetary control and organizational performance. The study will also greatly cover the variances that exist in Bakhresa Grain Milling (U) Ltd (Azam) that affects its performance despite the existence of budgetary controls.

## **1.4 Objectives of the study**

The objectives of the study are:

1. To assess the role of budgets as a management tool.
2. To establish the levels of performance of Bakhresa Grain Milling (U) Ltd (Azam).
3. To evaluate the relationship between budgetary control and organizational performance.

## **1.5 Research questions**

1. How are the budgets used as a management tool in Bakhresa Grain Milling (U) Ltd (Azam)?
2. What are the levels of performance of Bakhresa Grain Milling (U) Ltd (Azam)?
3. What is the relationship between budgetary control and organizational performance of Bakhresa Grain Milling (U) Ltd (Azam)?

## **1.6 Scope of the study**

### **1.6.1 Geographical scope**

The study will be carried out in the premises of Bakhresa Grain Milling (U) Ltd (Azam) in the production, marketing, finance and procurement departments. These are the areas from which the researcher's respondents will be selected since they are considered to be so busy with a lot of company activities.

### **1.6.2 The content scope**

The study is concerned with budgetary control as the independent variable and it is indicated by budgetary control systems, budgetary control processes, types of

budgets and budgetary control objectives. Organization performance is the dependent variable indicated by profitability, increased market share, quality of products, level of customer satisfaction, production levels, return on investments, improved facilities, meeting standards and total wastage reduction. The study is to cover the roles of budgets as a management tool in decision making and other factors that affect performance of organizations.

### **1.6.3 Time scope**

The study is to cover the performance of Bakhresa Grain Milling (U) Ltd (Azam) between the production periods of 2008 – 2010 financial years.

### **1.7 Significance of the study**

- i. The study will help to improve on the budgetary methods used in the organization.
- ii. It will enable management to find ways of overcoming those factors responsible for large variances and then improve on the management and preparation of effective budgetary control system.
- iii. The study will enable other business organization, the investor and government to improve on the management and preparation of effective budgetary control system.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

In this chapter, a theoretical and practical relationship between budgetary control and organizational performance will be looked at as studied by different authors.

#### **2.1 Budgetary control**

A budget is looked at as a medium through which managers from various departments of an organization come together and work as a team. It is a quantitative statement prepared prior to a defined period of time to be pursued during a specific period for the purpose of attaining a given objective (CIMA, 1988). However, (Kotas, 1976) defines a budget as a statement expressed in monetary terms reflecting the policy of the business and determining business operations of a particular trading period.

Budgetary control is defined as the effective and orderly execution of the budget and it is normally achieved through selective expenditures and periodic reporting on performance (Frank and Sangster, 1999).

To the chartered Institute of management (CIMA), budgetary control is an establishment of budgets relating to the responsibilities of executives to the requirement of policy and continuous comparison of actual with budgeted results.

However to Kotas (1981), budgetary control is a means through which responsibilities for various budgets are assigned to the manager concerned and continual comparison is made of the actual with the budgeted results.

Frank wood (1994), asserts that budgetary control is a medium through which managers from various departments of the organization come together and work as a team. He further argues that budgets should be perceived as guide to decisions that are likely to lead to optimum performance.



The open college ltd et al. (1990) summarizes the whole debate by defining budgetary control as away of ensuring that the objectives set by the organization are fulfilled to achieve the desired level of performance.

These measure a single level of activity. They represent a prefixed point with which actual results are compared. They provide a basis for planning, coordination and control.

### **Flexible budgets**

This consists of a range of budgets based on some measure of activity. They change with the level of activity attained. They determine the precise level of activity in advance of the actual operation. They are used to show costs and profits associated with different levels of out put to help management choose the optimal out put level.

### **Extended budgets**

In such budgets one year's period is granted divided in to four quarters or twelve months. Therefore budgets are prepared with in these small periods then actual performance of such periods is measured and compared with the budgeted performance. If comparison reveals that actual results are too much from budgeted results and causes are due to some unavoidable or uncontrollable factors, then the main period's budgets require adjustment and the first quarter is dropped out from the budget.

### **Functional budgets**

These relate to a particular function of the business for example sales, marketing, production and other. All function budgets are classified into what is known as the "Master Budget".

### **Activity Based Budget (ABB)**

These argue that its activities that drive costs and those activities should be identified with their costs. They recognize that drive costs and cost center consume

activities that do not add value. So these should be screened and more immediate and relevant performance measures instituted.

### **Zero-Based Budgets (ZBB)**

These are budgets for a particular cost center prepared from a zero-base. Every time expenditure is made it has to be justified on its entirety in order to be included in the next year's budget. Zero-based budgets identify and eliminate wastage, result in more efficient allocation of resources, increase communication within the organization and makes managers more aware of the costs of inputs to identify priorities.

Zero-based budgeting is a cost benefit approach where by it is assumed that the cost allowance for an item is zero and will remain so until the manager responsible justifies the existence of the cost item and the benefit expenditure brings. However, Kababiito (2003) has found out that ZBB approach is usually used by non-profit making organization when a new item is being introduced and there is no basis for determining expenditure.

ZBB is preferred to other techniques as it focuses attention on the value for money, makes staff and management get knowledge about the operations of the organization. It is criticized however that it needs a lot of time, management skills and it is not always acceptable to staff who prefer a status quo and who see costs and benefit as a threat and not a challenge (Pandey, 1996).

### **Incremental budgets**

With this type of budgeting a base is determined from which the process will be begun by taking the correct level of the activity. This base is then adjusted for changes which are expected to occur during the new budget (Lucey, 1998). Drury (1998) further says that this kind of budgeting is suitable for activities with clearly defined relationship between inputs and output.

### **Cash Limit Budgets/Resource Limiting Budgets**

In this approach there is need to first identify the resources like cash available. It will be from the available resources that will act as the basis for the estimate. Balunywa, (2002) affirms that this technique requires management simply to avail a certain amount of cash to departments irrespective of activities.

### **Computerized budgets**

Under this approach, the accounting staff are now involved in the real planning process. Computer based financial models normally consist of mathematical statements of inputs and outputs. By simply altering the mathematical statements, budgets can quickly be revised with less effort.

Its advantage is that management can evaluate many different options before a budget is finally agreed upon. However it needs a lot of skills and there is use of many assumptions in formulating the mathematical models which are used to formulate the budgets.

### **2.4 Budgetary control system**

Establishing a budgetary control system requires finding answers to the following questions in context of an organization:

- a) What is likely to happen?
- b) How can the objectives of an organization be achieved?
- c) What are the constraints and to what extent may their effects be minimized?

Setting up a definite plan of an organization is the first step in installing a budgetary control system. This calls for finding answer to the above questions. Hence the preparations of a budget control manual and a budget time table (Sangstar, 1999).

**Budget manual:** In this document, responsibilities of persons engaged in the routine preparation of records required for budgetary control are set. It is the mode for obtaining the necessary approval of budgets and authority of granting approval that is always stated in explicit terms (Meigs, 1989).

**Budget timetable:** Reports, statement forms and other records are maintained for all stages of budgeting. The account classification to be employed is also necessary so that the framework within which costs, revenues and other financial transactions are classified must be identical both in accounts and the budget department.

## **2.5 The Budgetary Control Process**

The budgetary control process is a systematic effort of setting performance standards with set objectives to design a feedback in order to make sure that organization set goal are achieved (Mocker, 1990). Mockler further states that comparing actual performance with pre-determined standards will determine whether there are deviations, measure their significance and take corrective actions. This in turn ensures that organizations resources are used in the most effective and efficient way possible hence achieving organizational goals

**Steps used in budgetary control process:**

### **Communication of details of budget policy and guidelines**

Top management must communicate the policy effects to the long term plan to responsible for preparing the current year's budget so as to come up with meaningful budgets. This helps managers to put into consideration the objectives and long term plans of the organization. If the organizations long term plan calls for aggressive pricing policy for example, then formulators of the budgets must take this into consideration.

### **Determining key principle / limiting budget factor**

Once the details of the budget policy have been communicated to all stakeholders, the limiting budget factor is considered. Prior to preparation of budgets, it is

necessary for top management to determine at which point the annual budgeting process should begin.

### **Preparation of the sales budget**

The sales budget is the most important plan in the annual budgeting process. This is because it involves external factors as well as internal factors so as to determine the volume of sales.

In many organizations the principal budget factor is the sales volume. The sales budget is the primary from which other budgets are made. A sales forecast is the starting point and it considers factors like competition, consumer tastes and economic environment.

### **Initial preparation of other budgets**

In some organizations budgets originate from lower level managers and then are refined and coordinated at high levels in order to enable the responsible managers be involved in budgeting. At this stage individual departments make their own budgets which may include production budget, raw material budget, overhead budget and many others. These are then communicated to heads of different departments who in turn communicate them to their subordinates which makes them accepted to all to strive and achieve the set organizational goals.

Under this stage budgets are submitted to supervisors for approval. The supervisor then incorporates all the budgets for which he is responsible and presents it to the budget committee.

## **2.6 objectives of budget control**

Stating the firm's expectations (goals) in a clear and formal way to avoid confusion and facilitate their attainable goal is the first objective. This is mainly done through planning, coordination, communication and control by management in order to see that the planned output measures to the actual output (Pandey, 1995).

Through planning the budget ensures that managers have thought ahead about how they will utilize the resources to achieve company policy in their area (Taylor, 1998). By planning many problems are anticipated long before they arise and solutions can be sought through careful study.

With planning possible but not probable results are attained. Operational plans should completely be consistent and in this context they should also relate directly to the control activities. If this coupling is not in existence then plans will become irrelevant with time (Gage, 1982).

Budgetary control is also a communication device from which the top management of the organization can pass information to the different departments such that the organization objectives are understood, supported and implemented.

Taylor (1998) states that with coordination, budgets ensure that no one department is out of line in action with others. He further says that budgeting aids managers in coordinating their efforts so that organizational objectives as a whole are harmonized with the objectives of its different parts in such a way allow proper utilization of resources.

The problem likely to suffice however is that there can be no ideal situation and department conflicts will always rise up. Managers of different departments will have to develop their own ways of dealing with situations to suit the organizations needs.

Budgetary control also provides a detailed plan of action which helps to reduce uncertainty and for proper direction of individual and group effort to achieve organizational goals. It is also necessary to ensure that plans and objectives as laid down in the budget are being achieved.

It also provides a means of measuring and controlling performance of individual and units to supply information on the basis of which the necessary corrective action can be taken.

## **2.7 Essentials of budgetary control**

The major reasons for preparation of budgets are to influence managers attention from present to the future, enable management to anticipate problems or opportunities so as to deal with them effectively, strengthen managers motivation

to work towards achieving organizations goals and objectives, give managers an on going reminder of the cause of action they have agreed to undertake and provide a reference point for control reporting (Pandey).

Therefore for an effective control system to be established, the following essentials need to be taken into consideration:

### **Coordination and review of budgets**

As the individual budgets move up the organization hierarchy in the organization process, they are examined in relation to each other so that they are compatible with other conditions, constraints and plans to managers' knowledge or control. Budgets are then reviewed in relation to one another. The budgeted profit and loss account, balance sheet and cash budgets are prepared to ensure that all the individual parts of the budget combine into an acceptable master budget.

### **Final acceptance budgets**

When all functional budgets are in harmony with each other, they are summarized into a master budget consisting of a budgeted profit and loss account, balance sheet and cash master statement. The approval of the master budgets is the authority of the managers in each responsibility centre to carry out the plans contained in each budget.

### **Budget review**

This involves comparing actual results with the agreed budget. At this stage deviations are identified, causes are established and corrective action taken. This is a very critical stage of budgeting because it always seeks the reason for divergence from budget and corrective action taken.

## **2.8 Budgetary control levels**

Control levels have to be put in place at all levels for an organization to perform effectively. An organization that operates its business in different branches has to prepare budgets at two levels:

### **Business unit level**

Every business unit has to draw its budget based on the anticipated revenues and expenditure for a specific period of time. The budget must be in line with the master budget or corporate budget for the whole organization.

### **Corporate budget level**

This represents a summary of all business unit budgets that are drawn and compiled at head office. It is derived from the aggregate individual business unit budgets. The head office has to make an analysis on business unit budgets so as to reconcile with the corporate budget.

### **Budget execution**

This is where the draft budget is put into operation so as to achieve the objectives and goals of the organization set in every budget.

### **Budget calendar**

The guidelines communicated to the budgetary units should contain the budget calendar which details various dates in which the budget activities will be complied by the budgetary units or departments.

## **2.9 Prerequisite for budgetary control**

Horngen et al. (2002) put up the following prerequisite that should be put in place before an organization starts the budgeting process.

### **The budget period**

This is a vital prerequisite for an organization to budget. The budget period is normally divided into monthly periods so that actual results can be compared with budgeted outcomes at short intervals.



### **The budget committee**

This comprises of a budget director who may be financial officers or accountants. It may also comprise of the managing directors, corporate planners and the line function managers. This major function of budget committees would be to provide general guidelines for preparing budgets, offer financial and technical advice, receive review for individual budgets and suggest changes. It is also responsible for authorization of the budgets and ensuring that they are coordinated satisfactorily.

### **The budget staffs**

These and other officers are responsible for the direction and supervision of the budget process. They should assist managers in preparation of the budgets by offering advice for example providing past information which will help in preparing budgets on time.

### **The budget control manual**

This document sets out the responsibilities for each person engaged in the preparation of the budget. The budget control manual should describe the objectives and procedures involved in the budget process.

## **2.10 Advantages of budgetary control**

Budgets are vital tools in management because they provide a direction for the organization. This therefore means that budgets are crucial to the ultimate success of the business. Stoner, (2002) argues that an organization which does not forecast properly will have to collapse in the long run.

According to Meighs, (1999) the major objective of budget preparation is to influence managers to analyze the organization activities critically, direct managers' attention, strengthen their motivation to work towards achieving

organizational goals and objectives and provide them with an on-going reminder of the course of action they have agreed to undertake.

Budgets have been used to help managers perform their jobs of planning, coordination, communication, motivation and controlling as discussed below:

- Budgets are used for planning - Planning is the process of setting selecting goals and determining how to achieve them. The budget process enables managers to plan for the future and consider how conditions in the next period may change and what steps should be taken in order to respond to the changes.
- Horngren et al.(2002) asserts that for an organization to function effectively there must be definite lines of communication so that all parts will be fully informed of the policies and plans to which the organization is likely to face. It is through budgets that top managers communicate its expectations to low level managers so that the organization may achieve its set goals and objectives.
- A budget is a yard stick against which actual performance is measured and assessed. Control is provided by comparisons of actual results against budget plans (Drury, 1992). He stresses that in order to increase productivity efficiency, eliminate waste, it is better that the managers define clearly areas of responsibility.
- Budgetary control is a tool in hand of management to help promote coordination and ensure control. It helps detect weaknesses in the operation and therefore detect wastages there by ensuring reduction on the costs promoting efficiency (Banerjee, 2005).
- Through coordination budgets serve as a vehicle through which actions of different departments are brought together and reconciled into a common plan (Balunywa, 2003). Without guidance managers may each make his own

decision hoping that every one is working for the good of the organization which may on many occasions not be the case. It is therefore the aim of the budgeting process to reconcile these differences.

- Manager's performance is often evaluated by measuring their success in meeting budgets. Budgets thus provide a useful means of informing managers of how well they are performing in meeting targets (Drury, 1998).
- Budgets are used further as an index for measuring employee performance. It thus acts as a control device ensuring that actual activities confirm to planned budgets and a feedback is provided to employees to enable them take corrective action on the variances (Stoner, 2002).

Finally budgets are a useful device for influencing managerial behavior and motivating managers to perform in line with organizational objectives (Mbabazi, 2000). He was further supported by Pandey (1996) who asserted that managers are motivated by budgets and they will always strive to achieve those targets.

## **2.11 Disadvantages of budgetary control**

According to Andrews (1980), budgetary control stresses financial objectives and usually concentrates only in the coming 12 months. It does not deal with company's progress relative to its competitors.

Budgetary control does not also cover non-financial objectives that may be eventually important in the achievement of secured profitability and competitive strength.

Budgetary control does not also pay attention to explicit longer term goals and does not account for social objectives such as health, safety and physical environment.

To Hist (1987), budgetary control poses a danger of rigidity despite the fact that the budget programme must be dynamic and continuously deal with changing business conditions. He further suggests that budgets will lose much of their usefulness if they acquire rigidity.

## **2.12 Organizational performance**

This refers to organization ability to attain its goals by using resources in an efficient and effective manner (Draft, 1990). He further defines efficiency as the use of minimal resources, raw materials, money and people to produce the desired volume of output. He again defines effectiveness as the degree to which the organizations' achieve a stated objective. He is supported by West and Fair (1994) who defines organizations performance as an exploitation of the available resources in an effective and efficient way to meet organizational goals and objectives.

However, Balunywa (1997) defines organization performance as the ability of an organization to meet the required standards, increase in market share, ensure return of profitability and total waste reduction. He further urges that the ultimate responsibility of managers is to achieve high performance in an organization.

According to Batteridge (1998), performance in financial terms can be in terms of cash flows, capital expenditure and other costs, sales volume, price level, assets and liabilities including borrowing and other funding requirements.

To Okema (1994) organization performance is the ability of a person or machine to do something well. To him organization performance is the function of the organization measured in terms of scale and profit.

Performance can also be measured in financial and non financial terms. Financial performance measures provide quantitative and common yard sticks to evaluate achievement relative to plan. Non financial measures include quality of goods and services, customer satisfaction, productivity, customer loyalty all of which influence on financial performance (Horngren, 2002).

The commonest financial performance measure is profitability of the firm. According to Drury (2000), profitability is the main quantitative measure of business success which is the excess of revenue over expenditure.

Norman (1998) states that profit maximization is the ground objective that a firm strives to achieve. When profits are maximized the owners of business will be satisfied as their objective is to maximize their returns. Maximizing profits is a major sign of efficiency and therefore a yardstick against which performance is measured.

To Professor R.S Kaplan of the Harvard Business School, profitability is almost the sole indication of the organizations performance.

However, for Kakuru (2005), profitability is a situation where a firm seeks to maximize its revenue while minimizing its costs.

Increased market share is another way of measuring performance. It is where a company or organization expands on its activities by occupying a large position of the existing market. This reflects performance of the organization in terms of sales and range of products, quality, innovativeness and customer responsiveness.

Performance of an organization may also be viewed when it can be able to meet a particular standard like quality, weight, size and colour. Quality looks at issues like performance, reliability, serviceability and conformance of the products and services towards customer satisfaction of their need and wants. High quality products and services create brand name and reputation to the organization which may allow it to charge high prices (Balunywa, 1998).

Customer responsiveness is another measure of performance. It is the ability of an organization to attract, satisfy and sustain customers for long periods of time (Rearce and Robinson, 2003). They further argue that to achieve customer responsiveness the organization must ensure that customers get exactly what they want.

### **2.13 The relationship between budgetary control and organizational performance**

The study by different scholars shows that there is a relationship between budgeting and performance. Different scholars have different views as below:

Drury (200) is of the view that budgets have a positive relationship with performance. He states that there is a need for organizations to have demanding budgets so as to motivate performance. From his empirical studies, there is substantial evidence that firms which have clearly defined, quantitative goals are likely to achieve higher levels of performance than when no such targets are set.

He is supported by Hofstode (1968) who urges that clearly stated budgetary control objectives motivate employees to increase performance. This therefore means that without budgetary controls there would be no basis for evaluating performance.

Therefore, if budgetary control objectives are put in place the organization performance in terms of profitability, liquidity levels, market share, net on investment, efficiency and effectiveness will always be high to ensure survival and expansion. However, if there are no budgetary control objectives, organizational performance in most cases finds a lot of difficulty

Beirman et al (1976) is of the view that budgets lead to increased performance. This is so due to increased pressure it forwards to staff and management.

The first condition to the budgetary control system is to compare actual budgeted outcomes. This acts as a constant reminder to the objectives which the managers commit themselves to achieve. If budgetary control systems are followed they can be used as a basis for judging actual results in comparison to the budgeted incomes and expenditures. If performances match the standards, managers may assume that everything is under control and where standards are not achieved corrective action are applied (Stoner et al, 1996).

Setting targets of an organization provides the reason for the existence of the organization and what it seeks to achieve in future. Set targets usually depend on the mission and vision of the organization. Therefore setting the organization

targets should always be the first thing to be done. Actual performance has to be measured with targets and variances detected. Favorable performance is recommended and adverse variances corrected to achieve efficient and effective performance (Habour, 2002).

Mockler (1990) defines the budgetary control process as a systematic effort to set the performance standards. An information feed back is designed to compare actual with predetermined standards to determine any deviation and take corrective action to full use of organization resources. Therefore for an organization to achieve high degree of performance there is need to understand the important step in the budgeting process and this is usually through budget education to technically understand all terms and be able to communicate details of policy.

However, if budgetary control processes are not in place, the organization will not realize her dreams and will always struggle to perform to the set standard.

## **CONCLUSION**

This chapter attempts to discuss the review of related literature on budgetary control and performance of organization by various writers. Proper effective and efficient budgetary controls provide highly performing in terms of profit, liquidity levels, market share and full resource utilization. However, this is not the case with

Bakhresa Grain Milling Ltd (Azam) The researcher therefore is set out to find more about the situation at hand.

**Table 2: Composition of respondents**

<b>Name of department</b>	<b>Number of respondent</b>
Production	12
Marketing	6
Finance	10
Procurement	8
Total	36

Source: Primary data

### **3.5 Sample Size and sample Selection Method**

Azam grain millers have a total of 150 employees. Out of this a total of 36 respondents will be selected from the different departments to form the sample of the study. Out of the 36 respondents to be selected 12 will come from the production department, 6 from marketing, 10 from finance and 8 from procurement. The researcher will employ a stratified random sampling method because the population will need to divide in to non over rapping group that is the department called strata. These are the departments which include; production, marketing, finance and procurement. The researcher will also use simple random sampling method because after dividing the population in to strata, He will select a sample from each stratum using this method because it gives an equal chance to each to be selected. Then a purposive sampling method will also be employed to select staff and senior management that are involved in the budgetary pre parathion and control. He will divide the sample size in the different departments into strata using stratified random sampling. A simple random sampling method will be used to select respondents from each stratum so as to give each member a chance to be selected. Purposively the top executives will be selected including senior managers from the different departments since they are relevant to the study.



### **3.6 Data sources, Collection Tools /Methods**

I will use both primary and secondary data. Primary sources will consist of first hand information obtained from questionnaires, interview guides and observations from actions of respondents. The secondary data source will comprise of organizational records, Newspapers, journals, textbooks and other manuals in a related field.

A self administered questionnaire will be used to acquire data from respondents. It will be designed in line with the study objectives, pre testes and corrections made. It will then be distributed to the staff and senior managers to seek for their views.

### **3.7 Data management**

I will get a letter from the institute of College of open education and distance learning which will be submitted to responsible officers of Azam grain millers in order to seek persons to talk to the concerned respondents. The researcher will then distribute the questionnaires among the respondents and seek for their cooperation while answering the questions.

#### **3.7.1 Data processing**

Data collected from the field will be classified, edited, coded and filtered to ensure completeness and accuracy of the findings.

#### **3.7.2 Data analysis**

The research findings will be analyzed using statistical package for social scientist (SPSS) a computer package for data analysis. This will be supported by use of

tables of frequencies and percentages. The will be in a form of a report where narrative graphs will be display the findings of the study.

### **3.8 Limitations of the study**

I expect to find a number of problems and challenges that may include:

a) **Time** Since the researcher is not on a full time programme, time is expected to be a limiting factor. Much time will be spent while carrying out extensive and exhaustive study while carrying out interviews and many respondents may be too busy or have limited time for the study.

b) **Funds**

Since the project is privately sponsored, funds to support activities like transport, typing, printing, photocopy, binding, stationery, internet surfing and other activities may not be readily available.

c) **Suspicion**

Some respondents may be suspicious, especially those who feel that they have not done much to meet the set budgetary goals.

## **CHAPTER FOUR**

### **4.0 PRESENTATION AND INTERPRETATION OF FINDINGS.**

#### **4.1 INTRODUCTION**

This chapter covers presentation of the findings according to the objectives of the study. The presentation begins with a description of the sample characteristics using tabulation analysis. The second section of the chapter contains the data analysis of results obtained from respondents about the study on the variable budgetary control and the organizational performance in Bakhresa Grains Milling (U) Limited (Azam). The data presented in this chapter was gathered using both primary and secondary sources. The questionnaire was used to collect data as a technique that contained the key questions aimed at providing answers to the key research questions derived from the research objectives in the representation of the findings. Table and graphs are used to describe the characteristics of all sub variables to give a clear interpretation of the results.

#### **4.2 BACK GROUND INFORMATION AND RESPONE RATE**

This section depicts the response rate statistics and the background information about the sample used. Considering the sample of 36 respondents 32 of them returned the questionnaire registering 89% response rate which under normal circumstances was quite good.

**Table 3: Age distribution of respondents**

<b>Age brackets in years</b>	<b>No. of respondents</b>	<b>Percentage</b>
20 - 29	8	25
30 – 39	14	47.75
40 – 49	7	3.875
Above 49	3	9.375
<b>Total</b>	<b>32</b>	<b>100</b>

Source: Primary data question questions

### **Background information**

The above analysis show that Bakhresa Grain Milling (U) Limited Azam) relies more on the labour force in the age bracket below 49 years of age. This probably indicates the age class that is capable of responding to change in system of operations especially the adoption of budgetary control system and performance of organization. However, Bakhresa Grain Milling Limited has few employees above the age bracket of 49 years in managerial position to provide top management leadership.

**Table 4: Occupation or position of respondents in the organisations**

<b>Occupation/Position</b>	<b>No. of respondents</b>	<b>Percentage</b>
Production	11	34.375
Marketing	5	15.625
Finance	8	25
Procurement	8	25
<b>Total</b>	<b>32</b>	<b>100</b>

**Source: Primary data**

From the above analysis Bakhresa Grain Milling (U) Limited (Azam) has more labour force in production that takes 34.375 percentage compared to other departments. This followed by Finance department and procurement department that takes 25% and lastly the marketing department that takes 15.625%.

**Table 5: Educational status**

<b>Department</b>	<b>Production</b>	<b>Marketing</b>	<b>Finance</b>	<b>Procurement</b>	<b>HR</b>	<b>C/R</b>	<b>Total</b>	<b>%age</b>
<b>Primary</b>	4	0	0	0	0	0	4	12.5%
<b>Secondary</b>	5	0	0	0	0	2	7	21.875
<b>Diploma</b>	3	2	2	3	0	0	10	31.25
<b>Degree</b>	1	2	3	0	1	0	7	21.875
<b>Masters</b>	0	0	1	0	2	0	3	9.375
<b>No response</b>	1	0	0	0	0	0	1	

								100%
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**Source : primary data questionnaire No.3**

Most of the respondents were educated. The lowest education group formed 12.5% of the total respondents. The group of Diploma level mostly dominated by teenager boys formed the majority of the respondents with 31.25% otherwise the various departments had reasonably varying percentages with relative small deviation.

**Table 6: Period worked with Bakhresa Grain Milling (U) Ltd (Azam).**

No. of years	No. of respondents	Percentage
1-5	6	18.75
6-10	22	68.75
Above 10	4	12.5
<b>Total</b>	<b>32</b>	<b>100</b>

**Source: Primary data questions**

The above table shows that most of the employees are in bracket group age of (22) hard working for a period of between (6 – 10 years, this analysis indicated most of the employees are still new to the organizational services since they have not worked for a period of 10 years.

### 4.3 Evaluation of the use of budgetary controls in Bakhresa Gain Milling (U) Ltd

The response was good though most of the respondents needed explanation first before filling the questionnaires, however, this section analyses the budgetary control system that were being used in the company so as to achieve better performance.

The survey showed that Bakhresa Gain Milling (U) limited was predominantly depending on budgetary control system in their operations.

**Table 7: Response rate**

Criteria	Response	Percentage
Strongly agree	2	6.25%
Agree	10	31.25%
Not sure	14	43.75%
Disagree	6	18.75%
Total	32	100

Source: Primary data question 6

The table analysed the response of the Bakhresa Gain Milling (U) limited (Azam) staff which was very good. The percentage of those who strongly agree was 6.25, those who agree were 31.25%, and those not sure were 43.25% while those who disagreed were 18.75%.

#### 4.3.1 Effectiveness of budget controls in Bakhresa Gain Milling (U) limited (Azam)

**Table 8: The effectiveness budget control system**

Criteria	Response	Percentage
Strongly agree	4	12.5%
Agree	8	25%
Not sure	12	37.5%
Disagree	8	25%
<b>Total</b>	<b>32</b>	<b>100</b>

**Source: Primary data question 7**

The above table analysed the effectiveness of the budget control system in Bakhresa Gain Milling (U) limited (Azam). It shows that the majority of the employees (over 62.5%) indicate that the system was inefficient in the organization.

#### **The relationship between budget controls and organizational performance**

**Table 9**

Criteria	Response	Percentage
Strongly agree	5	15.625%
Agree	16	50%
Not sure	8	25%
Disagree	3	9.375%
<b>Total</b>	<b>32</b>	<b>100</b>

Source: Primary data question



This frequency distribution table represents the response of the selected participants' views towards the study variables. Out of 32 people only 5 strongly agreed. The relationship between budgetary control and organizational performance only 16 people agreed on the relationship between budgetary control and organizational performance. Only 8 people were not sure about the about the relationship between the organizational performance and 3 people disagreed on the relationship between budgetary control and the organizational performance in Bakhresa Grain Milling (U) limited.

## **CHAPTER FIVE**

### **5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary of findings**

In the proceeding chapter, the researcher analyzed and discussed the budgetary controls and organizational performance in Bakhresa Grain Milling (U) Limited (Azam). This chapter summarize the findings of the research, gives the conclusions as well as recommendations. For changing further performance in Bakhresa Grain Milling (U) Limited (Azam) these summaries have been made on the basis of the questionnaire in line with the research questions.

##### **5.1.1 Relationship between budgetary controls and organizational performance.**

The section represented responses to analyse the relationship between budgetary controls and organizational performance in Bakhresa Grain Milling (U) Limited (Azam). During the analysis, the researcher discovered that most respondents believed in budgetary controls and has had tremendous impact on the performance in Bakhresa Grain Milling (U) Limited (Azam). The budgetary control system of those who agree on the relationship towards the performance are about 65.625% and those who disagree and not sure about the relationship was 34.375% in the organization.

## **5.2 Conclusion**

The management of Bakhresa Grain Milling (U) Limited (Azam) embrace the budgetary control system in their operations. To improve performance, despite the massive innovations, the management embraces budgetary control system in the organization. This research was conducted to find out whether the budgetary controls had any influence on performance in Bakhresa Grain Milling (U) Limited (Azam). From the findings of the research it is pertinent to conclude that budgetary control has been instrumental in achieving improved performance and therefore the inadequacy of the management information system cannot be associated with the budgetary control systems. However, the budgetary control system had led to increased output in the production of Bakhresa Grain Milling (U) Limited (Azam). Budgetary control system has improved on the performance of Bakhresa Grain Milling (U) Limited (Azam).

## **5.3 Recommendations**

The company should encourage its employees to take budgetary control seriously so as to improve performance.

The company should put in place a full budgetary control system department to take care of all budgetary related innovations to ensure continuous update of their systems.

The company should sensitize their employees about all budgetary control systems so as to achieve the performance of the organization.

Bakhresa Grain Milling (U) Limited (Azam) should carry out regular training in form of refresher courses to revive employees' knowledge in budgetary control system and innovation.

Internet connectivity with limited levels of access should be increased to ease the sharing of information and enable easy budgetary controls of company's operations.

**5.4 Areas for further research in line with the foregoing research findings**  
**future research could focus on the following areas.**

1. The effect of budgetary control on employment opportunities.
2. The role of budgetary control in decision making process.
3. The impact of budgetary control on organizational culture.
4. Budgetary control and motivation of employees.

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## EVALUATION AND THE USE OF BUDGETARY CONTROLS IN BAKHRESA GRAIN MILLING (U) LTD (AZAM)

You are kindly requested to show the extent to which you agree or disagree on matters relating to budgetary controls.

(Please tick most appropriate of: A=Strongly agree, B=Agree, C=Not sure, D=Disagree and E=Strongly agree)

Statement	A	B	C	D	E
Each department draws its own budget on estimated expenditure and expected revenue					
Each department receives enough funds to implement its budget					
Bakhresa Grain Milling (U) Ltd has a budget committee to monitor the performance of the budget.					
Responsibilities of budget implementers have access to all budget drafts					
There are internal checks put in place to ensure that targets are achieved and expenditure is not exceeded.					
A budget calendar is put in place to help explain any delays					
All relevant employees participate in formulation of the budget.					
Systems are in place to address any variations in the budget					
Budgetary controls are across all departments of the organization					

## 7. EFFECTIVENESS OF BUDGETARY CONTROLS IN BAKHRESA GRAIN MILLING (U) LTD (AZAM)

The table below relates to statements that will enable the researcher to assess the effectiveness of budgetary controls.

(Please tick most appropriate of: A=strongly agree, B=Agree, C=Not sure, D=Disagree and E=strongly agree)

Statement	A	B	C	D	E
Budgeting has improved financial discipline in the organization					
Employees performance has improved as a result of budgetary controls					
Coordination of activities in Bakhresa Grain Milling (U) Ltd has been improved due to the use of budgetary controls					
Objectives in Bakhresa Grain Milling (U) Ltd have been achieved					

## SECTION: B

## 8. RELATIONSHIP BETWEEN BUDGETARY CONTROLS AND ORGANISATIONAL PERFORMANCE

The statements here below are to help in assessing the relationship between budgetary controls and organizational performance

(Please tick most appropriate of: A=Strongly agree, B=Agree, C=Not sure, D=Disagree and E=Strongly agree)

Statement	A	B	C	D	E
Budget preparation and controls have encouraged employees to as a team					
Monitoring of business performance is made easy by					

use of budgetary control					
Budgets have enabled Bakhresa Grain Milling (U) Ltd achieve targets					

9. To what extent are the budgetary controls related to organizational performance?

Highly related

Slightly related

No idea

Not related

10. Do you feel budgetary controls have improved the performance of Bakhresa Grain Milling (U) Ltd

Yes

NO

Not sure

### **ASSESSMENT OF ROLES PLAYED BY BAKHRESA GRAIN MILLING (U) LTD (AZAM) USING BUDGETARY CONTROLS**

11. What technique do you use in determining your budget?

a. Rolling

Zero based

C. Incremental

d. Other (Specify)



12. What type of targets do you make?

.....

.....

.....

13. Has the consultation been effective?

.....

.....

.....

14. If yes, state how it was effective?

.....

.....

.....

15. In the table provided, indicate whether the variables pointed out can be used to measure performance.

Variable	Strongly agree	Agree	Not sure	Disagree	Strongly Disagree
Output					
Quality					
Delivery Time					
Distribution					
Sustainability					

16. Do you think budgetary controls have an effect on your performance?

Yes

No

Not sure


*Thank you for your cooperation!*



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## College of Open Education and Distance Learning

*Office of the HOD – Business and Management Science*

11<sup>th</sup> August, 2011

To Whom It May Concern:

Dear Sir/Madam,

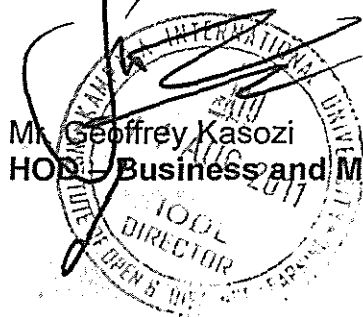
### Introduction Letter for Research

I have the pleasure to introduce Buyera M. Micheal – BCOM/17808/71/DU to you. He is a student of Bachelors Degree in Commerce - Accounting option at Kampala International University. He is carrying out his research on "Budgetary Control and Organizational Performance" A case Study of Bakhresa Grain Milling (U) Ltd. He is at the data collection stage and your Institution / Organization has been identified as his area of study. It will therefore be appreciated if you can give the best assistance to him for a dependable research work.

~~The university will be counting on your kind cooperation.~~

Thank you

Mr. Geoffrey Kasozi  
HOD – Business and Management Science (CODL)



*"Exploring the Heights"*