

THE EFFECTS OF BUDGETARY CONTROL ON ORGANIZATION'S PERFORMANCE

CASE STUDY OF EAST AFRICAN BREWERIES LIMITED

(EABL)

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A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND  
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## DECLARATION

I **Geoffrey Gathegu Karuga** do hereby declare that the work presented on this dissertation is original and has never been submitted by anybody for the award of Diploma or Degree in any university or institution of higher learning.

The literature and citation from other scholars' work has been carefully and fully referred to and acknowledged in the text and bibliography.

Signature: 

Date: 29<sup>th</sup> June, 2010

## APPROVAL

This research dissertation by Geoffrey Gathegu Karuga has been prepared under my supervision and submitted with my approval.

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## **CHAPTER ONE**

### **1.0 INTRODUCTION**

This chapter is an introduction. It covers the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, conceptual framework and significance of the study.

### **1.1 BACKGROUND OF THE STUDY**

Of all business activities, budgeting is one of the most important and requires management to take due attention in order to achieve objectives of the organization. Colin (2000) argues that it is essential that all organizations set objectives and plan for the future. The formation of such plans should include the optimum use of resources. The short-term plans involving the use of resources are often referred to as budgets. (ACCA,2003 official textbook to professional qualification).

Effective management determines successful business since it is supposed to be able to raise organizational resources to achieve organizational goals.

Business organizations are established for a variety of reasons; including profit motive, creation and retention of a customer, survival, growth and an array of social economic objectives. For any organization to continue in business, it must achieve its goals.

According to Daff (1988), “the ultimate responsibility of managers is to achieve high performance after proper allocation of resources in an efficient and effective manner.”

Stacey (1999) shows that performance of an organization in financial terms must be accepted to owners and other stakeholders. He indicates that there are several measures of financial performance including cash flows, profitability, sales volume, capital expenditure, price levels, assets and liabilities including borrowing and other funding requirements. He argues that these financial measures are influenced by the budgetary controls used in organizations.

Budgetary control demands a continuous comparison of actual with planned results and implies that necessary action will be taken to influence and rectify activities if actual performance differs

from planned performance (Daff,1988). Thus the existence and/or implementation of good budgetary controls facilitate the achievement of budgeted sales revenue performance.

### **1.3 STATEMENT OF THE PROBLEM**

Business organizations normally employ a number of budgetary controls in order to achieve performance targets and organizational goals and try to draw up on the directions and control of their activities (Wahab,1997).Organizations use different budgetary control mechanisms in order to enhance organizational control (Colin,2000). Although some organizations have tried to put budgetary controls in place, some have not realized the intended results, but instead have registered variances in their performance.

Variance analysis tends to focus managerial attention on those parts of the organization not performing according to plan, and identifies the need for remedial action. If the variances are adverse (unfavorable) to the organization, then they could stifle the organization's growth and performance.

The researcher would like to find out more about this unclear position and to find out ways of overcoming this situation.

### **1.4 PURPOSE OF THE STUDY**

The purpose of the study was to determine the effect of budgetary control on organization's performance.

### **1.5 OBJECTIVES OF THE STUDY**

In order to achieve the purpose, the researcher focused on the following objectives:

- i) To examine the effectiveness of budgetary controls in the organization.
- ii) To identify the factors which determine organization's performance.
- iii) To determine the relationship between budgetary control and organization's performance.



## **1.6 RESEARCH QUESTIONS**

To achieve the above objectives, the study was guided by the following research questions:

- i) How effective are the budgetary control measures?
- ii) What factors determine organizational performance?
- iii) What is the relationship between budgetary control and organization's performance?

## **1.7 SCOPE OF THE STUDY**

The study was to cover the effect of budgetary controls on organization's performance of East African Breweries Limited.

The study was carried out in the company's headquarters in Nairobi, Kenya.

It was conducted between the months of May and June 2010.

## **1.8 SIGNIFICANCE OF THE STUDY**

It is the hope of the researcher that this study will offer a number of benefits to various individuals.

This research dissertation if approved will benefit students and other interested persons in a way that they will be exposed to a big pool of literature to which the research proposal will add. It may provide up to date literature for academicians and other interested parties for the further research prospects in the same field of study.

The findings of the study bridged the gap between the theory studied in class and the practical aspects of budgetary controls. Additionally, the researcher gained research skills and knowledge on how budgetary controls can be used to enhance organization's performance.

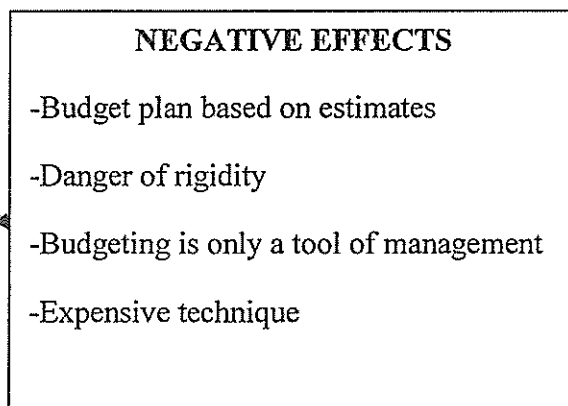
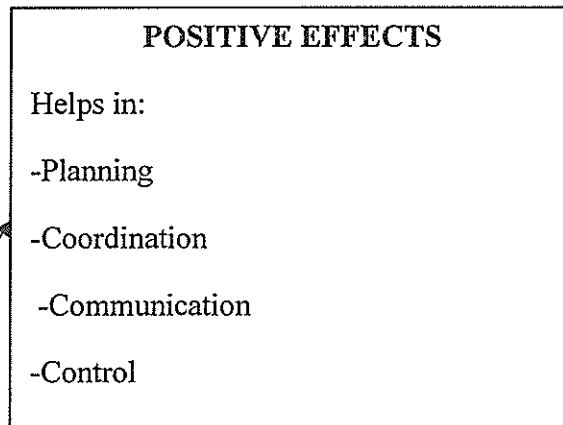
## 1.9 CONCEPTUAL FRAME WORK

Conceptual framework defines the research topic through the explanation of the variables within the topic. For the purpose of this research the independent variable was budgetary controls and the dependent variable was organization's performance.

This can be illustrated in the figure below.

Independent  
variable

Dependent variable



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 INTRODUCTION

This chapter covers the review of the existing literature related to budgetary control and organization's performance.

#### 2.2 BUDGETARY CONTROL

##### 2.2.1 Definitions:

i) **Budgetary control;** This is defined as the establishment of budgets relating to the responsibilities of execution of a policy and the continuous comparison of the actual with budgeted results, either to secure by individual action the objectives of the policy or to provide a basis for its revision.(Colin, 2000).

ii) **Budget;** According to Lucey (1996), a budget is "a quantitative expression of a plan of action prepared in advance of the period to which it relates."

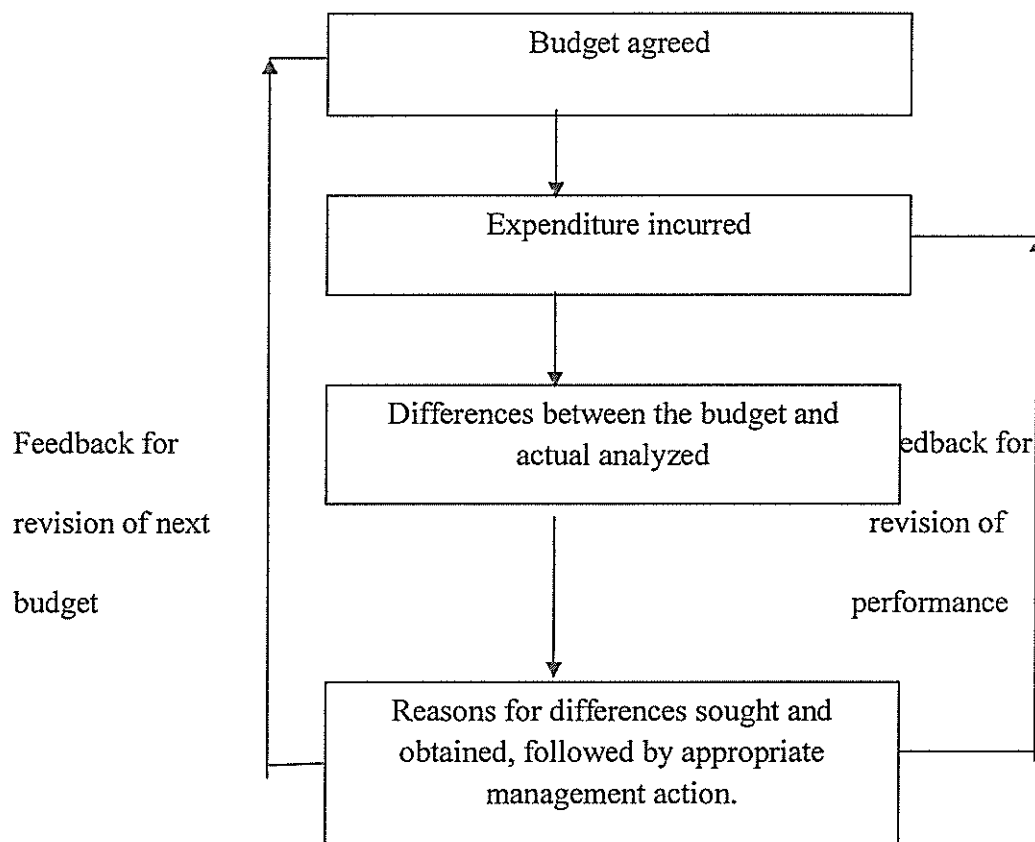
Pearce and Robinson (1995) took a management view on the definition of a budget. They defined it simply as "a resource allocation plan that helps managers coordinate operations and facilitates managerial control of performance."

This definition is in direct agreement with Wahab (1996) that a budget is a quantitative statement of expressions concerning the allocation of resources and performance.

iii) **Budgeting;** This is the process of expressing plans in quantitative terms and committing the plans on paper in some orderly and systematic fashion.

The budgetary control cycle can be illustrated as follows:

**Figure 1: Showing Budgetary control cycle.**



**Source: ACCA 2003 Paper 1.2 Textbook for professional qualification.**

The feedback loop in the control system requires a formal reporting procedure. This link is vital in that the budget system and may help identify variances and hence problems, but unless these are effectively communicated to management, the knowledge may be valueless.

### **2.3 GENERAL BACKGROUND TO BUDGETARY CONTROL**

Budgetary control is a system of controlling costs through budgets and thus budgeting is only a part of the budgetary control system.

The most common link between the management function of planning, leading, organizing and controlling is a budget (Taylor and Parker, 1996). According to them, “a budget is a plan quantified in monetary terms, prepared and approved prior to a defined period usually showing planned income to be generated and/or expenditure to be incurred during that period, and the capital to be employed to attain that objective.”

Companies and organizations employ a number of budgetary controls including budgetary authorization, budget review and establishment of budget centers with the aim of improving the organizational performance. This in agreement with Lucey (1996) argument that “the process of comparing actual results with planned results and reporting on the variances, sets a control framework which helps in keeping expenditure within agreed limits and performance to be improved.”

Arora (1995), indicates that budgeting is one of the very important tools of planning and control. In the same view, Lucey (1996), also argues that the control aspect of budgeting is the most well known and is the aspect most frequently encountered by the ordinary staff member.

He adds that the process of comparing actual results with planned results and reporting on variances, which is the principle of budgetary control, sets a control framework, which helps expenditure to be kept within agreed limits. This makes deviations to be noted so that corrective action can be undertaken.

Thornton (1981) argues that, “the technique which all embraces all activities of the business and serves to support key aspects of the management control process is budgetary control.” He further noted that “the importance of the technique in relation to information for management may be judged by the use of the budget to relate objectives and policies to managerial responsibility and overall control.” Clive and David (1997) observed that “many businesses fail because of lack of planning. By budgeting, many problems and dangers which the business has to face are anticipated”.

Budgetary control involves a constant comparison of actual performance with the budgeted goals of the business. Therefore, budgetary control provides information on what the business is trying to achieve and how it expects to transform its plans to reality.

### **2.3.1 Objectives of budgetary control**

According to Arora (1995), there are four objectives of budgetary control and he indicates that these are so related that it is not possible to discuss one without the other. These objectives are:

**i) Planning:** A budget provides a detailed plan of action for a business over a definite period of time. Detailed plans relating to production, sales, raw material requirements, labor needs, advertising and sales promotion performances are drawn up. By planning, many problems are anticipated long before they arise and solutions can be sought through careful study.

**ii) Coordination:** Budgeting aids managers in coordinating their efforts so that objectives of the organization as a whole harmonize with the objectives of its parts. Effective planning and budgeting contribute a lot in achieving coordination. For example, coordination requires that purchasing managers integrate their plan with production requirements and the production managers use the sales budget to help them anticipate and plan for the manpower and plan for the facilities they require.

**iii) Control:** Control is the action necessary to ensure that plans and objectives are being achieved as laid down in the budgets. Control as applied to budgeting may be thought of as a systemized effort aimed at keeping management informed of whether predetermined plans are being conformed to or not. For the purpose, a comparison is made between planned and actual performance. The difference between the two is reported to management to take a corrective action. Thus, control is not possible without planning.

**iv) Communication:** A budget is a communicating device. The approved budget, showing in details the plans of management, will not be carried out unless the organization understands what the plans are.

Copies of the budgets may be distributed to all management personnel who will serve to provide not only adequate understanding and knowledge of the programmes and policies but also give knowledge about the restrictions to which the organization is expected to adhere. For example,

maximum resources that can be spent on advertisements, maintenance, will be brought to the knowledge of the executives concerned.

## **2.4 ROLE OF BUDGETARY CONTROL**

Budgetary control helps shape overall plans of the organization, set performance standards and coordinate activities into a unified whole (Wahab, 1996).

However, Arora (1995) gives a more elaborate view about the role of budgetary control.

He noted that;

- i) Budgeting compels managers to think ahead in order to anticipate and prepare for changing conditions.
- ii) Budgeting increases production, efficiency, eliminates waste and controls costs.
- iii) It shows management where action is needed to remedy the situation.
- iv) The budgeting control system creates necessary conditions for the introduction of standard costing technique.
- v) It directs capital expenditure in the most profitable direction.
- vi) It instills into all levels of management a timely, careful and adequate consideration of all factors before reaching important decisions.
- vii) Budgeting creates cost consciousness and introduces an attitude of mind in which waste and inefficiency cannot thrive.

Besides the above objectives, Clive and David (1997) explain the role of budgetary control in terms of provision of information for planning and control. They argue that “budgetary planning and control are the most visible use of accounting information in the management control process. By setting standards of performance and providing feedback through various reports, the accountant supplies much of the fundamental information required for overall planning and control.”

Lucey (1996), summarizes the role of budgetary control indicating that, “budgeting can bring a number of real advantages including coordination, clarification of responsibility, improved communication, increased control and the motivation of personnel.

## **2.5 LIMITATIONS OF BUDGETARY CONTROL SYSTEMS**

Arora (1995) portrays that the list of advantages given above is impressive but a budget is not a cure-all for all organizations ills. Budgetary control systems suffer from certain limitations and those using the system should be fully aware of them.

He gives the main limitations as;

### **(a)The budget plan is based on estimates.**

Budgets are based on forecasts and forecasting cannot be an exact science. Absolute accuracy therefore is not possible in forecasting and budgeting. The strength or weakness of the budgetary control system depends to a larger extent on the accuracy with which estimates are made.

### **(b)Danger of rigidity**

A budget programme must be dynamic and continuously deal with the changing business conditions. Budgets will lose much of their usefulness if they acquire rigidity and are not revised with the changing circumstances.

### **(c)Budgeting is only a tool of management**

Budgeting cannot take the place of management but is only a tool of management. Arora(1995) stresses here that “the budget should be regarded as not as a master, but a servant.” Sometimes it is believed that the introduction of a budget programme alone is enough to ensure its success.

However, execution of a budget will not occur automatically. It is necessary that the entire organization participate enthusiastically in the programme for the realization of the budgetary goals.



#### **(d)Expensive technique**

The installation and operation of a budgetary control system is a costly affair as it requires the employment of specialized staff and involves other expenditure. So, small businesses may find it difficult to adopt it. However, it is essential to note that even for large businesses, the cost of introducing and operating a budgetary control system should not exceed the benefits to be derived from it.

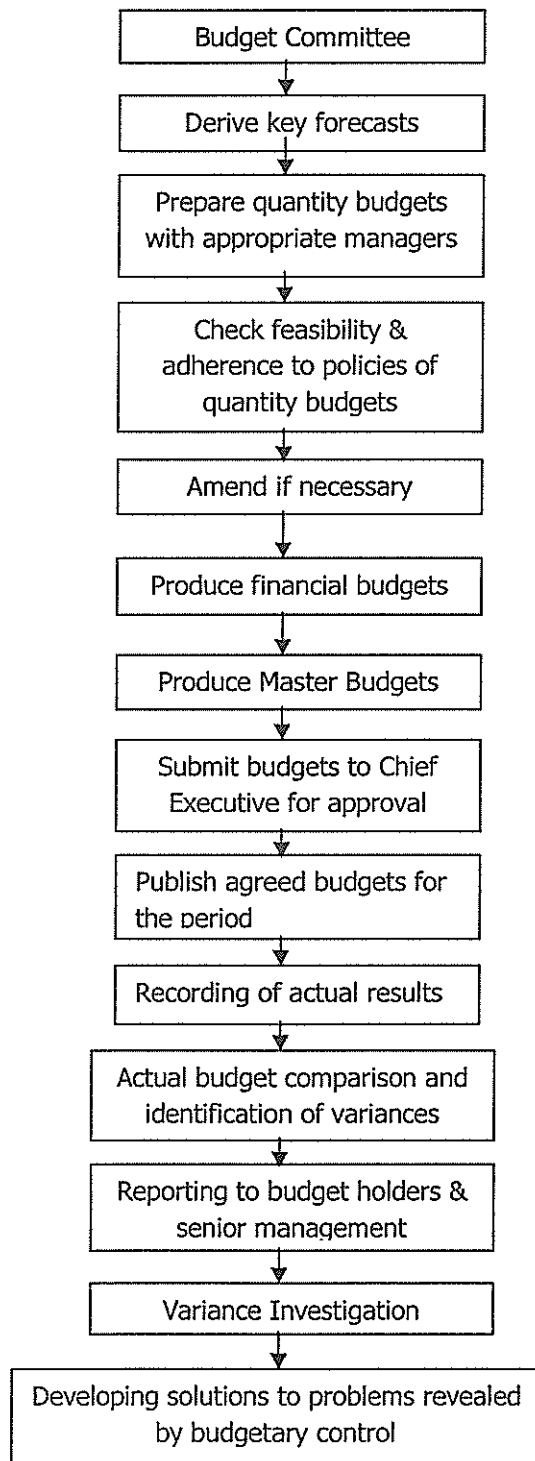
### **2.6TYPES OF BUDGETS**

According to Anthony (1994), budgets can broadly be categorized into;

- (i)An operating budget showing planned operations for the forthcoming period.
- (ii)A capital budget showing planned changes in fixed assets.

Lucey (1993) further argues that in addition to types of budgets as shown in the flow chart above, there must be a detailed budgetary process to ensure effective budgetary planning and budgetary control.

**Figure3. Showing outline of budgetary process**



**Source: Lucey(1993), Cost Accounting 3<sup>rd</sup> Edition**

## 2.7 GUIDELINES TO EFFECTIVE BUDGETING

Alan Pizzey (1997) observed that the budget is a decision with far reaching significance for all parts of the business to which managers at all levels have made a contribution. According to him, budgetary control is composed of two activities; first is the setting of the budget, and then the analysis of how far the plan is achieved. He argues that, the budget programme must, like any other be the definite responsibility of some member of the undertaking such as the managing director, but obviously much of the actual work involved must be delegated.

Arora(1995), on the other hand argues that a budgetary control system can prove successful only when certain conditions and attitudes exist absence of which will negate to a large extent, the value of a budget system in any business. Such conditions and attitudes, which are essential for effective budgeting include;

**(i)Support of top management.** If the budget system is to be successful, it must be carefully supported by every member of management and the impetus and direction must come from the very top management.

No control system can be effective unless the management is convinced and considers the system to be important. Thus the top management must be committed to the budget ideas as well as to the principles, policies and philosophy underlying the system.

**(ii)Participation by responsible executives.** Those entrusted with the performance of the budgets should participate in the process of setting the budget figures.

This will ensure proper implementation of budget programmes.

**(iii)Reasonable goals.** The budget figures should be realistic and present reasonable attainable goals. The responsible executives should agree that the budget goals are reasonable.

**(iv)Clearly defined organization.** In order to achieve maximum benefits from the budget system, well-defined responsibility centers should be built up within the organization.

**(v)Continuous budget education.** The best way to ensure the active interest of the responsible supervisors is continuous budget education in respect of the objectives, potentials and techniques

of budgeting. This may be accomplished through written manuals or meetings where budget preparations and results are achieved.

**(vi) Adequate accounting system.** There is a close relationship between budgeting and accounting. For the preparation of budgets, one has to depend heavily on accounting department for reliable historical data which necessarily forms the basis of many estimates. The accounting system should be designed so as to set up accounts in terms of areas of managerial responsibility.

**(vii) Constant vigilance.** Reports comparing budget and actual results should be promptly prepared and special attention should be focused on significant exceptions, that is, figures that are significantly different from those expected.

**(viii) Maximum profits.** The ultimate objectives of realizing the maximum profits should always be kept uppermost.

**(ix) Cost of the system.** The budget system should not cost more than it is worth.

**(x) Integration with standard costing system.** Where standard costing system is also used, it should be completely integrated with the budget programme in both budget preparation and variance analysis.

### **2.7.1 ESTABLISHING BUDGETARY CONTROL**

Wald (1989) notes that, “before a system is developed, three main aspects require attention; the budget period, the budget structure and what factors limit the business activity.”

#### **(a) The Budget Period**

This is the period in which a budget can be prepared and used and its length will depend on the type of business, the length of the manufacturing cycle from raw materials to finished product, the ease or difficulty of forecasting future market conditions and other factors.

Anthony (2004), shows that the majority of companies prepare budgets once a year but for control purposes, the annual budget may simply be divided by 12 to obtain monthly budgets. He notes further that seasonal influences are important, therefore separate budget estimates may be used for each month or quarter.

### **(b)The budget structure**

The overall budget structure will consist of a master budget which is prepared from financial budgets and summarizes the functional budgets. Each functional budget will be broken down into budget centers related to the organization structure and control requirements.

A budget center is a section of the organization defined for the purposes of budgetary control. It is important to define responsibility over budget centers and in preparing budgets; the emphasis should be on the responsibility rather than on the benefit intention. (Wald,1989).

### **(c)Limiting Factor**

The limiting factor (sometimes called the 'key factor' or 'governing factor') means a factor, which limits the size of output. Arora (1995) defines it as "the factor the extent of whose influence must be assessed in order to ensure that functional budgets are capable of fulfillment". Such a factor is of vital importance and affects all budgets to a large extent.

He further argues that the key factor determines the priorities in functional budgets and serves as the starting point for the preparation of budgets. However, Daff (1988), defines a limiting factor as the influence at or which any time limits the activity of a business. He noted that a business-limiting factor may change from time to time. He explains further that the name for the limiting factor is the 'principle budget factor', indicating the particular influence upon the activity, which must be taken into account when budgets are being prepared.

### **2.7.2 ADMINISTRATION OF BUDGET CONTROL**

According to Wald (1989), a coordinating authority is necessary to resolve difficulties and disputes, which arise between functional heads and also take the decisions involving increases or decreases in production, price changes, sales mix decisions and changes in production methods. It is important to remember that the importance of budgeting is to produce an integrated plan for various sections of the business, and adjustments such as matching sales with production are necessary. Decisions of this nature are the function of the managing director, though he will normally appoint a committee of functional heads and the budget committee to advise him.

If however, vital matters of policy are involved, the board of directors must make the decisions. On administration of budgetary control, Baggot (1999) also noted that the effectiveness of budgetary control depends on the setting phrase and therefore the planning and control objectives. Secondly, it rests on an effective accounting system for recording actual results and comparing them with budgeted ones. Finally, it depends on enthusiasm of management and the willingness of executives to correct unsatisfactory performance.

Arora(1995), argues that, “in most companies, the sales budget is not only the most important but also most difficult budget to prepare.” He defines a sales budget as “a statement of planned sales in terms of quality and value.”

He explains further that the importance of cash budgets arises from the fact that if sales figure is incorrect, then practically, all other budgets will be affected and that if difficulties in its preparation arise because it is not easy to estimate consumer demand particularly when a new product is introduced.

### **2.7.3 BUDGETARY CONTROLS**

By definition, the goal of every control is good control. An out of control situation is then one where there is a high probability of forthcoming poor performance despite a reasonable operating strategy (Clive & David, 1997).

They outline budgetary controls as;

**i)The budget committee;** which consists of high level executives who represent the major segments of the organization.

**ii)Budget manual;** This is prepared by the accountant. It describes the objectives and procedures involved in the budgeting process and will provide a useful reference source for managers responsible for budget preparation.

**iii)Budget review;** which involves a continuous comparison of results with budgeted results, so that corrective action can be taken.

**iv)Budget period;** This is the period, a budget can be prepared and used, and depends on the type of business.

**Others include:**

- a) Setting performance targets
- b) Budget centers
- c) Budget reporting
- d) Budget authorization
- e) Responsibility centers
- f) Departmental budgeting
- g) Properly defined responsibilities of executives.

## **2.8 ORGANIZATION'S PERFORMANCE**

### **2.8.1 Definitions:**

Daff (1990), defines an organization as; "a social entity that is goal oriented and deliberately structured." Performance is defined by Betteridge (1998), as "the actions demonstrated by teams and individuals."

According to Daff (1990), organization's performance refers "to the organizations' ability to attain its goals by using resources in an efficient and effective manner." He defines efficiency as "the use of minimal resources, raw materials, money and people to produce a desired volume of output" and effectiveness as "the degree to which the organization achieves a stated objective." He argues that the ultimate responsibility of managers is to achieve higher performance

### **2.8.2 PERFORMANCE MEASUREMENT**

Clive and David (1997) portray that financial and quantitative techniques are the common yardsticks to evaluate achievement relative to a plan or to compare parts of the company. They also argue that financial performance measures contribute to results of control.

Koontz and Weihrich(1990), caution that, performance should be measured in terms of "accomplishing goals and plans as well as managers competence." According to them it is important to measure performance against verifiable pre- selected goals and that this should be supplemented by an appraisal of managers.

According to Betteridge(1988), performance in financial terms must be acceptable to owners and creditors. He outlines the measures of financial performance as: cash flows, capital expenditure and other costs, sales volume, price levels, assets and liabilities including borrowing and other funding requirements.

Betteridge(1998) research findings on the measurement of financial performance are in agreement with the work of Clive and David (1997), that the rate of return on investment (ROI) and residual income (RI) are some of the measures used in practice.

### **2.8.3. POTENTIAL DEFECTS OF PERFORMANCE MEASURES**

Clive and David (1997), explain that for conventional Accounting Information System to fulfill its potential contribution to budgetary control, it is necessary for complete, accurate and neutral organizational performance to be achieved. Some of the defects likely to be faced include issues to do with:

#### **(i)Completeness**

(a) Corporate and division goals can only be selected in those areas where quantitative and financial performance information is available.

(b)The control mechanism stresses short term performance measurement which may not reflect long-term trends.

(c)The performance measure is a surrogate and disguises the variability and interdependence of the component parts.

#### **(ii)Accuracy**

(a)The targeted performance measure is set in an unfair manner and does not reflect a reasonably attained standard.

(b)The comparison of targeted and actual performance provides variance that can be interpreted ambiguously.

(c)The evaluation rules based on generally accepted accounting principles may be inappropriate for internal control purposes.



**(iii) Neutrality.**

(a) The performance measures do not reflect managerial efforts, but only results.

(b) The performance is affected by interdependences and decisions taken elsewhere in the company.

(c) The rigid style of evaluation concentrating on the organizational performance measure causes opportunistic behavior.

Morse (1981) also notes to the above effect that, “in an uncertain environment, top management cannot precisely define the actions it wishes divisional managers to execute.”

The above defects pose a challenge to management since they are expected to produce the best results out of budgetary control and organizational performance. Koontz et al (1990), emphasize that, “there should be no reluctance to measure performance as accurately as possible.”

#### **2.8.4 RELATIONSHIP BETWEEN BUDGETARY CONTROL AND ORGANIZATION'S PERFORMANCE**

Historically, budgetary control evolved as a parallel system to organizational performance representing a different approach to organization problems.

Today, budgetary control has become a pre-requisite for organization performance and is commonly used in organization as a means of achieving organization goals (ACCA, 2003 official text book for the professional qualification).

According to Colin (2000), budgetary control is used for activities within an organization where costs and revenues can be predicted and actual results compared. He elaborates that budgetary control is of use in the control of overhead costs and service department costs and in the control of sales activities.

He concludes that the use of flexible budgets for example, is suitable for cost centers where output or volume of activity has an effect on costs. And in this case, there is a closer correlation with organization's performance.

## **2.9 Conclusion**

From the previous discussion presented in the literature, budgetary control is a procedure, which helps to achieve the targets of the organization adequately. In this way, it is used as a tool of planning. It helps to plan in advance and implement these plans. Without a budget, an organization cannot utilize its resources more effectively.

In this case a budget is considered a management tool for planning as can be given below:

A budget helps to formulate the policy of a business.

A budget helps to coordinate the activities of a business for example production is based on sales budget, yet purchases depend on production requirements and so on.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter discusses major methodological aspects of the study. It contains the research design, research population, sample size, methods of data collection and analysis.

#### **3.2 THE RESEARCH DESIGN IS A CASE STUDY OF EABL**

The research used both qualitative and quantitative research designs. Qualitative design was used to obtain detailed information from both employees as well as management using questionnaires and interviews. Quantitative design on the other hand was used to come up with information in tabular form.

#### **3.3 RESEARCH POPULATION**

The study concentrated on management and employees of East African Breweries Limited (EABL). The management was expected to give information relating to the effects of budgetary control on organization's performance which it did. Employees on the other hand provided an insight on their role in budget planning and implementation. The researcher was looking at a total population of 500 people. This was his research population.

#### **3.4 SAMPLE SIZE**

Considering time and other constraints that the study faced, the researcher managed to select 50 people randomly. This was considered to be a representation of the study population to aid in achieving the research objectives and answering the research questions in Chapter one.

#### **3.5 SAMPLING DESIGN**

The population under study was grouped in relation to the chain of command. Random sampling technique was used in sampling the employees and management of EABL in a bid to collect data. Senior management and other staff of EABL were interviewed.

### **3.6 DATA COLLECTION INSTRUMENTS**

The data in this study was collected using questionnaires, interviews and observation.

#### **Questionnaires**

These are pre formulated written set of questions to which the respondents note down their answers. Questionnaires are an efficient data collection tool. The questionnaires provided a set of well typed questions relevant to the research study. They had a brief introduction which helped to familiarize the respondents filling the questionnaire on how to answer the questions posed by the researcher. Questionnaires were preferred because they save time especially when handling a large study population. Questions that were put in the questionnaire adopted both closed and open ended formats.

#### **Interviews**

Interviews were also used in data collection. The researcher asked questions and the respondents were expected to provide answers which they did. Interviews were in the form of face to face conversation. This assisted in getting information which respondents may have omitted to write down in the questionnaires and also provided more explanations and insight. The questions asked were the ones which were relevant and of significance to the research topic.

#### **Observation**

In addition to the questionnaires and interviews that were used, observation supplemented the data collection process. It was also possible to gather the information without asking questions. This was done by observing people in their natural working environment and recording their activities. Here the researcher had two roles. He acted as a non participant observer where he was able to collect data in the role of a pure researcher without trying to become an integral part of the organization. The other role was as a participant observer. This meant that the researcher became part of the working team and in the process was able observe employee activities and behavior.

### **3.7 DATA ANALYSIS**

The data was analyzed from the contents of questionnaires, interviews and observation. It was analyzed appropriately with facts and figures arranged in a chronological manner which included percentages and averages resulting from the comparison of questionnaire, interview and observation results.

## CHAPTER FOUR

### 4.0 DISCUSSION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.1 INTRODUCTION

This chapter contains the discussion, analysis and interpretation of the findings of the study to provide answers to research questions. It mainly summarizes the key issues from the study, compares and contrasts findings systematically and possible relationships in the process of fulfilling the overall objectives of the study.

#### 4.2 BACKGROUND INFORMATION OF THE RESPONDENTS

This section of the study sought to find out from the respondents about their gender, working period, position in the organization and the department they belong to.

##### 4.2.1 Respondents gender

This subsection sought to find out from the respondent about their gender.

**Table 1**

Gender	Respondents
Male	34
Female	16
Total	50

From the above table, it can be seen that 34 of the respondents were male while 16 of them were female.

#### **4.2.2 Respondents level of education**

**Table 2**

High school	3
College	9
University	38
Total	50

From the above table it can be seen that majority of sampled employees have a university education.

#### **4.2.3 Respondents working period at EABL**

**Table 3**

Below 2 years	7
2-5 years	11
6-10 years	18
Over 10 years	14
Total	50

It can be seen from the table above that most of the respondents have worked more than 5 years for the organization.

#### 4.2.4 Respondents position in the organization

**Table 4**

Manager	4
Supervisor	8
Clerk	13
Subordinate	25
Total	50

#### 4.2.5 Respondents department in the organization

**Table 5**

Marketing	13
Production	16
Sales	12
Finance	9
Total	50

The table above shows the respective departments which the respondents belong to and their number.



#### **4.3 RESPONDENTS FEEDBACK ON EFFECTS OF BUDGETARY CONTROL ON THEIR RESPECTIVE DEPARTMENTS.**

All the respondents noted that there were positive effects of budgetary control on the departments they worked in.

The managers of the various departments particularly pointed out that budgetary control helped them in planning, coordination, control and communication not only within their departments but also with the organization as a whole. For example, the production manager said that he used the sales budget to help his department anticipate and plan for the various facilities and resources they required to produce the beer products. This coordination of efforts ensured that work was carried out effectively and efficiently. It also ensured that the organization was able to match production capacity with the current demand needs of the market.

#### **4.4 ROLE OF BUDGETARY CONTROL IN EABL**

The employees who were interviewed acknowledged that budgetary control played a crucial and important role in the organization. For example, the managers said that budgetary control compelled them to think ahead so that they could anticipate and prepare for changing conditions in the beer industry. This enabled the organization to yield positive results even during harsh economic times.

Some of the employees interviewed said that budgeting boosted production, efficiency, eliminated waste and controlled costs in their departments. This was especially beneficial in the production department.

Through review of actual and budgeted results, managers said that budgeting showed them where action was needed to remedy a bad situation like excessive costs.

The employees noted that budgeting had instilled into all levels of management a timely, careful and adequate consideration of all factors before reaching important decisions. This helped to greatly reduce errors when considering new investments etc.

#### **4.5 VARIANCES BETWEEN BUDGETED AND ACTUAL EXPENDITURE**

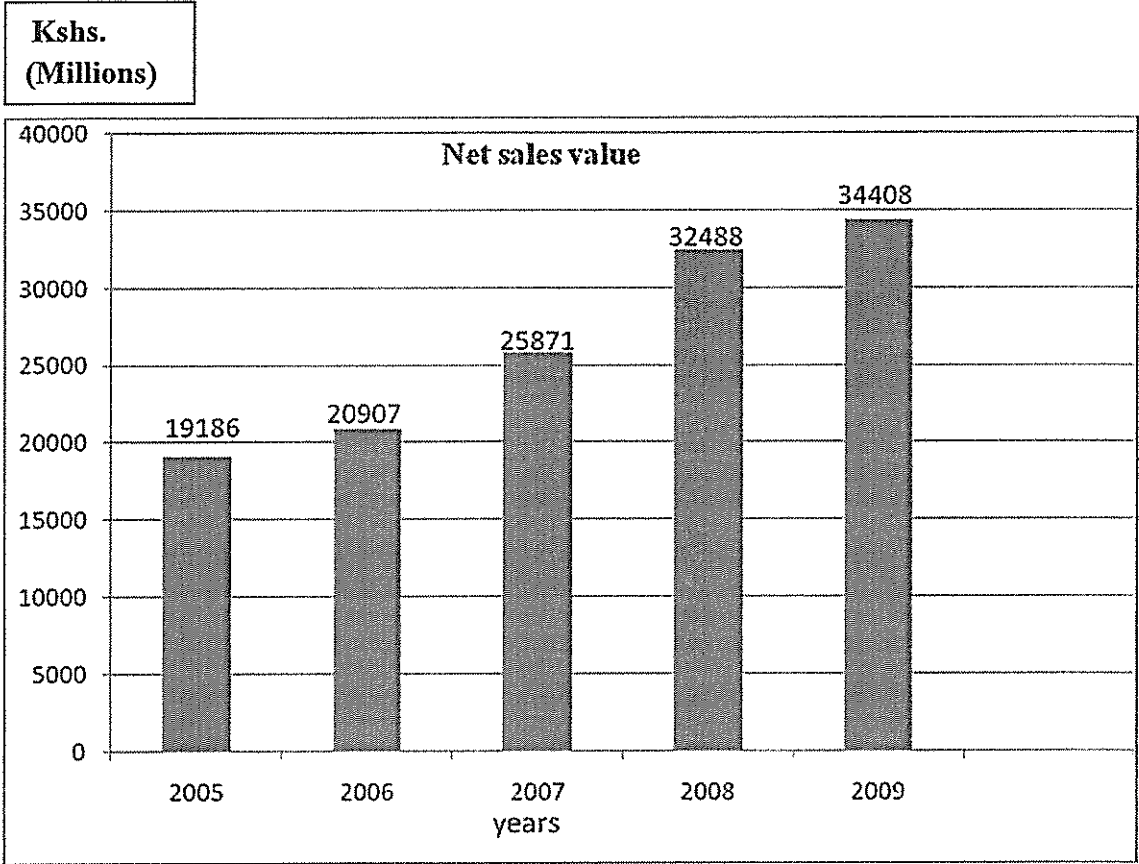
It was noted that sometimes there was significant variances between agreed budget and actual expenditure incurred. The reason for this was given as the inaccuracy of budget estimates where sometimes there was poor forecasting by managers.

Employees admitted that some budgets became rigid and were slow to match up with the changing business conditions. This made them to lose much of their usefulness.

Another cause of significant variances was the over reliance by some managers on the budget itself. This led to poor execution of the budget. It was however noted that budgeting cannot take the place of management but is only a tool to assist in managing activities of the organization.

4.6 IMPACT OF BUDGETARY CONTROL ON ORGANIZATION’S PERFORMANCE.

The researcher was able to find out that budgetary control had a positive impact on the organization’s performance in terms of sales value. This can be illustrated by the graph below.



Source: EABL Annual report 2009

From the graph above, it can be seen that the net sales value increased steadily through the years 2005-2009. This was accredited to strict adherence to budgets and continuous monitoring of any significant variances between budgeted and actual expenditure.

According to information gathered from employees, the factors that influence organizational performance apart from budgetary control can be summarized as quality and competence of management, widened distribution channels, increased research and development, motivated and skilled workforce and quality customer care.

They emphasize that it should always be remembered that the whole purpose of budgetary control is the establishment of standards against which actual performance can be compared.

#### **4.7 LIMITATIONS OF THE STUDY**

The study faced the following limitations:

- a) Financial constraints, especially for processing data, searching for the data on the internet, obtaining relevant text, magazines, printing and typing of research the work.
- b) Time constraint, in that besides the research, there were other commitments like coursework, tests and preparation for final examinations.
- c) Information overload especially from the internet.
- d) Most of the EABL employees were very busy thus giving some of their time to the researcher was not easy.
- e) Lack of trust from the respondents was another challenge for the researcher.

## **CHAPTER FIVE**

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

#### **5.1 INTRODUCTION**

This chapter covers the summary of findings of the research carried out, conclusion and recommendations for future research.

#### **5.2 SUMMARY OF FINDINGS**

From the study carried out, it was quite evident that budgetary control plays an important role in the operation and performance of EABL. This helped all the departments to work efficiently and effectively as one unit.

It was found that budgetary control at EABL can be regarded as highly beneficial and effective to the organization. This is evidenced by impressive cost control mechanisms and posting satisfactory profits over the years. In fact, the organization contributes a significant amount tax to government.

One of the ways to achieving competitive advantage is through cost reduction and budgetary control greatly supported this initiative. It was quite clear that the use of budgets greatly influenced and boosted performance of EABL though there still remains room for improvement.

The researcher found out that some of the most widely used budgetary controls employed by the organization included budget manuals, budget review, properly defined responsibilities of managers and setting of performance targets. These controls were found to be highly effective. A positive relationship was found between budgetary control and organization's performance.

#### **5.3 CONCLUSION**

The performance of an organization is dependent on several factors. Budgetary control was found to be one of the most important factors determining an organization's performance.

The researcher found out that budgetary controls, if properly executed in organizations, can bring a number of real advantages including coordination, clarification of responsibility, improved communication and motivation of personnel. Otherwise variances will be experienced.

## 5.4 RECOMMENDATIONS

In an attempt to further improve organization's performance, the researcher made the following recommendations for budgetary controls to be effective.

i) There should be improved co-ordination between the different departments. This will facilitate the implementation, monitoring and evaluation of the budgetary controls.

ii) Training and development should be encouraged in areas of budgetary control and organization's performance. This helps the workforce gain skills in specific areas to enhance budgetary control and evaluation of performance targets.

iii) Accuracy in forecasting budget estimates should be improved by using more reliable and up to date data so that the strength of the budgetary control can be improved.

iv) Management should strive to make budgets more dynamic so that they can be well suited and be able to deal with the changing business conditions. They might lose much of their usefulness if they acquire rigidity and are not revised with the changing circumstances.

v) Managers should not over rely on budgetary control but rather be at the forefront to help in their successful execution.

vi) The organization may come up with incentive schemes linked to successful implementation of budgetary controls. They may reward the department that best conforms to its budget plan or individual employees who ensure that budgets meet their intended objectives. This encourages employees to work hard in order to achieve organization's goals. Organization rewards may include salary increases, bonuses, promotions and recognition.

## **5.5 AREAS FOR FURTHER RESEARCH**

Future research could be carried out on the effects of budgetary controls on profitability in business organizations. Research could also be carried out on the effects of budgetary controls on not-for-profit organizations.

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## DATA COLLECTION INSTRUMENTS

D) Questionnaire assessing the effects of budgetary control on organizational performance.

(East African Breweries Limited)

**Respondent:** Please provide answers to this questionnaire as accurately as possible. This will aid in collection of reliable and accurate information. Thank you.

### SECTION A

**Instructions:** Tick the appropriate answer

#### 1. Gender

Male ☐

Female ☐

#### 2. Level of education

High school ☐

College ☐

University ☐

Other  
(specify).....  
.....

#### 3. How long have you worked for East African Breweries Limited?

Below 2 years ☐

2-5 years ☐

6-10 years ☐

Over 10 years ☐

**4. Indicate your position in this organization**

Manager

Supervisor

Clerk

Subordinate

Other  
(specify).....

**5. Which department do you belong to?**

Marketing

Production

Sales

Finance

Other  
(specify).....  
.....

**SECTION B**

**1) What effects does budgetary control have on the department you work in?**

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.....  
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.....

**2) Briefly describe your role (if any) in the preparation of the organization’s budget(s) and also indicate your post.**

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**3) What are the major factors that your organization considers before preparation of budgets and budgetary control?**

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**4) To what extent do you think preparation of budgets and budgetary control has an impact on organizational performance as a whole?**

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**5) What areas do you think should be improved or reviewed in order to enhance budgetary control and improve organizational performance?**

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## **II) INTERVIEW GUIDE**

1. What is your name and position in the organization?
2. How long have you worked for East African Breweries Limited?
3. State the department(s) you work in and briefly describe the task(s) you perform in relation to preparation of budgets and budgetary control (if any).
4. What effects do you think budgets and budgetary control have on your department?
5. To what extent do you think the budget plan is implemented in your department? Are there any significant variances?
6. From your own working experience in the organization, what key measures do you think should be taken to reduce variances between budgeted and actual results?
7. What areas of improvement do you think the organization can focus on in order to enhance organizational performance through budgetary control?

### Appendix A: Time frame

ACTIVITY	PERIOD	OUTPUT
Proposal writing	01/06/2010	Proposal submission for approval
Developing instruments	June 2010	To assist in data collection
Field work	June 2010	To be able to gather data
Data collection	June 2010	Recording of data
Data analysis	June 2010	Analyzing and interpretation of data
Preparation of report	June 2010	Submission of dissertation

**Appendix B: Budget**

NO	ACTIVITY	COSTS(UGX)
1	STATIONARY	20000
2	TYPING AND PRINTING	70000
3	TRANSPORT	100000
4	MEALS	40000
5	PHOTOCOPY	10000
6	INTERNET AND AIRTIME	10000
7	MISCELLANEOUS	10000
<b>TOTAL</b>		260000