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Impact of budgeting and budgetary control on financial performance of statutory bodies: A
case of Upper Manyame Sub Catchment Council

BY

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DEDICATION

This research is dedicated to my family.

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ABSTRACT

This study sought to investigate the impacts of budgeting and budgetary controls on the financial performance of Upper Manyame Sub Catchment Council (UMSCC) a statutory body in Zimbabwe. The specific objectives of the study were to analyse the budgeting and budgetary control techniques adopted at UMSCC, investigate the impact of budgeting system on the revenue of UMSCC, and to assess the impact budgetary control techniques have on the overall costs of UMSCC. The research was completed using a descriptive analysis survey using questionnaires and interviews to collect both primary and secondary data. Five departments of UMSCC were grouped into strata and used to draw the sample population using the stratified random sampling technique. Findings from the research indicated that budgeting and budgetary control techniques used at UMSCC are not effective and efficient which has resulted in the negative financial performance of UMSCC in the past three years. Based on these findings this study recommends that UMSCC incorporates flexible budgeting as well as to practise and pay more attention to budgetary control techniques, regular monitoring and reviewing. .

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CHAPTER ONE

1.1 Introduction

This chapter presents the background of the study, problem statement, purposes of the study, research questions, assumptions, delimitations, limitations, definition of terms and summary.

1.2 Background of the study

Horngren (1982) define a budget as a future plan reflecting quantified or numeric terms which are used to assist in coordinating and executing organisational activities, (Dunk, 2009; Kepdo, 2012) defines budgetary control as a perpetual process were a constructed plan is continuously reviewed against actual activity applying corrective measures for the plan to discharge as intended. Kepdo, (2012) further assert that budgetary control is extensively adopted and is recognised as an important tool used to make future financial plans. Churchill, (2015) reported that the purpose of budgetary control is to show a futuristic projection of sale and expenses of a business by using models which reflect how well an entity might perform from a financial perspective if set objectives are executed. According to Beatrice and Thou, (2013) budget and budgetary control is pivotal to the planning process as well as to the control of crucial organisational activities because it contributes significantly to the internal control system. Okapnachi and Muhammed (2013) assert that an organisation is at risk of server financial instability if there are no effective budgetary control systems, because it is most probable that the organisation will experience disregards in laid down plans, poor coordination of activities and loss of organisational direction and focus. For an entity to realise progress and to accomplish its objective it has to have a detailed plan of how to expend its capital in order to recognise a profit, and this can be done by using budgets (Adams, 2014).

Studies on the impact and effectiveness of budgetary control on organizational performance and profitability have been conducted globally, various and contradicting conclusions have been reached. Epstein and McFarlan (2011) conducted a research in Denmark one of the more economically developed countries (MEDCs) determining effectiveness and efficiency of budgetary control in a non-profit organization. Research findings asserted that an effective budgetary control system positively improves financial performance.

According to a research conducted by Joshi (2006) in the State of Bahrain a MEDC outlined that budget controllability principle is practised to a great extent; variance analysis is extensively being used to review management's performance as well as a cost control tool

and that a positive relationship exists between budgetary control and organisational performance. Also a research conducted by Carolyn, et al. (2007) which investigated the relationship between the effects of budgetary control on performance as a case of large cities. The researcher concluded that, effective budgetary control has significant and is positively related to bond rating. However, a similar research was conducted in Kenya a less economically developed country (LEDC) by Serem (2013) which investigated the relationship between budgetary controls and performance of the nongovernmental organisations (NGOs) in Kenya. The research concluded that a weak but positive effect exists between budgetary control and performance of NGOs in Kenya, also indicating that the effect is not guaranteed as it depends on the effectiveness of the budgetary control system itself. This indicates that a strong relationship is not guaranteed between budgeting and budgetary control and financial performance. According to researchers conducted by (Kuwel, 2012; Lavel, 2015) in Nigeria both shared an indifferent opinion as to the impact budgetary control on financial performance. They both argued that a budget is only a plan not yet implemented and is only based on estimates and predictions thus impose on effect on financial performance. With reference to all the above mentioned researches on the impact of budgeting and budgetary control on financial performance it cannot be said with certainty that budgeting and budgetary control have an impact on financial performance and to those who have concluded that a relationship exists share different opinions as to the impacts and effects budgeting and budgetary control have on financial performance. Despite the fact that budgeting and budgetary control is practised at UMSSC the organisation has been experiencing financial management challenges. Therefore, this study is trying to fill this gap by attempting to establish if there is impact of budgeting and budgetary control on financial performance at UMSSC a statutory corporate body in Zimbabwe.

1.2 Upper Manyame Sub Catchment Council

Upper Manyame Sub Catchment Council (UMSSC) is a statutory corporate body established under the new Water Act, 1998 CAP 20:24 enacted by statutory instruments (SI 209 of 2000 and SO 47 of 2000) under the auspices of the Ministry of Environment, Water and Climate. UMSSC is mainly responsible for protecting and facilitating fair and legal use of the Upper Manyame Catchment water basin. Its revenue is mostly generated through the user pays principle, whereby beneficiaries of the catchment area are mandated to pay for the water they use. UMSSC has been using budgeting and budgetary control as one of their management techniques in trying to manage and maintain viable financial performance. However

according to the financial statements from the period 2013 to 2016 UMSCC has been failing to operate within the parameters of their budgets, experiencing a gradual decline in financial performance in the form of continuous increase in expenditure and shrinking of revenue causing financial instability. Below is table 1.1 to help illustrate the trend in financial performance of UMSCC.

Table 1. 1

Year	2014	2015	2016
Revenue	\$1030 345	\$987 164	\$769 687
Expenditure	\$621 587	\$694 564	\$703786
Revenue over surplus	\$408 758	\$292 600	\$65 901

From the table presented above it can be observed that revenue dropped by 4.19% during the period 2014 to 2015. A further and sharp decline in revenue of 22.03% was experienced during the period 2015 to 2016. Expenditure made a steep increase of 11.74% during the period 2014 to 2015. A further and continuous slight increase in expenditure of 1.33% was experienced from 2015 to 2016. This has resulted in an overall threatening decline in surplus of 83.88% during the period 2014 to 2016.

This has become a concern to the researcher thus motivating him to research on the impact of budgeting and budgetary control on financial performance.

1.3 Statement of the problem

Despite UMSCC exercising budgeting and budgetary control the institutions is continuously experiencing an annual decline in its surplus over expenditure which is resulting in the deterioration of financial performance. Therefore, this research is attempting to determine the impact of budgeting and budgetary control on financial performance of an organisation

1.4 Objectives of the study

The main objective of this study is to determine the impact of budgeting and budgetary control on financial performance of UMSC. The specific objectives are as follows

- ❖ Analyse budget and budgetary control techniques used by UMSCC

- ❖ To ascertain the relationship between budgeting and budgetary control and revenue generation of UMSCC.
- ❖ Assess impact budgetary control techniques have on the overall costs of UMSCC

1.5 Research questions

The following research questions will be administered

- ❖ What are the budget and budgetary control techniques currently being used by UMSCC?
- ❖ What is the relationship between budgeting and budgetary control and revenue generation?
- ❖ What are the impacts of budgetary control techniques on overall costs of UMSCC?

1.6 Significance of the study

This study will help contribute towards documenting literature on the impact of budgeting and budgetary control on financial performance in statutory bodies in Zimbabwe. Where feasible the study seeks provide recommendation on how to use budgetary control as technique to improving financial performance and ways of applying these techniques for financial management. This study will add literature to the knowledge base on budgeting and budgetary control which will aid and assist other various users such as students, policy makers, and stakeholders around Zimbabwe.

1.7 Assumptions

The following assumptions where made in completing the study

- ❖ Budgeting and budgetary controls are currently being applied at UMSCC s
- ❖ Relevant data to the research will accessible
- ❖ Respondents to the survey are knowledgeable about budgeting and budgetary control and have adequate appreciation of budgeting and budgetary control and financial performance
- ❖ UMSCC is representative of the council statutory bodies in Zimbabwe

1.8 Delimitation

This study attempts to investigate the impact of budgeting and budgetary control on financial performance of UMSCC a statutory corporate body in Zimbabwe. It is not relating to organizations in the private sector or any organizations outside Zimbabwe both in the private and public sector.

1.9 Limitations

- ❖ Some of the information necessary and required for the research maybe confidential and inaccessible.
- ❖ Respondents interviewed and issued questioners may not cooperate positively and truthfully.
- ❖ Time and finance are both limited resources to the researcher which might possibly hinder extensive field research as well as ways in which data is collected and analysed

1.10 Definition of key terms

Budget: “A financial or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining given objective”.

Budgetary control: “Budgetary control is a system which uses budgets as means of planning and controlling all aspects of producing and or selling commodities or services”.

Financial performance: “A subjective measure of how well a firm can use assets from its primary mode of business and generate revenue”

Public sector: “part of the economy that is controlled by the state”

Private sector: “part of the national economy that is not under direct state control”.

1.11 Acronyms

UMSCC: Upper Manyame Sub Catchment Council

LEDCs: Less Economically Developed Countries

MEDCs: More Economical Developed Countries

NGOs: Non Governmental Organisations.

1.12 Summary

This chapter discussed the background of the study, problem statement the main and sub objectives that will guide the study. This chapter generally presents an overview of this study its purpose, benefit and limitations.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This section presents literature on budget and budgetary control in detail; it also covers empirical literature which is guided by the research objectives giving a critical analysis to arguments expressed by various authors on the impact of budgets and budgetary control on financial performance

2.1 Measures of financial performance

Financial performance is defined as a yardstick of how well an entity is capable of using its resources from its primary mode of business up until it realises revenue (Davila and Foster, 2015). Murphy et al, (1996) and Cavalluzzo and Intner (2014) gave a more comprehensive definition which identified financial performance as the results produced by financial indicators assumed to reflect the accomplishment of the economic goals of an organisation. Cavalluzzo and Intner (2014) further declared that financial performance can be measured by comparing an entity financial statements to its historic financial statements and also by comparing its financial statements to that of its similar entities that s those trading in the same line of business as well as its size. The authors further highlighted that by comparing the entity's current financial statements to its previous trading periods indicate and provide evidence of financial performance growth or decline. McWatters (2016) contributed that by comparing the financial performance of an entity to that of similar entities will provide a means to measure the entity's average performance in its line of operations or industry. According to Mollin (2012), Lorraine (2012), Pandey (2013) and Mc Watter (2016) financial measure analysis is categorised into liquidity, solvency, profitability and financial efficiency.

2.1.1 Liquidity

(Pandey, 2013, p208) explain liquidity as “The ability of an entity to satisfy its financial obligations when they mature without disturbing the normal operations of the business”. Mc Watters (2016) branched liquidity into structural liquidity and operational liquidity, explaining structural liquidity as measuring tool that use statement of financial position to measure the relationship between assets and liabilities, and operational liquidity as a measuring tool which use cash flow statements. Mollin (2012) recommended the use of current ratio and working capital when measuring liquidity. Mollin (2012) define current ratio as a financial performance measuring tool that assess the relationship between current

assets and current liabilities by measuring the number of times current assets will be able to cover current liabilities, where the higher the ratio the more liquid the entity. “Working capital is a financial ratio which measures in absolute dollars the amount of funds available to purchase inventory and inputs after setting off current assets and current liabilities”(Lorraine, 2012, p.312)

2.1.2 Solvency

According to Lorraine (2012), solvency measures borrowed capital such as Debentures and redeemable preference shares against entity's equity capital such as ordinary shares. Mollin (2012) explain solvency as a financial performance tool that measure if an entity has the ability to payback all its debt by utilising its assets. Melcy (2015) argued that unlike liquidity which only take current assets and current liabilities into account solvency incorporates both noncurrent and current assets and noncurrent and current liabilities, in evaluating the ability of an entity to convert all its assets into cash to settle all its liabilities. Solvency is widely measured using debt asset ratio, debt equity ratio and equity asset ratio (Lorraine 2012). According to Lorraine (2012) debt asset ratio reflects total liabilities as a proportion of total assets, where the higher the ratio is the greater the risk exposure is to the entity. Lorraine (2012) and Melcy (2015) identify equity asset ratio as the proportion of assets purchased using equity capital, reflecting the capital structure of entity and the degree to which the entity's borrowed capital is added together with its own equity capital. It measures the degree to which an entity is dependent on its own equity.

2.1.3 Repayment capacity

Lorraine (2012) and Melcy (2015) define and describe repayment capacity as the ability of an entity to payback all its debt using income from the entity and income borrowed elsewhere. The authors further outlined that repayment capacity evaluates the statistical practicability of an entity to acquire additional debt and or capital after covering all its cash commitments. Repayment capacity is mainly measured using capital lease coverage ratio and term debt repayment margin. Capital lease coverage ratio measure the ability of an entity to cover all required term debt and capital lease payments, where the higher the ratio is the greater the margin to cover the payments is. Also the higher ratios indicate flexibility of the entity to withstand and or adjust to temporary adverse economic conditions. Debt repayment margin evaluate the ability of the borrowing entity to generate funds required to service existing term debts and replace capital assets. It enables users to evaluate the entity's ability to acquire additional capital and evaluation of risk margin.

2.1.4 Financial efficiency

Lorraine (2012) and Melcy (2015) describe and explain financial efficiency as a measuring tool which measures the degree of efficiency in the use of factors of production mainly labour, capital and management. The authors outlined that efficiency analysis looks at the relationship between inputs and outputs. Financial efficiency is generally measured using asset turnover ratio, depreciation expense ratio, operating expense ratio and interest expense ratio. The authors describe asset turnover ratio as a financial measuring tool that depicts how well an entity is using its assets to generate revenue where the higher the ratio is the more profit the entity will be generating. According to Lorraine (2012) and Melcy (2015) operating expense ratio, depreciation expense ratio and interest expense ratio all reflect the proportion of total expenses per financial unit of gross revenue for operating expense, depreciation expense and interest expense respectively. Collectively the four ratios represent total composition of gross revenue as a percentage.

2.1.5 Profitability

Lorraine (2012), Melcy (2015) and Mollin (2012) define profitability as a financial measuring tool which measures the ability and extent to which an organisation utilises its factors of production to generate profit. The authors declared that profitability ratios analyse and evaluate the relation between turnover and expenditure and the size of the entity compared to its profit levels.

The authors outlined that profitability is commonly measured using rate of return in assets, rate of return on equity, net income and operating profit margin. According to the authors rate of return on assets measures profit as proportion of the entity's total assets and is used as an overall measure of profitability, where the higher the value index is the more profitable the entity is. "Rate of return on equity measures rate of return on the owner's equity. It is used to consider rate of return on equity in relation to rate of return on assets to see if the entity is making profitable returns on borrowed funds. Operating profit margin measures return to capital per dollar of gross revenue. Operating profit margin looks at the unit produced component of earning profit and the asset turnover ratio looking at the volume of production component of operating a profit. Net income directly derived from the profit or loss and other comprehensive income statement and is calculated by matching revenue to expenses directly linked to generation of revenue and the gain or losses on sale of capital assets"(Mollin, 2012, p.164).

There are various financial measuring techniques and some have been discussed above under theoretical context by various authors above. For the purpose of this study the researcher will focus on profitability as a financial performance measure of UMSCC particularly looking at the operating profit margin ratio and its sub profitability financial ratios which are profit percentage ratio and sales growth percentage ratio. These financial ratios use the income statement and other comprehensive income utilising and analysing revenue and operational expenditure.

2.2.0 Theory of Budgeting

According to Robson (2015) budgeting is the process whereby the predetermined courses of actions of entities is expressed in quantified and or monetary terms laying out systematic instructions to be applied over a certain period of time. Omolehinwa (2014, p.4) define budgeting as predetermined crucial activities in an organisation displayed quantitatively or in monetary terms exposed to risks and constraints caused by resource scarcity, participants attitude and the environment, depending on what decision is arrived by the key players vested with decision making rights. As indicated by the authors above, the researcher comprehends a budget as plan expressed in monetary terms or quantitatively prepared prior to a specific time period which the plan is to be exercised in order to meet set objectives or goals.

2.2.1 Characteristics of a budget

According to Jackson and Swayer (2001) and Robson (2015) a good budget has the following characteristics, firstly a good budget incorporates as many participants as possible allowing them to contribute and express their point of views. A good budget should address incorporate the whole organisation and it should be comprehensive. The authors further declared that a good budget should be prepared on in accordance to established standards and that it should have room for change and flexibility to enable adaption to change in the business environment and it should be constantly monitored, comparing the budgets to actual performance.

2.3.0 Budgetary control

Jackson and Swayer (2001) reported that budgets are an important tool and element for effective control and play the central and most important role in the budgetary control system. Budgetary control is a system whose objective is to plan and control all the activity of an entity thus production and selling through the use of a budget (Admas 2015).

Hansen and Stede (2004, p.23) define “Budgetary control as a control tool which compares actual results with set targets and any differences or variances are investigated and

mitigated”. For budgetary control to be possible a budget must first be prepared and activity towards those accomplishing those targets must have taken place. According to Terry (2015) budgetary control is a process of finding out what is being done and it involves the exercise of comparing the actual results with the budget to verify accomplishment or to remedy any variance. Comprehending all the views outlined by the various authors they assert that budgetary control relies on budgets and is a process whereby actual activity is compared to predetermined targets.

The Tennessee board of regents (2013, p.7) assert that “A proper budgetary control system is capable to address the effectiveness and efficiency of an entity’s expenditure”. Cotter (2015), Lucey (2009), Ronald (2013) and Frederick (2014) argue that budgets are plans expressed in monetary terms on how best organizational resources are to be expended over a specific time period. They all further argued that budgetary control as a management tool enables monitoring and evaluation, acting as detector tools of variance between organisational objectives and organisational performance.

2.3.1 Analysis of budgetary control techniques and types of budgets

Deriving from the definition budgetary control, analyse the results of a budget once it has been implemented. Budgetary control includes the following techniques and types of budgets, variance analysis, responsibility accounting, adjustment of funds and zero based budgeting value based budgeting activity based budgeting

2.3.2 Variance analysis

Budgets are formulated using estimate figures which are compared with actual accounting figures any difference is identified as variance. According to Wilson and Chua (2015) variance analysis is a quantitative technique used to ascertain the difference between actual results and expected or planned results, the outcome is used to control and govern the organisation. Adams et al (2014) argues that variance analysis as a budgetary control technique can be used by the less literate and educated information users because it simply measures the difference between actual and budgeted performance which can be easily identified, also it reflects areas in an organisation that require management’s attention. This characteristic enables the practise of management by exemption. One major drawback of variance analysis is that if variances are not properly investigated management might arrive at misleading conclusions and take wrong corrective action which might result catastrophic incidences in the organisation (Batty 2014). According to a research conducted by Dandago and Ahah (2013) which investigated the significance of variance analysis as an element of

cost management. The study investigated what is meant by efficient standard in a secondary industrial firm with the objective to outlay variance for management cost control, findings pointed out that upon the setting of realistic goals and standards and proper review and investigation of variance, improved organisational performance and a reduction of costs is experienced. Variance analysis enables the practise of responsibility accounting another budgetary control technique

2.3.3 Responsibility accounting

Responsibility accounting according to Lucey (2013, p.71) “Is a control technique which tracks and report costs, expenses, revenue, and operational statistics by area of responsibility or organisational unit. Horngren (1982) define responsibility accounting as system that align and identify costs to the department, sector or person who incurred the cost. Lucy (2013) further argued that in order to implement responsibility accounting, a business has to be organised in such a way that responsibility can be assigned to a specific department and that department assign sub responsibilities to its personnel. Tonly (2012) highlight that responsibility accounting establishes control and it compel management to use the organ gram which reflect the flow of responsibility and authority in an organisation depicting the duties and responsibilities of managers and their subordinates. However, Ossasumi (2015) indicated that responsibility accounting is limited in the context that departments generally work hand in hand and in most instances share responsibility to accomplish the same task, making it difficult and in some instances impractical to draw a clear cut line of responsibilities. Also responsibility accounting is limited to the effectiveness and efficiency of the reporting and communication system of the organisation. Nawaiseh et al (2014) conducted a research to measure the extensiveness in the adoption of responsibility accounting in the Jordanian Industry. The study’s objective was to investigate the degree to which Jordanian industry adopts responsibility accounting and to identify any drawbacks that impede full adoption and application of responsibility accounting in the manufacturing sector. Research findings recommended that public listed companies should employ professional management accountants.

2.3.4 Rolling budget

Miles and Rouse (2012) define a budget adjustment also identified as a rolling budget as control tool that allows adjustments to the current budget figures for a given account. Miles and Rouse (2012) and Tonly (2012) asserted that budget adjustment or rolling budgeting takes into account changes from the previous trading period into the next trading period

which increase and improve continuity and oversight hence promoting flexibility. They further argued that rolling budgets do not require a lot of time and money to prepare since they only make adjustments of the previously applied budget. However, rolling budgets demand the gathering of facts and a lot of information from previous trading periods an exercise which requires skilled personnel for collection of accurate information

2.3.5 Zero based budget

Epe and Koetzier (2015) define a zero based budget as a budget prepared from scratch by critically analysing every cost and expense weighing its importance to the organisation for it to be incorporated in the budget, without any review from the prior period budgets. Epe and koetzier (2015) argues for zero based budgeting saying that it enables top management to identify and fund areas or departments accordingly which guards against over and under funding of department through the incremental basis thus avoiding wasteful expenditure. However, Tonely (2012) argued against zero based budgeting saying that zero based budgeting is very time consuming and tedious because yearly it requires the justification of expenditure along with the preparation of the budget itself.

2.3.6 Activity based budgeting

Arnold et al (2014) define activity based budgeting as budgeting method based an activity framework, planning and control is conducted based on value adding activities and cost drivers. Activity based budgeting according to Ellin (2014) it promotes continuous improvement in the budgetary process. Activity based budgeting recognises cost driven activities with the objective of controlling the causes of cost and not the cost itself.

2.3.7 Flexible budget

A flexible budget is a budget that change with the change in the level of activity attained (Sothon 2015). Flexible budgeting takes into account fixed costs, variable costs and semi variable costs and is applied to change in relation to actual level of activity.

2.4.0 Determinants of an effective budget

Budget implementation is characterised by the following determinants availability of financial resources, competence of human resources, staff and stakeholders' participation, proper planning and evaluation (Ossasuni, 2015).

2.4.1 Proper planning

Ossasuni (2015) assert that a budget is a tool that provide a detailed plan of production, raw materials, sales, advertising, labour needs, research and development activities, capital additions, sales promotion performance etc. Ossasuni (2015) further outlined that through

planning management can anticipate problems and challenges likely to be faced by the organisation creating enough time to prepare and formulate solutions. Unanticipated business catastrophes can be avoided by planning and budgeting compels management to. Look, think ahead, anticipate and prepare for anticipated conditions (Reginald 1979). According to Lucas (2012) budgetary control required the formulation of well-coordinated plan projecting the financial and quantitative terms for forthcoming trading periods. The author highlighted that a detailed plan needs to be aligned with the long term strategy of the organisation. However, conditions in the short run which dilute alignment with long term objectives may prevail. Meyrel (2015) agreed with latter when he outlined that conditions like economic depressions might force deviation from long term objectives. Meyrel (2015) further outlined that it is important to establish the policy to be used when formulating budgets for the forth coming financial period. Lucas (2015) argued that having formulated and adopted the budgets, feedback should be prepared and delivered to managers, usually through the use of monthly budget reports. The reports mostly contain variances which reflect the difference between projected and actual outcome. Lucas (2015) and Meyrel (2015) stressed out that budget plans must be carefully coordinated to prevent bottleneck. Proper planning requires the management team to define patterns of expenditure and revenue over individual projects life spans. Meyrel (2015) highlighted that realistic planning is key to successful implementation of projects.

2.4.2 Coordination

Kulel (2015) argued that budgets assist management collectively to bring together their efforts in order to align and harmonise their divisional objectives with those of the whole organisation. Kulel (2015) further highlighted that planning and organising contribute a lot towards effective coordination. The author also advised that coordination of departmental budgets is essential for an effective budgeting and budgetary control system.

2.4.3 Communication

Budgeting is more of a communication device (Golden 2012). Budgets convey essential information to all departments' managers and personnel. The author further explained his assertion saying budgeting provide an understanding and knowledge of policies and programmes prescribed to them along with information about restrictions to be observed. Golden (2012) explained that the budget itself does not facilitate communication but through the budgeting process vital information is communicated both vertically and horizontally in the organisation to all responsible personnel.

2.4.4 Control

Kulel (2015) stated that control is one of the vital components in the budgetary control process. It ensures that plans and objectives are been executed and achieved accordingly. Golden (2012) support Kulel's view when he asserted that control in the context of budgeting keep management informed on the progress of planned objectives, any variance arising is management's duty to take corrective action.

2.4.5 Performance evaluation

Performance evaluation is one of the concluding stages of budgetary control (Golden, 2012). According to Golden (2012) Budgets facilities means of informing management how it is performing compared to their set objectives and it create a basis of rewards and promotions.

2.5.0 Benefits of budgetary control on organisational financial performance

Neely et al (2015) points out that budgetary control in many organisations is used as a means of corporate internal controls and it enables a comprehensive management base for effective and efficient allocation of resources. Carr and Joseph (2014) and Garisson et al (2013) theoretically believe that through budgeting when making financial decisions and during internal operations of an organisation, multiple functions in the context of budgeting behaviour can be realised. They further highlighted that if exercised properly, budgeting compels management to plan, produce definite expectations that are used as a basis for subsequent performance measurement, enhance effective communication and coordination amongst various organisation's departments and segments. Below is a comprehensive theoretical review on the arguments for and against budgeting and budgetary control which will closely be looked at.

2.5.1 Motivation

Davila and Foster (2015) outlined that the opportunity issued to subordinates to participate in the budgetary process stimulate their motivation and their dedication to budget setting, leading to job satisfaction and performance. Joshi et al (2013) support the latter saying that budgeting enhances workforce motivation through employee participation in the budgetary process he further went on to say that during budget formulation organisational members are expected to participate and contribute in the outlining of budgetary objectives as well as in the subsequent revisions of those goals with management. Parker and Kyri (2006) outlined that including middle level and low level employees in the budgetary process instil a feeling of importance into the employees motivating them and resulting in effective and efficient labour. According to Poon (2015) budgetary participation act as a negotiation channel

creating a link of communication between superiors and subordinates enabling effective discussions among different levels of management. For instance, during variance analysis budget participation facilities and enables the organisation to accurately point out reasons for variations in order to take corrective remedies. Also according to Chenhall (2013) budget participation through information exchange helps clarify organisational roles, duties, expectations and responsibilities to respective subordinates. Arguments expressed by the various authors indicate positive impact budget participation has on financial performance through a motivated, well informed, effective and efficient workforce.

2.5.2 Planning and goal clarification

Yuen (2014), Chanhall and Langfield (2016) stress out that goal setting improves financial and organisational performance. Yuen (2014) argued that management operating with unclear and ambiguous goals are likely to fail in achieving them, and clear outlined objectives minimise uncertainties in the budget process hence improving performance. Chong and chong (2012) outlined that ambiguity is a factor negatively affecting financial performance and asserted that proper budgeting and budgetary control is a useful tool in reducing ambiguity in subordinates

Horvath and Seiter (2016) outlined that budgeting and budgetary control compels management to forecast formulate detailed plans for accomplishing targets for each department and for managers to give purpose and direction to the organisation. Ellis (2013) support the above mentioned assertion when he outlined that budgeting and budgetary control has positive influence to an entity's profitability because it enhances clarity on what everyone is expected to do and the order of priority of those tasks. Ellis (2013) asserted that clear prioritised goals and duties, promote optimum resource utilisation and improve an entity's financial performance.

2.5.3 Effective and efficient resource utilisation

Budgeting and budgetary control promotes proper resource utilisation which is defined as utilising limited resources to their maximum possible benefit (Osasuni and Malson 2015). According to Garry (2013) budgetary control indicate departments, activities and personnel experiencing a waste of resources through, variance analysis. This creates an opportunity for management to identify and apply remedies to mitigate areas experiencing adverse and waste of resources. Budgeting and budgetary control through the use of variance analysis enables loss control and loss management. (Aruomoaghe and Agbo, 2013). Harmilton et al (2015) argued that budgets set limits for expenditure and targets for revenue. This compels managers

and their subordinates to be cost conscious and work with the resources allocated to them, this limit wasteful use of resources by departments to the extent of the resources allocated to them. Proper resource utilisation reduces the overall costs of the entity resulting in improved financial performance.

According to Tonnel et al (2016) and Grinsten (2015) asserted that budgetary control improves labour efficiency through performance evaluation. The authors argued that employees thrive to attain the goals set for them during the budgeting process. This is so because if employees fail to attain their set objective it will probably result in them being identified as responsible for the adverse which will negatively affect their profile in the organisation. Grinsten (2015) further explained outlining that employees perform at their level best if their aware that there been monitored and their performance will be reviewed in future. As indicated by the authors budgeting and budgetary control improves labour efficiency which has in a positive impact on financial performance.

2.6.0 Drawbacks of budgeting and budgetary control on financial performance

Theoretically budgeting and budgetary control do not only positively affect the financial performance of an entity but in some cases if not applied and exercised properly worsens the financial performance of an organisation. Lonay (2016) and Ally (2014) argued that budgeting and budgetary control reside on estimates and is not practised using actual or exact figures. The authors highlighted that the effectiveness of budgetary control on financial performance is to a greater extend dependent on the accuracy of the estimates applied during budget preparations. Mellin (2015) support the latter when he outlined that the strength of weakness of budgetary control is related to the feasibility of estimates in the budgets. Poor estimates in budgeting stir negative impacts on financial performance.

According to Loray (2015) budgets are prone to rigidity and impose negative impact on financial performance of an organisation if not properly adjusted. Loray (2013) further explains outlining that budgets are less useful and probably misleading if they acquire rigidity and if they're not revised and adjusted according to the dynamics experienced by the organisation.

Norah (2015) highlighted that budgetary control is just a tool in the hands of management and cannot replace management. Author further outlined that the execution of a budget and budgetary control does not occur automatically, but requires the whole organisation to participate which limits budgetary control to the organisation's culture, attitude and

behaviour towards budgetary control. Organisations with poor organisational culture and behaviour experience negative effects of budgetary control on their financial performance.

According to Alpha and Allan (2015) budgeting result in a demotivated workforce if budgetary process is not properly done. Setting unattainable goals for employees at any level demotivates the employees to work. Setting unattainable goals result in adverse during performance review which discourages employees to work. Also unattainable goals quickly put employees in denial and quit attempting to achieve their set goals. Demotivated workforce negatively affects the financial performance of an organisation.

According to Mollin et al (2016) budgeting and budgetary control can result in redundant financial growth and performance because of budget slacking. Godwin (2015) define budget slacking as the deliberate under estimation of budgeted revenue or over estimation of budgeted expenses. Budget slacking suppress the potential an organisation has in improving its financial performance therefore if not looked out for budgeting through budget slacking can result in poor and redundant financial performance.

2.7.0 Empirical review

This section of literature review focuses on researches and studies conducted by various researchers around the world similar to the current research, on the impact and effects of budgeting and budgetary on organisational performance and profitability. It reviews the research findings and recommendations of other authors in the context of the relationship between budget and budgetary control and the strength of the relationship.

2.7.1 The relationship between budgeting and budgetary control on overall costs

Ifrah Ahmed Mohamed (2016) conducted a research in Tanzania a LEDC focusing on the effectiveness of budgetary control techniques on organisational performance at Dara Salaam Bank Headquarters in Hargeisa Somaliland. His study looked at budgetary control can impact the performance of Dara Salaam bank. The researcher objectives were to determine if responsibility accounting influence organisational performance, to find out if variance analysis impact organisational performance and lastly to find out how zero based budgeting affects organisational performance. The researcher conducted his research using descriptive and retrospective research designs, using both primary and secondary data sources. The researcher collected primary data by issuing questioners and secondary data was collected from published material. The research data was collected from a census study of 70 Dara Salaam staff, and the data was presented by use of frequency tables in excel. The research

findings of this research reflected that variance analysis, responsibility accounting and zero based budgeting enhance budgetary control and improves organisational efficiency and productivity. Research findings further outlined that variance analysis alone may not affect organisational performance but bears influence on decision making which in turn affect the performance of an organisation. The researcher recommended that organisations should train their staff on budgetary control techniques to improve decision making in order to improve efficiency and productivity. The researcher also recommended further research to be conducted on the relationship between budget implementation and organisational performance.

Kenneth Oduar Adongo (2015) conducted a research in Kenya in 2012 investigating the relationship between budgetary control and financial performance of state corporations in Kenya. The researcher was driven to conduct this research as result of poor finance management and poor organisational performance in the public organisations of Kenya. The researcher' objectives focused on determining salient features of budgetary controls in state corporation's challenges affecting budgetary control. The researcher gathered data using stratified random sampling and systematic sampling with a sample size of 14 corporations out of a population 138 state corporations. The researcher collected data using questionnaires administered to state corporate service managers, finance managers and budget officers. The researcher analysed the data collected qualitatively and quantitatively through the use of mean and standard deviation. Research findings indicated that a positive relationship exists between budgetary control and financial performances of state owned corporations. Research findings also indicated that budgetary control process is prone to political influence, organisational behaviour employee's attitude whose impact through budgetary control adversely affect financial performance, therefore the researcher recommended sensitization between management and employees on the importance of budgetary control in enhancing financial performance, avoiding political interference in the budgeting process for strong positive relation to be realised. The researcher also recommended further studies to be conducted on factors affecting employees and management commitment to organisational budgets.

Serem (2013) carried a similar research in Kenya a LEDC, which examined budgetary control in Non-Governmental organisations (NGOs) and its effects on the NGOs performance. The objective of the research was to determine the effects and or impact of budgetary control on the performance of NGOs. The researcher out of a population of 7127

NGOs in Kenya used a sample size of thirty NGOs which was selected using convenience judgmental sampling techniques. The researcher collected data using questionnaires. Descriptive data was analysed using statistical package for social science including standard deviation and mean. Relationship between budgetary controls and performance was analysed using correlation and regression analysis techniques. The research findings indicated that budgetary control has a weak positive effect on performance of NGOs in Kenya measured by R square 14.3%. The research highlighted that other factors apart from budgetary control influence and impact performance of NGOs and also recommended that research be carried out on those factors. Researcher recommended that employees need to be sensitized on budgetary control and its impact on organisational performance. The researcher also recommends that further research should be conducted in the same area but using a larger sample size.

Analysing the research findings discussed above in the context of the relationship between budgeting and budgetary control and overall costs. All three researches were conducted in Africa one in Tanzania and the other two in Kenya prevailing similar business environments. Out of the three researches the findings indicated that a positive relationship exists between budgeting and budgetary control and performance. The authors did not indicate or discuss any direct relationship between budgeting and budgetary control on organisational costs, however the authors issued similar recommendations such as employee training and sensitization which theoretically reduce an organisation's operational costs, through effectiveness and efficiency.

2.7.2 Impact of budgetary control techniques on revenue.

Joshi and Abdulla (2006) conducted a research in the State of Bahrain which examined on the aspects of budgetary control and performance evaluation systems. The research was conducted on a survey of forty-two large and medium sized companies in State of Bahrain. Data was collected and analysed in the same way as in research carried out by Ifrah Ahmed Mohamed (2016) discussed. Research findings outlined that taking firm size as independent variable budget planning and control have a positive effective on a firm's profitability.

According to a research conducted by Rahim (2004) in Malaysia attempted to study the relationship between budget characteristics including budget participation, budget communication, clarity and the dependent variable budget performance. The research data was collected on sixty-four questionnaire respondents and analysed using the statistical package for social science. The research findings indicated that there is no significant

relationship between budget goal commitment which is the intervening variable and the dependent variable. Research findings also indicated that two independent variables monitor and budget communication has a positive significant relationship with the intervening variable.

Tanase Gabriela Lidia (2015) conducted a research in 2015 analysing the existence of a link between budgets and profitability in economic entities. The research was conducted in Romania. Research data was collected through the use of questionnaires and analysed using a simple econometric model. The research findings outlined that use of budgets induce an increase in the performance of Romanian economic entities, although there is no significant direct link between budgets and performance.

Analysing all the researches discussed above in the context of the impact of budgeting and budgetary control on revenue. The researches were conducted in different business environments some in more economically developed countries (MEDCs) and some in LEDCs and some focused on private sector entities and focused on public entities. This might have resulted in the dissimilar research findings concluded by the researchers, where Joshi and Abdulla (2006) concluded that a direct positive relationship exist between budgeting and budgetary control and profitability but Rahim (2004) and Lidia (2015) both concluded that there is no direct relationship between budgeting and budgetary control but however an indirect positive relation exist between budgeting and budgetary control. Also all three researches shared different views as to extend

2.8.0 Summary

This chapter synchronised information on the impacts of budget and budgetary control. It stressed out on various aspects of budgeting including budgetary control techniques, budgets, and budget objectives, arguments for and against budgeting as well as views of other researchers on the impact of budgeting and budgetary control. This chapter also reviewed financial performance techniques and methods to help understand on how to measure an entity's performance.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methods applied in carrying out the research, collecting data, presenting the data and data analysis. A discussion and presentation of the research design and research instruments, sampling methods and target populations is also presented.

3.2 Research design

Luke (2012) defines a research design as plan consisting of the process as well as the method used to collect data. Henrick and Noreen (2015) supported the latter definition when they stated that research design is plan, structure and strategy of investigation to gather answers of research questions and control variances. According to Robson (2012) research choices, strategies and time horizons can be viewed of as focusing on the process research design which is interpreted as turning one's research questions into a research project. This research adopted the descriptive survey and the correlation research design. The descriptive research design according to Miles and Hberman (1994) is one which information is collected without changing the environment and is a favourable method for collecting information used to demonstrate relationships and describe elements as they exist. In this study the descriptive research design is applied in assessing the impact of budgeting and budgetary control on financial performance. The correlation research design is defined by Miles and Huberman (1994) as an associational research technique used to determine relationships among two or more variables without influencing them. Robson (2012) added that correlation research design investigates the possibility of relationships between two variables. In this study the correlation research design is applied to ascertain the relationship between budgeting and budgetary control and financial performance of statutory bodies in Zimbabwe.

3.3 Descriptive research design

Descriptive research design displays the exact description and picture of a situation (Luton, 2012). Ogula (2015) argued that descriptive research constitute of research questions, reserach design and analysis of data applied to a specific topic, descriptive research design addresses the what is, thus it is primarily concerned with finding out and giving answers to direct questions for example "What is the impact of budgeting and budgetary control in financial performance. Aguali (2012) argues that descriptive research design can either be qualitative or quantitative, it gathers data that describes events and organise, depicts, tabulate and describe the collected data. It normally uses visual aids such as charts and graphs to assist

the reader in understanding the data distributed. Aguali (2012) further outlined that descriptive research approach best works hand in hand with the interview, observational and survey methods of collecting data. Aguali (2012) and Luton (2012) agree that descriptive research approach is flexible and enables researchers to effect alterations at any time during field research and that it is inexpensive and efficient to use since the data the already exist. However, the authors stressed that descriptive research design has its drawbacks, they outlined it focuses on primary sources information which is associated with its weaknesses such as that respondents are not truthful as they feel need to tell the researcher what they think the researcher wants to hear and also respondents are likely not respond to personal questions and alter their behaviour if the realise that there are been observed. The researcher chose descriptive research design as one of the qualitative data collection techniques because it reflects as the best tool to collect primary data which will be used to address the research questions such as, what budgetary control techniques impact financial performance of statutory bodies. Also the researcher chose this technique because it is popular amongst the research methodologies applied by previous researchers discussed in chapter 2 including Ifra Ahmed Mahomed, Kenneth Oduar Adongo, Rafizal ABD Rahim and Tanase Gabriela who researched on a similar topic to this current study.

3.4 Research approach

3.4.1 Qualitative approach

Qualitative information on the impact of budget and budget and budgetary control on financial performance of statutory bodies in Zimbabwe was collected using interviews and a structured questionnaire as research instruments. According to Luton (2012) qualitative research involves the use of qualitative data, such as interviews, documents, and participant observation data to understand and explain social phenomena. Miles and Huberman (1994) further argue that qualitative research as a subjective assessment of attitude, opinion and behaviour. In order to illustrate subjective and non-numeric data on the impact of budgeting and budgetary control on the financial performance of statutory bodies in Zimbabwe the researcher adopted the use of qualitative approach, this is because there is need to view and analyse the attitudes, understanding, and point of views of participants in budgeting and budgetary control process as well as participants in the business system of statutory bodies in Zimbabwe.

3.4.2 Quantitative approach

To ascertain information on the financial performance of UMSCC the research adopted a quantitative approach to gather financial information on the revenue growth percentage changes, from the annual financial statements of UMSCC. Miles and Huberman (1994) define quantitative approach as research technique which collects and analyse data in numeric form, it emphasises relatively large scale and representative set of data and is often perceived as a tool used to gather facts. The research intends to investigate the relationship between budgeting and budgetary control and financial performance, therefore in order to obtain data on the financial performance of UMSCC for the past three years under survey and investigation in this research the researcher, had to adopt a quantitative approach.

3.5 Population, sample size and sampling techniques

3.5.1 Population

Melsin (2012) define population as a summation of study objects from which a researcher expects to interact with in order to collect data. It is a group of people and or objects which a researcher intended to sample. Upper Manyame Sub Catchment Council (UMSCC) is comprised of a non-executive board of 10 members and 4 executive members who some of them play a pivotal role in budget preparations and approvals. The management and workforce of UMSCC is comprised of 22 employees from a total of three departments which are the water resource and compliance department, finance department and human resource and administration department. The research target population included the management team, executive and non-executive board members.

3.5.2 Sample size and design

Melsin (2012) define a sample as a subset of a population. This study used stratified random sampling and. Melsin (2012. P.45) define stratified random sampling is “A probability sampling technique which tries to restrict possible samples to which are less extreme by making sure that all parts of the population are represented in the sample to achieve efficiency”. Denver (2012) explain that stratified random sampling divide the whole population into subgroups identified as strata, from each strata simple random sampling scheme is used and collectively the samples constitute a stratified random sample. The research used the stratified random sampling because of its inherent precision, efficiency and limited room for bias, and that it gives each one of the participants in the population an equal chance of being selected. The population is put into strata using departments this is

illustrated by a table 1.2 below, but due to variations in the strata population the researcher at least gave each participant a minimum chance of at least 50% of being selected.

Table 1. 2

Department	Population	Sample size	Population %
Non-executive board	10	5	50
Executive board	4	4	100
Finance	6	6	100
Human resource	2	1	50
Water resource & compliance	10	5	50
Total	32	21	65.63

3.6 Data sources

Golden (2012) asserted that the source of data to be used in carrying out a research is crucial and important because it affects the validity of the research findings. The research used a combination of both primary and secondary data.

3.6.1 Primary data

According to Golden (2012) primary data is first hand unprocessed data created and not collected elsewhere. Primary data on the financial performance of UMSCC was collected through the use of questionnaire.

3.6.2 Secondary data

According to Golden (2012) secondary data is data collected and processed elsewhere where the data user has not initiated or participated in the collection of data. Secondary data on the financial trends of UMSCC in particular its revenue growth percentage as well as its overall costs trend was collected from UMSCC financial statements directly and was confirmed and verified through the interviews conducted with the executive board members.

3.7 Research instruments

The research used questionnaires and interviews as primary data collection instruments. The researcher due to limited funding and time the researcher resorted to questionnaires and interviews. The researcher personally administered the questionnaires, whilst waiting for respondents with questionnaires the researcher conducted interviews.

3.7.1 Questionnaires

This study used questionnaires as primary data collection tool. The researcher used questionnaires to collect most of the quantitative data as well as the qualitative data. According to Dawn (2013) questionnaires if properly designed protects and respects one's privacy and secrecy because of its exclusion of one's name and identification details. This is very important because it minimises biased responses and untruthful responses from respondents. However, Dawn (2013) outlined that questionnaires limit data sufficiency and quality because the respondents will only be limited to respond to questions asked. Due to this limitation the researcher took precautions when developing the questionnaire by incorporating the most frequently asked questions in similar researches. This was done in order to enable feasible comparison with research findings of other studies and also it assist in setting up a questionnaire which is aligned to the study. The researcher also developed closed ended questions which were tailored to address specific research questions of the study. The researcher incorporated a likert scale within the questionnaire because it enables respondents to express their extent and magnitude of their responses.

3.7.2 Interviews

The researcher conducted interviews to collect most of the qualitative data and to a minimum extended quantitative data. Melsin (2012) define interviews as a raw data collection technique which uses word of mouth in administering questions and responding to the questions. Due to limited time the researcher only conducted interviews to budgetary control key personnel at UMSSC and this was the executive body and the top management personnel. The researcher conducted interviews because they do not limit interviewee's response like questionnaires and this was done to improve the quality and sufficiency of data collected. The interviews were conducted at UMSSC and were governed by structured questions which were prepared by the research to limit out of context questions as well as to get more clarity on grey issues in the questionnaires. The researcher structured open ended questions for the interview. According to Dawn (2013) open ended questions enable respondents to express their opinion without any limitations or guidance.

3.8 Reliability of data

Saunders et al (2015) define reliability as the extent or degree to which data collection methods and data analysis procedures will produce dependable results. The author further explains that it is the degree of consistency and accuracy that instruments have. According to Roxy (2012) if research findings of a particular study are reliable, it will reflect that studies carried out on similar topics using the similar research methods should produce similar results. In attempt to obtain reasonable assurance on the study's reliability the researcher adopted the frequently used research methods in similar studies to the current study. The researcher conducted a brief introduction and explanation on what the interview is about with aim of helping the interviewee understand the purpose of the interview itself. The researcher adopted a dual data collection method to help minimise the impact the limitations of one data collection tool has on the data quality and reliability. In attempt to increase reliability the researcher used a sample size of over 50% of the population.

3.9 Validity of data

Saunders et al (2015) define validity as the degree to which empirical and theoretical rationales support the adequacy and appropriateness of interpretations and actions based on test scores. The author further explained that validity looks at the effectiveness and accuracy of the measuring instruments. To ascertain validity, the researcher used random sampling in the strata to minimise bias during the sample selection process and by using appropriate data collection techniques guided by frequently used data collection techniques in preceding similar researches helped obtain assurance on the validity of the data collection tools in the research. Also the researcher used both descriptive survey approach and correlation survey approach in order to improve the study's validity where research questions such as what is the relationship between budgetary control and financial performance was attained using the correlation approach and the other research questions where attempted using the descriptive survey approach.

3.10 Data analysis

The researcher categorised the data collected sorting and aligning it with the research objectives. Descriptive data was processed using Microsoft excel and information was presented using visual aids such as bar graphs, a tabular form to enable easy and understandable interpretation.

3.11 Summary

This chapter discussed the methodology adopted during data collection. The chapter clearly outlined the research design and instruments, population and sample size. The research lastly indicated on how the collected will be presented in the next chapter.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

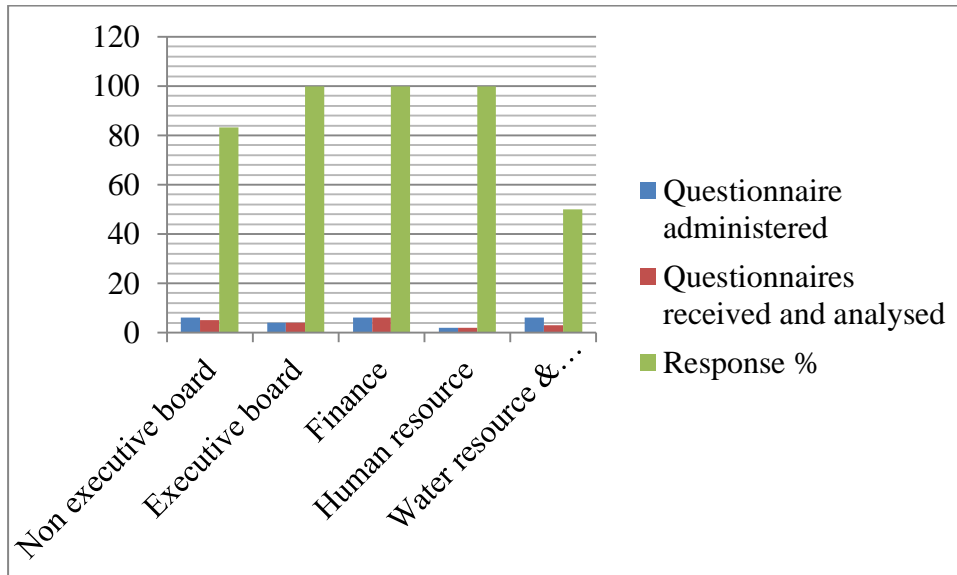
4.1 Introduction

This chapter presents an analysis of the data gathered. In this section the response rate obtained is discussed and analysed referencing to research findings of studies discussed in the empirical study review in chapter 2.

4.2 Response rate

The researcher administered twenty-four questionnaires at UMSCC where the research was conducted. A favourable response rate of 83.3% was received from the 24 questionnaires administered, of the four questionnaires which were not incorporated into the data presentation and analysis had three of the questionnaires incorrectly answered presenting contradicting responses. And posed a risk of distorting the research findings and one of the questionnaires was not received due to absenteeism of the respondent. Below is fig 4.1 presenting the questionnaire response distribution across the strata sample groups of the population?

Fig 4. 1



Reviewing the fig 4.1 presented above it can be identified that the total comprehensive response rate was 83.3 %. The researcher failed to achieve a 100% response rate however with reference to similar researches which investigated on the impact of budgeting and budgetary control on financial performance validation threshold percentage of the researches was at least 65%. Table 4.1 above depict that 3 strata departments which are the executive

board, finance and human resource department had a 100% response rate. This might have been as a result that these departments are characterised of personnel with high literacy and academic qualifications and are familiar with budgeting process and this might have influenced the high quality response which they exercised when they answered the questionnaires. The water resource compliance department had a response rate of 50%. This might have resulted from the fact that this department constitutes of the technical personnel with relatively low academic qualifications and do not have extensive knowledge about budgeting and budgetary control. This might have contributed to the incorrectly answered questionnaires which the researcher rejected. The non-executive board strata had a response percentage of 83.3% because one of the board members failed to post back his response.

The interviews were conducted at UMSCC with the executive board members only, who the researcher believe to have a more comprehensive understanding of budgeting and budgetary control and the budgeting system at UMSCC. Out of the four executive board personnel the researcher managed to interview only two board members, finance manager and the human resource manager both managers. The researcher will firstly discuss data collected from the interviews and will analyse by comparing and contrasting it with data collected by use of questionnaire.

4.2.1 Interviewee 1

The first interviewee was the finance manager. His response to the first question which reads; how does budgeting and budgetary control impact UMSCC's sales growth rate? Was that budgeting and budgetary control had had limited influence on the sales growth rate of UMSCC, he explained that UMSCC generate revenue from water users, who when they want to have access to ground or surface water are required by law to come at UMSCC for registration and on a quarterly basis are required by law to pay the water resource monitoring fee and therefore this automatically attracts most of the revenue into the organisation. The interviewee also outlined that budgeting and budgetary control has significant impact on the Bulk water service revenue levels. He explained that targets were been set for the compliance personnel to register new bulk water clients and rewards were credited to those met their targets. The finance manager further explained that this inserted a sense of motivation and competition in the water resource and compliance personnel. The finance manager's response to the second question which reads; how do you perform your budgetary control process? Was that from each department the manager is responsible for every costs incurred in their department and is answerable to the non-executive board under budgetary control review.

Also the organisation uses variance analysis as one budgetary control techniques were departments who incur favourable variances are rewarded with a performance based bonus. The finance manager's response to the third question which reads; how does budgetary control techniques used at UMSCC impact the expenses of UMSCC? Was that of the two budgetary control techniques adopted at UMSCC variance analysis was the most effective cost control technique, because managers exerted effort to manage and control their departmental spending behaviour in order to qualify for the performance based bonuses awarded to departments that incur favourable variances. Responsibility accounting was a less effective cost control technique according to the response given by the finance manager where he explained that although there was policy that managers are answerable for costs incurred in their departments there never was any penalty charged against them whenever they incurred unjustified expenses and adverse variances.

4.2.2 Interviewee 2

The second interviewee was the human resource manager, her response to the first question which read "How does budgeting impact UMSCC sales growth"? was that she was indifferent and had inadequate knowledge as to how budgeting might have influenced the sales growth of UMSCC but she however stressed out that since the organisation introduced rewards for bulk water service targets the revenue collected in that area significantly improved. The human resource manager's response to the second question which reads; how do you perform your budgetary control process? was not as detailed as of the first interviewee, but she outlined that having compared budget targets to actual performance of managers and their departments, the human resource department arranges for rewards to be awarded to managers and departments who would have met or surpassed their set goals. The human resource manager's response to the third question which reads; how does budgetary control process impact UMSCC expenses? Was that budgetary control process of rewarding employees according to performance has led to a significant drop in employee absenteeism rate especially from the compliance department which has resulted in increased labour efficiency.

Analysing the responses expressed by the two interviewees discussed above it can be identified that the first interviewee gave a more comprehensive and detailed response than that of the second interviewee, however comparing their responses it can be realised that they both asserted to the fact that budgeting and budgetary control has significantly improved the revenue growth rate of bulk water service but it however represents a small fraction of the

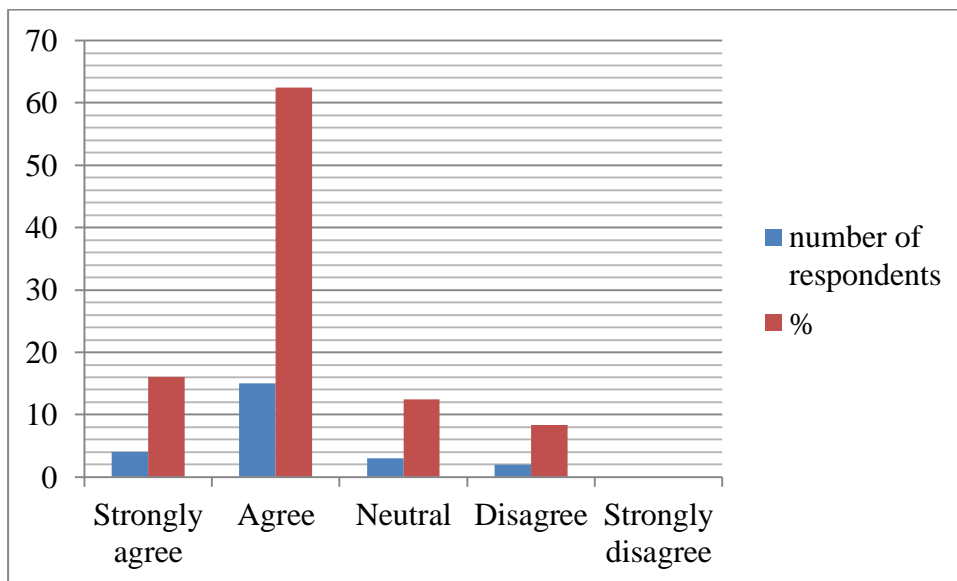
total revenue of UMSCC. According to the studies conducted by Mohamed (2016) and by Adongo (2012) who both in their studies argued that budgeting and budgetary control stimulate employee morale and motivation. This can help support the former response expressed by the interviewees. Also it can be identified that from the first interviewee's response budgeting and budgetary control has minimum if no significant impact on the revenue collected from registration and monitoring fee which constitute most of the origination's revenue. Summing up the two interviewee's responses on the budgetary control techniques adopted by UMSCC, variance analysis is the most effective cost controlling budgetary control technique compared to responsible accounting, because there are no fall ups and penalties charged against managers responsible for unjustified wasteful expenditure, but favourable variances attract performance based bonuses which motivate managers to practise subjective departmental cost control.

4.2.3 Impact of budgeting and budgetary control on financial performance

The researcher incorporated questions which intended to gather information on the following factors motivation, planning, goal clarification, effectiveness and efficiency that are theoretically believed to influence the profitability of an organisation, and to evaluate if these factors through budgeting and budgetary control have any impact on UMSCC. Below are pictograms which depict the findings on the impact of budgeting and budgetary control on financial performance through these factors and assertions discussed earlier in Chapter under two under theoretical review.

Below is fig 4.2 presenting the respondents opinions on the assertion that budgeting and budgetary control impact financial performance by enhancing employee motivation and that variance analysis improves organisational performance by reducing the organisation's expenses, if realistic goals are formulated and properly monitored and reviewed.

Fig 4. 2

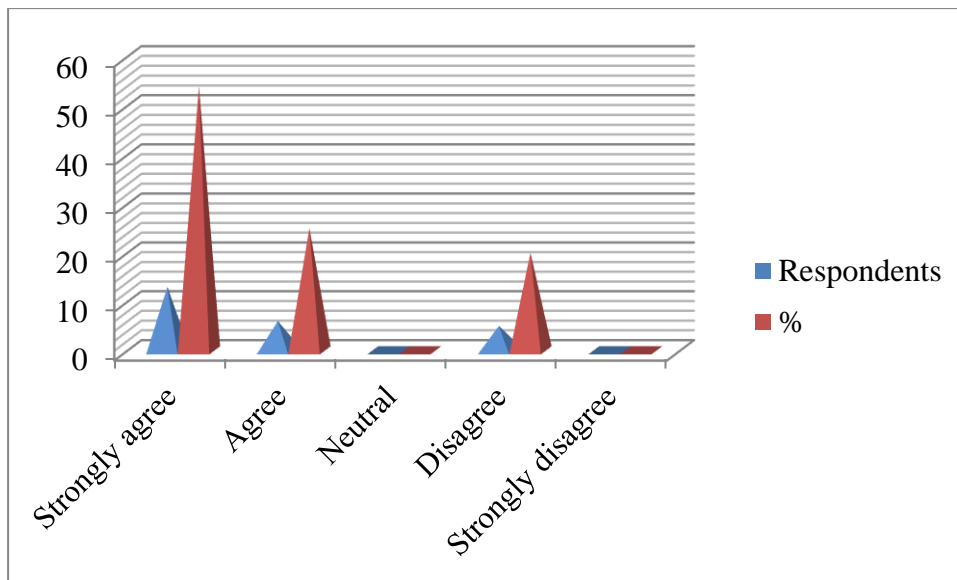


From the fig 4.2 above 16% strongly agree and most of the respondents who are constituted in the 16% are from the water resource and compliance department. 62.5% agree and is constituted mostly by respondents from the human resource (HR) and the executive department. This might have been as a result that by job description the (HR) and water resource and compliance departments are not deeply vested into the complex budgeting process unlike the finance department, hence by being given a chance to participate boost their moral and motivation. This result in a total of 78.5% of the respondents arguing for the assertion that budgeting and budgetary control enhances employee motivation. However, 8.33% of the respondents disagree to the assertion that budgeting and budgetary control enhances motivation. Of the 8.33% most of them were from the finance department. This might have been as a result that it's in the job description of most of the finance personnel to prepare and finalise master budgets. 12.5% of the respondents were indifferent to this assertion and were from the non executive board whose duties are not related to budget formulation rather they only review and approve budgets. Despite the 8.33% which disagree to this assertion it can be concluded that with reference to the research findings acquired at UMSCC, budgeting and budgetary control enhance employee motivation which positively impact financial performance through labour efficiency as argued by Adonga (2012) a researcher discussed in chapter 2 under empirical review who asserted that employee attitude and behaviour is influenced by the budgetary system adopted in an organisation where realistic and attainable objectives motivate employees to perform at their level best. Also according to Joshi et al (2013) who argue for this assertion when he outlined that budgeting

process motivate the workforce through their participation and contribution which insert a feeling of belonging importance resulting in labour efficiency and reduced costs.

Fig 4.3 below depicts responses on the impact of budgeting and budgetary control on financial performance through encouragement to plan.

Fig 4. 3

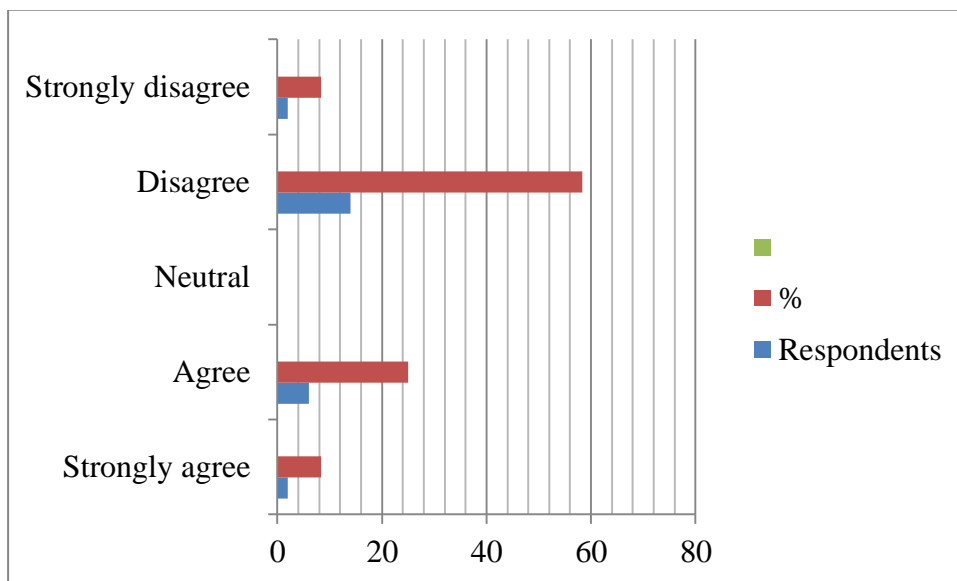


As depicted from the fig 4.3 above 54% of the respondents, most of them from the non executive and executive board as well as small fraction from the finance department strongly agree with the point that budgeting and budgetary control encourage planning hence it has a positive impact on financial performance. This might be as a result that it's the executive and non executive board that are responsible for long term strategic planning of the organisation and might have simultaneously carried out their duties of strategic planning and overall objective setting when they participated in the budgeting process. 25% of the respondents agree to this assertion and most of them were from the finance department and the water resource compliance department who in their departments planning is of utmost importance. Out of the sample population 20% disagreed to the assertion that budgeting and budgetary control encourages planning. Of the 20% who disagreed most of them were personnel from the (HR) department who in their department planning is not frequently exercised and is not as important as it is to the executive board and finance department. There was a zero percentage on those who were neutral and those who strongly disagreed to this assertion. Evaluating the results discussed above it can be realised that despite the 20% who argued against, 79% of the population argued for the point that budgeting and budgetary control

encourages planning and hence has a positive effect on financial performance. This is supported by Horvath and Seiter (2016) who declared that budgeting and budgetary control compels management to look ahead forecast and prepare detailed plans for anticipated future conditions during the budgetary process, with the executive focusing on the strategic long term objectives and managers focusing on the midterm future plans.

Fig 4.4 below present responses on the impact of budgeting and budgetary control on financial performance through improved effective and efficient resource utilisation

Fig 4. 4

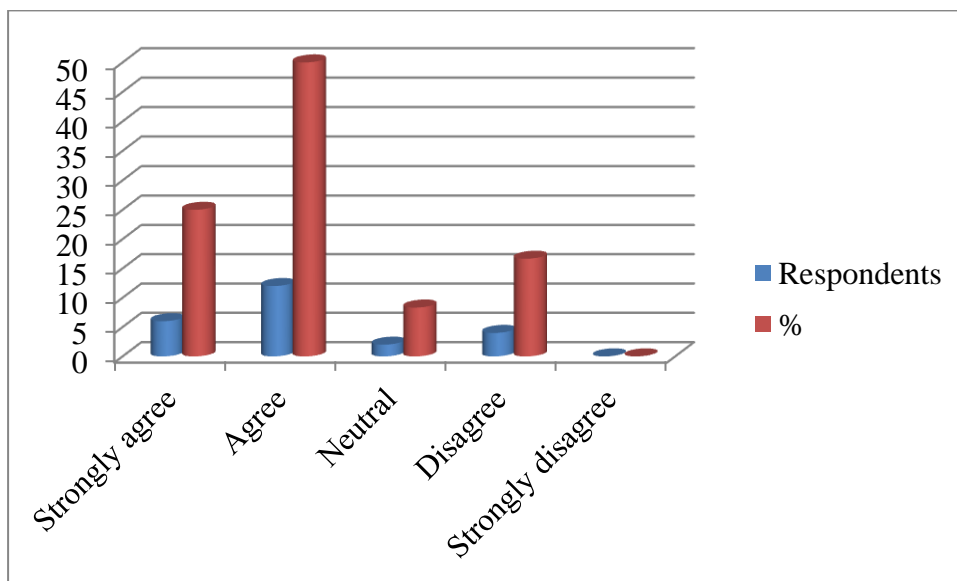


As depicted in fig 4.4 above it can be seen that 8.33% of the respondents strongly agree with most of the personnel from the executive and non executive board, with a small fraction of the percentage coming from the finance department, 25% of the respondents agree and is comprised mostly of personnel from the finance department and (HR) department. This result in a total of 33.33% arguing for the assertion that budgeting and budgetary control improve effective and efficient resource utilisation. 58.33% of the respondents disagree with most of the population from the water resource and compliance department. 8.33% of the respondents strongly disagree giving a total of 66.66% of the total sample arguing against that budgeting and budgetary control improves effective and efficient resource allocation. There were no neutral opinions in relation to this assertion. Analysing the above discussed findings it can be seen that the executive and finance department who are mostly in charge in the dispersion and distribution of resources to other departments argue for this assertion whilst the (HR) and

water resource and compliance departments who are mostly the recipients to the resources both financial and non financial are arguing against this assertion. This might be as result that the finance and the executive departments will be financing their departments at the expense of other departments who have no direct access and control over financial and non financial resources. Analysing the results discussed above it can be concluded that budgeting and budgetary control does not improve effective and efficient resources allocation and utilisation. This is similar to the research findings of the study conducted by Adango (2012) discussed under empirical review in chapter 2 when he argued that budgetary control process in state owned enterprises is prone to political interference and corruption which adversely affect the positive relationship between budgetary control and financial performance.

Fig 4.5 presented below depict responses on the impact of budgeting and budgetary control on financial performance through improved goal clarification

Fig 4. 5

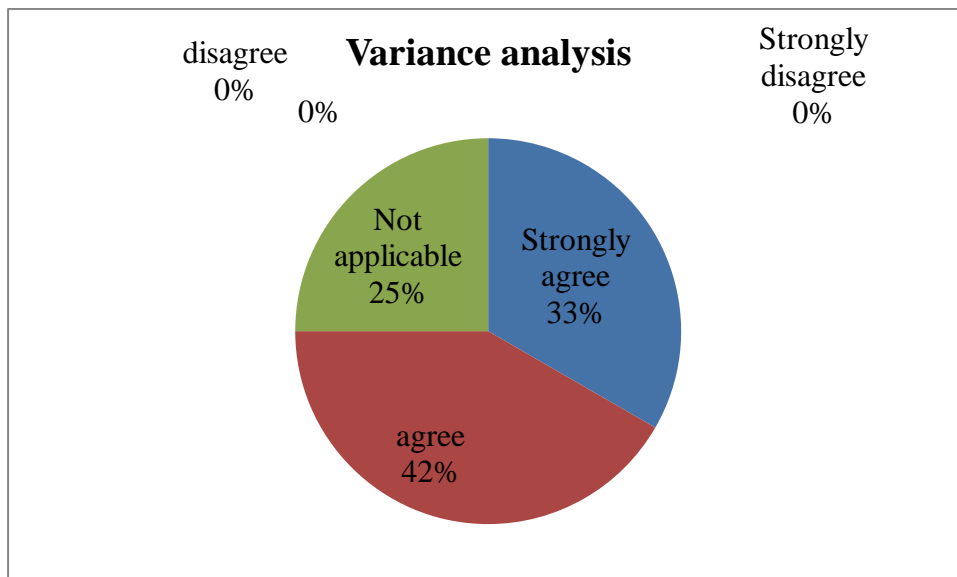


As reflected from fig 4.5 above 25% of the respondents strongly agree and 50% agree to the assertion that budgeting and budgetary control improve goal clarification. Of the 25% who strongly agree to this assertion it is comprised of personnel from the water resource and compliance department this might be as a result that the water resource and compliance department is the technical department which is the focal point of the whole organisation therefore work according to targets set for them by management and by being incorporated and communicated to more often they get a better understanding of their goals and targets.

50% of the respondents agree to this assertion and constitute a mixture of personnel from all the departments giving an aggregate percentage of 75% of the population arguing for the assertion that budgeting and budgetary control improve goal clarification. 16.66% of the respondents disagree with the assertion that budgeting and budgetary control improve goal clarification and are comprised as a mixture of personnel from all departments. 8.33% of the respondents have an indifferent opinion and is constituted of the non executive body. Summing up the results discussed above budgeting and budgetary control improve and or enhance goal clarification, and this supported in the study conducted by Serem (2013) who was discussed under empirical review in chapter 2 and Yang (2010) who both argued that budgeting and budgetary control have a positive relationship with goal clarification, highlighting that unclear goals are cancerous to the performance of an organisation and budgeting and budgetary control is an essential tool that reduce ambiguity in subordinates.

Diagrams presented below depict responses on budgetary control techniques and their impact on financial performance as an effective cost control tool. These questions were designed with the objective of ascertaining whether the budgetary control techniques discussed under theoretical review are practical and applicable as a cost controlling tool which improves financial performance.

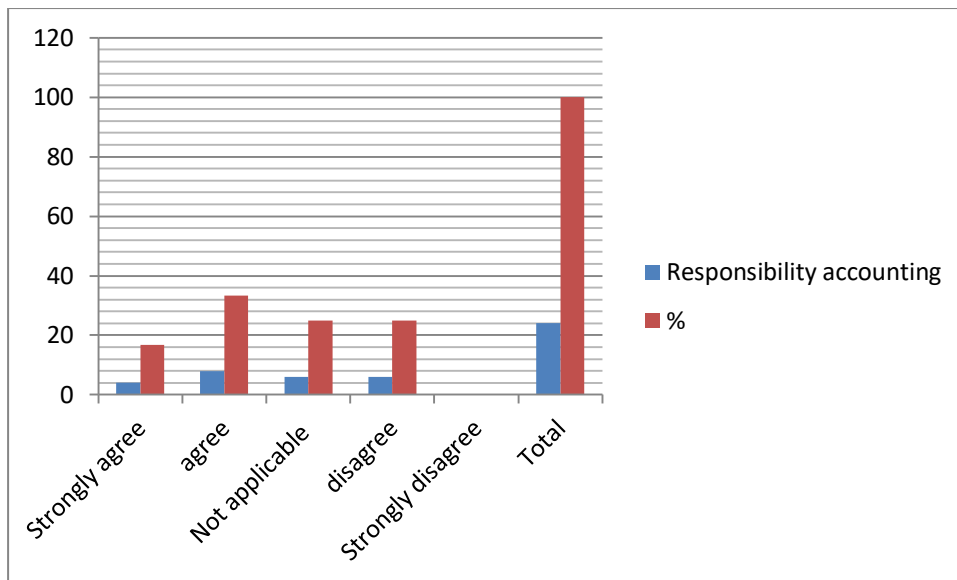
Fig 4. 6



From the fig 4.6 above starting with variance analysis it has 33.33 % respondents who strongly agree that it is an effective cost control tool followed by 41.66% who agree that variance analysis is an effective cost control tool resulting in an aggregate of 79.99%

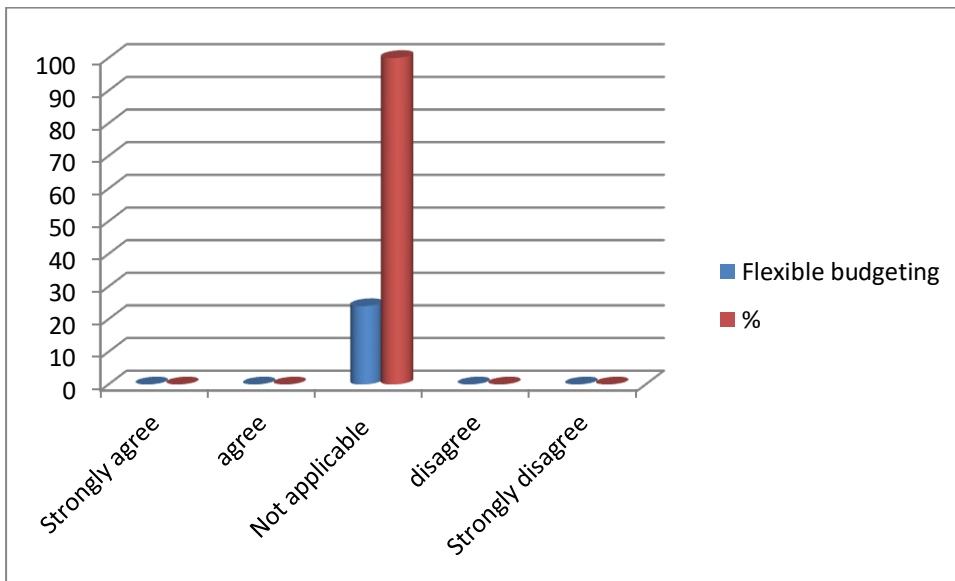
asserting that yes indeed variance analysis is an effective cost control tool. There is a zero percentage of any respondents who disagreed that variance analysis is an effective cost control tool, and there was 25% attributed by the non executive board which indicated that it is not applicable to their duties. Analysing the findings discussed above it can be realised that variance analysis is extensively being used at UMSCC and is proving to be an effective cost control tool. These findings are similar to the research findings of a study conducted by Dandango and Ahah (2013) discussed in chapter 2 under theory of budgetary control techniques, who argued that variance analysis improve organisational performance by reducing the organisation's expenses if realistic goals are formulated and properly monitored and reviewed.

Fig 4. 7



According to the data presented in fig 4.7 above responsibility accounting has 16.66% of the sample population strongly agreeing followed by 33.34% agreeing that responsibility accounting is an effective cost control tool resulting in an aggregate of 50% supporting this assertion. 25% of the respondents disagree that responsibility accounting is an effective cost control tool and 25% of the respondents do not use or apply responsibility accounting as cost control tool. Analysing the results discussed above it can be evidenced that responsibility accounting is relatively an effective cost control tool but however it cannot be certainly asserted because only 50% of the population agree and the other 50% of the respondents share different opinions.

Fig 4. 8

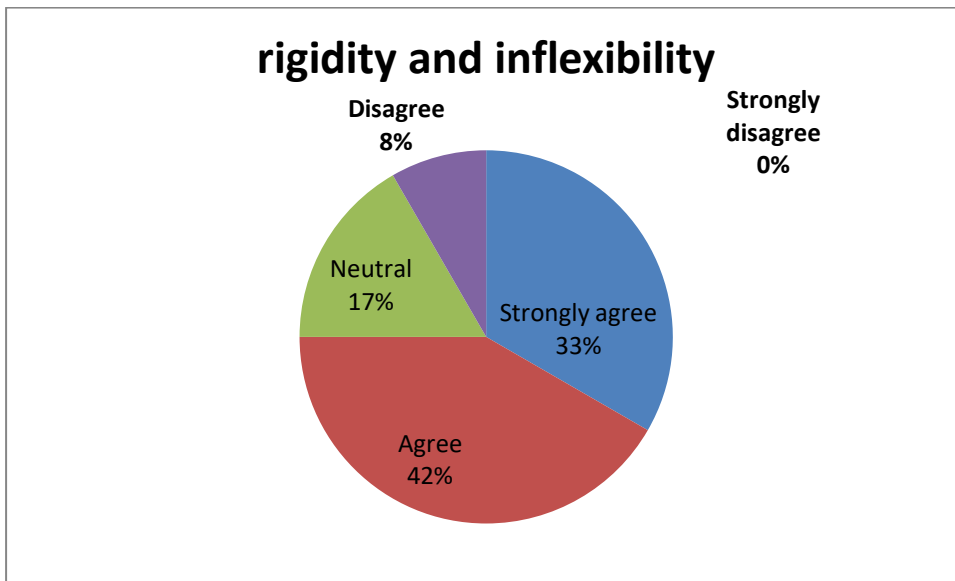


According to the data presented in fig 4.8 flexible budgeting has zero percentage of respondents who strongly agree, and agree that flexible budgeting is an effective cost controlling tool. Also it can be noticed that flexible budgeting has zero percentage of respondents who disagree or strongly disagree that flexible budgeting is an effective cost control tool, resulting in 100% of the respondents indicating flexible budgeting not applicable. This might have been as a result that at UMSCC flexible budgeting might not be practised at all.

Below is a list of tables presenting responses on the possible impact, budgeting and budgetary control might have on financial performance. Questions administered under this section were designed to gather information on how practical the theoretical drawbacks and problems which budgeting and budgetary control pose on the financial performance of UMSCC.

fig 4.9 below present data collected on the assertion that budgeting and budgetary control cause rigidity and inflexibility in operations of UMSCC.

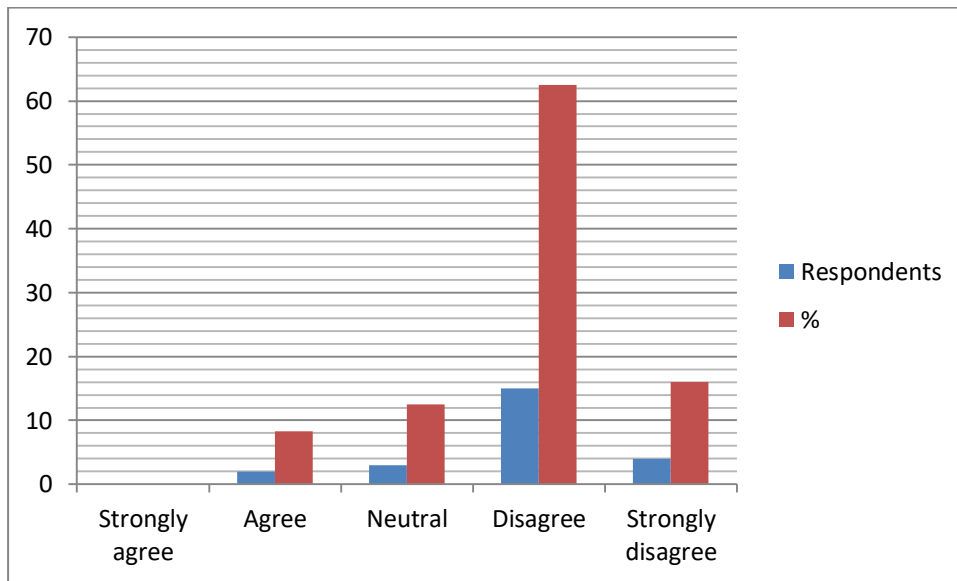
Fig 4. 9



From fig 4.9 presented above it be identified that 33% of the respondents strongly agree and 42% of the respondents agree resulting an aggregate of 75% arguing for the assertion that budgeting and budgetary control cause rigidity and inflexibility in the organisational operations. 8.33% of the respondents disagreed with a zero percentage of the respondents strongly disagreeing to this assertion resulting in 17% of the respondents having an indifferent opinion on the point that budgeting and budgetary control cause rigidity and inflexibility in the organisations operations. Analysing the findings presented above more than 75% of the sample might agree to this assertion because UMSCC does not use budgetary techniques such as flexible budgeting which inherently promote flexibility and provide room for adjustments in the budgeting system. This is supported by the study conducted by Mohamed (2016) who was discussed earlier in chapter 2 under empirical review who recommended that budgets should be adjusted accordingly to changes in business environment for them to be effective and have a positive impact on financial performance.

Fig 4.10 below depict data collected on the view that budgeting and budgetary control demotivate employees in your departments.

Fig 4. 10



From the fig presented above it can be identified that there is a zero percentage of respondents who strongly agree and 8.33% of respondents who agree to the assertion that budgeting and budgetary control demotivate employees. 12.5% of the respondents had an indifferent opinion on this assertion and 62.5% of the respondents disagreed and 16% strongly disagreed resulting in a total of 78.5% of the respondents arguing against the assertion that budgeting and budgetary control demotivate employees. Analysing the findings described above it can be identified that these findings are the direct opposite of the research findings discussed in table 4.2 which gathered data on the assertion that budgeting and budgetary control motivate employees. These findings are different from those discussed in study conducted by Adongo (2012) who was discussed under empirical review who argued that budgeting and budgetary control adversely affected workforce morale owing to the poor budgeting system practised in the case organisation which he was studying.

4.3.0 Summary

This chapter dealt with data presentation and analysis, by comparing the research findings to other studies that researched on similar topics as well theoretical assertions on budgeting and budgetary control. It presented research findings using tables expressed as a percentage. The following and final chapter will constitute the conclusion and recommendations issued by the researcher.

CHAPTER 5

SUMMARY CONCLUSIONS AND RECOMMENDECTIONS

5.1 INTRODUCTION

This chapter presents the study summary, conclusions and recommendations.

5.2 Summary

This study sought to at investigating investigate the impact of budgeting and budgetary control on the financial performance of UMSCC. The research was conducted as a result of the observed constant decline in the financial performance of UMSCC over the past three years. The research summed up that UMSCC practice a more formalized budgeting and budgetary control system making use of budgetary control techniques such as variance analysis and responsibility accounting. The researcher found out that there is a weak positive link between budgeting and budgetary control and revenue growth of UMSCC. The researcher also realized that budgeting and budgetary control has a positive impact on certain cost centres such as labour efficiency as well as a negative impact on the overall costs as a result of the rigidity of the budgeting and budgetary system and partial implementation of budgetary control techniques.

5.3 Conclusions

The researcher realized that despite the fact that budgeting and budgetary control system adopted at UMSCC has resulted in the improvement of certain areas of the organization such as labour efficiency, goal clarification and communication, as reflected in the questionnaire and interview respondents these areas are however failing to have a significant impact sufficient enough to improve the financial performance of UMSCC as it has been constantly declining in the pat 3years.

According to the research findings evaluated in the preceding chapter the researcher found out that the budgeting and budgetary control system adopted by UMSCC has negatively affected certain areas in the organization. It particularly increased rigidity and inflexibility of operations. Considering the volatile and constantly changing economic environment of Zimbabwe especially in the last five years, this might have grossly and negatively impacted the financial performance of UMSCC as it is not able to adapt and cope to these changes especially in short run. The researcher also realized that some of the budgetary control techniques in particular responsibility accounting are not been fully implemented and applied accordingly. This was discussed in interviews presented in the preceding chapter were managers are not held accountable for cost their responsible for. This has resulted in the

management to UMSCC to relax at the expense of the financial performance of the organization as their aware that no penalties will be attracted to them.

The researcher found out that the budgeting system adopted by UMSCC is prepared with an element and or a degree of bias whereby the departments and personnel with direct control of the organization resources distribute resources satisfying their departmental and personal interest at the expense of the departments with no direct control of financial resources.

Comprehensively the budgeting and budgetary control process has an overall negative impact on the financial performance of UMSCC as its negative impacts on the organization's financial performance outweigh its positive impacts on the organization's financial performance. This is evidenced by a snapshot of the three preceding financial trading periods that reflect a continuous decrease in financial performance of the organization.

5.4 Recommendations

Despite the existence of a formal budgeting and budgetary control system at UMSCC it is failing to pose a positive impact on the financial performance of the organization, therefore the researcher has outlined recommendations below which if applied will help improve the budgeting and budgetary system resulting in better financial performance

The researcher recommends UMSCC to incorporate flexible budgeting into its budgeting and budgetary control system. This will help reduce the rigidity and inflexibility of their current budgeting system enabling the organization to change adapting to the change in the economic environment.

UMSCC should improve its monitoring and evaluation process particularly when addressing adverse variances. It should have clearly communicated policies on budgetary review communicated throughout the organization which it practices for its budgeting system to be effective.

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APPENDIX A: LETTER OF INTRODUCTION

Midlands state university

Department of Accounting

P. Bag 9055

Gweru

26 September 2017

Dear Sir/ Madam

RE: RESEARCH PROJECT ASSISTANCE

I am a final year student at Midlands State University studying Bachelor of commerce accounting honours degree. I am undertaking a study on the Impact of budgeting and Budgetary control on statutory bodies in Zimbabwe a case study of UMSCC a requirement for the completion of my honours program.

I kindly request for your permission and assistance in my data collection procedure by participating in my interviews and honestly respond to my questionnaires. Your participation will exclusively be for this study and your information will be handled with confidentiality.

Your participation to this study is very much appreciated.

Yours faithful

Kudakwashe Murwisi

APPENDIX B: QUESTIONNAIRE

Instructions

1. Do not indicated your identity
2. Tick in the relevant box for your response
3. Express your responses and opinions in the spaces provided.

Question

Section A

1. Position held
.....
2. Educational background (indicate highest qualification)
.....
3. How many years have you worked at UMSCC?
.....
4. Do you agree disagree that the following budgetary control techniques are an efficient control tool in your department?

	Strongly agree	agree	Not applicable	disagree	Strongly disagree
Variance analysis					
Responsibility accounting					
Flexible budget					

5. Do you agree or disagree that budgeting and budgetary control have significant impact on the following assertions?

Budgeting and budgetary control motivate me to conduct my duties

Strongly agree	agree	Neutral	disagree	Strongly disagree

Budgeting and budgetary control compels and encourage me to plan my work

Strongly agree	agree	Neutral	disagree	Strongly disagree

Budgeting and budgetary control Improve effective and efficient resource utilisation in my department

Strongly agree	agree	Neutral	disagree	Strongly disagree

Budgeting and budgetary control clearly clarifies my goal

Strongly agree	agree	Neutral	disagree	Strongly disagree

6. Do you agree or disagree that budgeting and budgetary control influence your department in the manner described below?

Budgeting and budgetary control cause rigidity and inflexibility in the organisation' operations

Strongly agree	agree	Neutral	disagree	Strongly disagree

Budgeting and budgetary control demotivate the workforce in tour department.

Strongly agree	agree	Neutral	disagree	Strongly disagree

Interview guide

Appendix 3

1. How does budgeting and budgetary control impact UMSCC's sales growth rate?
2. How do you perform your budgetary control process?
3. How do budgetary control techniques used at UMSCC impact the expenses of UMSCC?