

# **BUDGETARY PROCESS AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS LISTED IN THE NAIROBI SECURITIES EXCHANGE, KENYA**

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## **ABSTRACT**

The financial performance of the manufacturing companies listed on the NSE, Kenya lends significantly to the expansion of Kenya's industrial sector, stock market, and overall economy. Due to the different difficulties, this financial performance could be jeopardized and result in a falling trend. As proven during a five-year period, from the years 2017 to 2021, some manufacturing enterprises' financial performance continues to deteriorate and fluctuate irregularly despite having implemented budgetary processes. Since the implementation of budgetary procedures is meant to enhance financial performance, the irregular financial performance of manufacturing enterprises persists. In light of this, it is yet unknown if the budgetary process has a substantial impact on the financial performance of manufacturing enterprises. In light of this context, the study aimed to ascertain the relationship between budgetary process and financial health of manufacturing enterprises traded at NSE, Kenya. The study's specific objectives are to ascertain the impact of budgetary planning, involvement, control, and evaluation on the financial health of manufacturing enterprises traded at NSE, Kenya. Research hypotheses was evaluated at a significance level of 0.05. Three theories—the incremental budgeting theory, the priority-based budgeting theory, and the risk-based budgeting theory. The study employed a correlational research design and the target audience were forty five respondents from nine manufacturing firms traded at the NSE in Kenya from which the study adopted a census. Primary data was used to collect data on the independent variables whereas

secondary data collected data on the dependent variable. The analysis procedure entailed the utilization of descriptive statistics with focus on means and standard deviation, and inferential statistics by running an OLS multiple Regression model with the aid of SPSS Software (Version 26). Normality, multicollinearity and heteroscedasticity tests were run prior to the actual analysis. The analyzed data was then displayed using graphs, frequency tables and charts. Ethical consideration measures was adhered to during the entire research. The study and found that budgetary planning and budgetary control were statistically significant and thus the null hypotheses was rejected. Whereas budgetary participation and budgetary evaluation were both statistically insignificant and thus the null hypotheses was not rejected. The study recommends the application of budget plans that are generated utilizing historical data as a reference point where it outlines the allowances and variances to be applied to the varying parameters before line managers prepare budgets for each of their departments to help improve the financial health of industrial firms traded at NSE. It also recommends that budgetary control should start at the lowest levels, aligning of real results and adhering firms strategic planning and operational control that helps to improve performance of industrial firms traded at the NSE.

**Key words:** Budgeting Process, Budget Planning, Budget Participation, Budget Evaluation, Budgetary Control and Financial Performance

## **INTRODUCTION**

Globally, financial performance is essential to the continual existence and success of enterprises. It is concerned with the level at which they achieve the identified financial objectives. Agbenyo, Danquah and Shuangshuang (2018) state that the foremost objective associated with the financial performance is the maximization of shareholder's wealth. Therefore, managers have to prioritize it as it guarantees steady growth, enhances the chance of pursuing future prospects, and offers a buffer against risks. According to Jones (2016), superior financial performance is often connected to better effectiveness and efficiency of managers in utilizing a company's resources.

According to Mgobhozi (2012) budgeting practices are critical to the attainment of the set organizational objectives, which necessitates the effective development and implementation of budgets. Qi (2015) state that the budgeting process may vary indifferent organizations. For instance, formal procedures may be carried out by dedicated committees in big organizations, but proprietors of small businesses may carry out all informal processes in large companies. Organizations can become profitable in a sustainable way by preparing and managing their budgets well (Agbenyo, Danquah & Shuangshuang, 2018). According to Jones (2016), companies in the United Kingdom mostly make budgets to facilitate planning, assessment of performance, and control. Mgobhozi (2012) states that manufacturing firms in US indicated that a positive association that exists between capital budgeting practices such as budget identification, development of capital investments, and budget control, and their financial performance are the main reasons why they create budgets. According to Qi (2015) Chinese SMEs adopt formal budgeting planning processes as they associate them with higher sales revenues.

Regionally, the outlook of the budgeting process demonstrates that the budgetary process is a vital component in the majority of enterprises globally. Suleiman (2015) asserts that, like in every other nation on earth, the budgeting process has its share of difficulties. The inadequate reporting attitude of the Ministries, Departments, and Agencies is one of the hurdles with the budget process (MDAs). Nigeria's annual budget process is a common practice supported by legislative requirements including the constitution and financial regulations in various states. It is done in this way every year. January 1 marks the start of the budget process, which lasts until December 31. Early in the fiscal year, the Budget Office gathers to evaluate and establish patterns in revenue performance and macroeconomic parameters, as well as the implications of such patterns for the subsequent three financial years. Following this assessment regarding revenue, the Medium-Term Expenditure Framework (MTEF) is created, describing major categories of spending (statutory transfers, debt service, and Ministries, Departments, and Agencies (MDAs)' Expenditure) along with the predicted budgetary balance (Suleiman, 2015). The financial health of non-banking financial businesses in Ghana was the subject of a 2016 article by Pimpong and Laryea. Their research showed that budgeting and business performance has a beneficial association. The study also showed that the firms used established budgeting procedures more frequently and that the statistical relationship between budgetary coordination and business performance is relatively positive.

Agbenyo, Danquah and Shuangshuang (2018) on Ghana Stock Exchange assessed the link between budgeting and financial performance of publicly listed firms and found a positive association between them. Pimpong and Laryea (2016) observed that budget planning and budget monitoring

had positive relationship with the performances of Ghanaian firms, which was statistically significant. In Uganda, Kabayaga (2013) indicates that budgeting contributes to organizational performance in terms of time management as way of appropriate time planning and proper distribution of resources which helps manufacturing firms to generate profits in time, and also gives direction on future progress.

Asantina (2018) carried out a study in Tanzania and established that formal budgeting planning and control processes portray different impacts on the financial performances of different firms in the country in terms of the levels of sales revenue and profitability. Onduso (2013) studied firms in Kenyan capital of Nairobi and found out that formal budgeting process had a strong positive association with financial performances of manufacturing firms that was measured by return on assets (ROA).

Locally, Onduso (2013) studied how budgets affected the financial health of industrial enterprises in Nairobi City County. Both primary and secondary data were employed in the investigation. A regression model and statistical software for social sciences were both used as analysis techniques to ascertain the link between the dependent and independent variables. His research suggested that management and the usage of budgets had an impact on financial health as assessed by ROA. The study also showed that enterprises had to hire outside help to assist in budget development because the qualifications of those in charge of overseeing the company's activities were inadequate. Mbugua (2013), who utilized a cross-sectional research method to examine a sample of 60 businesses, asserted that whereas budget control processes and budgeting methodology have no noticeable impact on revenue collection in the business under consideration, budget planning and budgetary involvement have a favorable, considerable impact on the effectiveness of revenue collection for water service companies. When Mwangi (2014) looked at how budgetary forecasting techniques affected the financial health of Kenya's licensed PSV corporations, he discovered that those companies that adopted budgetary planning systems had positive performance ratios while those that did not use them had negative ones. The survey also showed that most professionals in the field were unaware of these methods, and those who failed to apply them properly. The impact of budgetary control on the financial health of a sample of Kenyan industrial companies was examined by Koech (2015). The findings showed a substantial correlation between manufacturing enterprises' financial performance and three variables (planning, monitoring, and control, as well as participatory budgeting).

In Kenya, the financial process is still not a reliable, efficient, or effective vehicle for turning policy into noticeable results. There is a mismatch between what businesses claim in their policies and what they can really afford as a result of poor coordination between policymaking, planning, and budgeting. Planning, budgeting, and policymaking are three crucial activities that must be connected. Kenyan policies and budgets differ greatly due to the unavailability of this relationship. Instead of assigning the anticipated resources in accordance with the intended goals agreed-upon objectives, budgeting has evolved into an annual battle to stay afloat. This was the basis for the study's aim to investigate the impact of the budgetary process and financial performance on manufacturing enterprises traded on the Kenyan NSE.

## **Statement of the Problem**

The manufacturing companies traded at the NSE, Kenya are vital in the expansion of the manufacturing industry, Kenya's stock market, and ultimately the overall economy by promoting production. Unfortunately, all of these companies' economic benefits may be curtailed by erratic and declining performance. For example, East African Breweries' financial results showed a falling trend in ROA of 12.8% in 2017, 10% in 2018, 9% in 2019, 7.9% in 2020, and 7% in 2021. According to Carbacid Limited's financial results, ROA performance varied from 10.7% in 2017 to 8.8% in 2018 to 7.6% in 2019 to 8.9% in 2020 to 10.1% in 2021. Unga Limited, nevertheless displayed erratic performance swings, with ROA being -0.07% in 2017, 7.9% in 2018, 5% in 2019, 0.55% in 2020, and -0.8% in 2021. (NSE, 2022). These businesses have adhered to budgetary procedures, yet over a five-year period, from 2017 to 2021, their financial stability has continued to depreciate and fluctuate drastically. Therefore, it's still not obvious whether budgetary processes have a big impact on how much money manufacturing companies make. This study aimed to ascertain the impact of the budgetary process on the financial health of industrial firms at the NSE in Kenya due to their declining and erratic performance.

Most empirical studies on the connection between budgeting practice and financial achievement have been conducted in economically advanced nations that are more developed than developing countries like Kenya. Additionally, studies have produced contradictory findings that reveal numerous study gaps and cannot, therefore, be generalized. For instance, Yang (2010) looked at how Chinese SMEs' performance is impacted by their budgeting procedure. There were conceptual and contextual gaps in this study, which the present research attempted to fill. An exploratory study was conducted by Mulani, Chi, and Yang (2015) to determine the impact of the budgetary process on the performance of SMEs in India. There were conceptual and contextual gaps in this study, which the current study attempted to fill. Locally, Maritim (2013) assessed the connection between budgeting procedures and the monetary success of Kenyan manufacturing and commercial parastatals. Both conceptual and methodological gaps were present in this study, which the current study attempted to fill. Consequently, this study's objective is to assess how Kenya's listed manufacturing enterprises' financial performance is affected by the budgetary process.

## **Objective of the study**

To determine how the budgetary process affects the financial health of industrial enterprises traded in Kenya on the NSE.

## **Specific Objectives**

- i. To assess the effect of budgetary planning on the financial health of manufacturing enterprises traded on NSE, Kenya.
- ii. To ascertain the effect of budgetary participation on the financial health of manufacturing enterprises traded on NSE, Kenya.
- iii. To evaluate the effect of budgetary control on the financial health of industrial manufacturing traded on NSE, Kenya.
- iv. To ascertain the effect of budgetary evaluation on the financial health of manufacturing enterprises traded on NSE, Kenya.

## **THEORETICAL REVIEW**

### **Incremental Budgeting Theory**

Aaron Wildavsky's work from the 1960s served as the foundation for this hypothesis. According to this approach, budgeting should be done using the budget from the preceding month. This approach is not based on resource redistribution but rather on expenditure increases or decreases based on economic growth. The predicted amount for the current fiscal year should be the starting point for budgets, according to Wildavsky (1966), before adding or removing amounts to account for budget increases or decreases for the following year. If there is no anticipated amount for the current fiscal year, the corporation may utilize ephemeral records of actual expenditure from the prior fiscal year. The best explanation of the budgeting process is incremental budgeting. Many academicians and professionals favor it as the benchmark for how the budgeting process ought to be carried out (Schick, 2014). This notion states that manufacturing companies, like other organizations, they want to start their budgeting with the quantity anticipated for the current year before adding or deleting increases in accordance with their objectives.

Most nations, including the UK and Northern Ireland, employ this theory. The nations carried over the preceding year's budget into the current year's budget instead of making changes due to well-known factors like increased resources, new legal requirements, a shift in priorities, improvements in services, otherwise expected inflation (Pidgeon, 2010). This theory has been contested on the basis that because resource allocation is dependent on current trends, when activities are drastically altered, problems arise. This suggests that because the incremental budgeting approach doesn't take changing conditions into account, it hinders the development of new projects (Pidgeon, 2010). The theory also makes the assumption that the current funding level is adequate, notwithstanding the possibility that it is either adequate or inadequate to enable commercial activity. The Incremental Budgeting theory is pertinent to this study because it contended that improving the budgeting process, which results in an effective budget, can be done by changing the firm's or nations expected amount of the current year budget to account for things like extra resources, altering priorities, and new regulatory obligations, amongst other things.

### **The stewardship Theory**

Donaldson and Davis (1991), assert that the theory maintains that managers look to increase their accountability in order to accomplish objectives and fulfill themselves within an organization. To address the necessary needs, managers always act in the best interests of organizational stewardship. According to this hypothesis, performance variations are caused by the organizational structure in which individuals are employed. According to Donaldson and Davis (1991), the notion places more emphasis on the buildings and structures than it does on the motivation of the managers. Using this idea, Ndahani and Ng'wasa (2017) connected budgetary management and financial performance in financial institutions. The stewardship theory states that teamwork results in more exceptional results than working alone. Managers do not view discrete goals as motivators. However, they are driven by the goals set by their management. The stewardship idea states that substantial link exists between organizational success and top management happiness. The performance of an



organization may benefit more from group behaviors and teamwork than from an individualized sense of self. Through performance, a steward protects and increases shareholder wealth. Through their activities, employees optimize their utility (Donaldson and Davis) (1991). Generally, budgets specify the unit's performance objectives in relation to costs, revenues, and output (Little, 2000). As a result, this hypothesis is pertinent to the research since it relates to budgetary involvement and how it affects financial success.

### **Priority-Based Budgeting Theory**

This theory was postulated utilizing Kavanagh, Johnson, and Fabian's research (2011). This theory states that resources ought to be distributed in order to accomplish the goals of the company's corporate events. In order to improve growth and savings in budgeting, this theory, which is an alternative of the Zero-Based theory, emphasizes on strategic initiatives and allocations. The hypothesis is based on an in-depth analysis of the services that the money is intended for. The aims of the service, a number of operational criteria, and the standards the service must meet are all subject to evaluation in this process (Pidgeon, 2010). After categorizing the services as significant, crucial, very desirable, or advantageous, the information is then delivered to the corporation's decision-makers.

According to the theory of priority-based budgeting, manufacturing companies should, like other businesses, set priorities when creating their budgets in order to ensure efficiency. Additionally, they should allow enough finance, traceability, and openness at all organizational levels to guide their budgeting process. The theory is pertinent to this study since it sought to clarify how priority impacts budgeting.

### **Risk Based Budgeting Theory**

The works of Maillard, Roncalli, and Teiletche (2010), who advocate for the annexation of the risk component in the budgeting process, served as the foundation for the development of this theory. Budgeting for risk entails quantitatively breaking down the total risk of the portfolios into smaller risks, according to Maillard *et al.* (2010). This guarantees investment process diversification, lowering the risk associated with setting investment budgets. A risk-based investment also lowers the range of returns as it guarantees that the risk is thoroughly tackled.

The risk-based budgeting theory states that manufacturing companies, similar to other businesses, should factor risk into the budgeting process to handle the risks associated with investments and lower return fluctuations. This idea is pertinent to this study since it suggested that every company should factor in risk while budgeting to lessen fluctuations in various budgetary components that improve business performance.

### **Empirical literature Review**

#### **Budgetary Planning and Financial Performance**

Kaguri (2015) carried out an analysis to ascertain the associations existing between the budget process and the performance of the Insurance corporations operating in Kenya. The independent

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

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

### **Budgetary Participation and Financial Performance**

Mulani *et al.* (2013) explored the influence of budgeting process on SMEs performances in India. The exploratory design was used in the study. A sample of 268 SME's were taken from Mumbai, Pune and Solapur districts. The research adopted a questionnaire for the purpose of the study. The researcher revealed that a positive connection exists between budgeting process and SME's performance. The researcher also established that employee involvement in the budgeting process inspires them in achieving the set objectives which improves the SME's performances. The study was done in India on SME's and utilized exploratory design while this study is in the manufacturing sector and utilized correlational research design.

Warue and Wanjira (2013) conducted a research on the budgeting process in the hospitality sector SME's in Nairobi. Descriptive design was employed by the study. Taking a sample of 526 for the study's purposes, the target audience was comprised of 96,608 licensed small businesses in the CBD. The study's variables include the accounting system, worker engagement, managers' abilities and authority, and corporate structure. The findings of the study concluded positive effect on the



budgeting process on the SME's performance and the researcher recommended workers participation on all stages of budgeting. The study undertaken is in the manufacturing sector with different streams of cashflows and the findings will be of big significance in addressing the challenges in the manufacturing industry in Kenya.

### **Budgetary Control and Financial Performance**

Mukah (2018) intended to determine the relationship between local government council performance in Northwest Cameroon and financial control. For the intention of data analysis, the study used multiple regression and correlation techniques based on SPSS version 20. The results showed that the performance of the local councils was significantly improved by the core budgetary control factors that were adopted (planning, involvement, monitoring, and control). However, the research being done is on Kenyan manufacturing companies with various budgetary lines, and the results were very important in addressing the problems now facing.

Kerosi (2018) undertook an analysis so as to ascertain the correlation between budgetary control practices and the management of MSMEs in Kangemi Town, Kenya. The population of the study was surveyed using a descriptive survey design. A sample of 75 from 160 licensed micro-and-small enterprises was chosen. According to the study's findings, budgetary control practices are favorably correlated with management of MSMEs. There is a gap in the research as independent variables never took budget participation into account as a variable under the budgetary process, as this study was. Additionally, it concentrated on micro and small businesses rather than Kenyan manufacturing companies.

### **Budgetary Evaluation and Financial Performance**

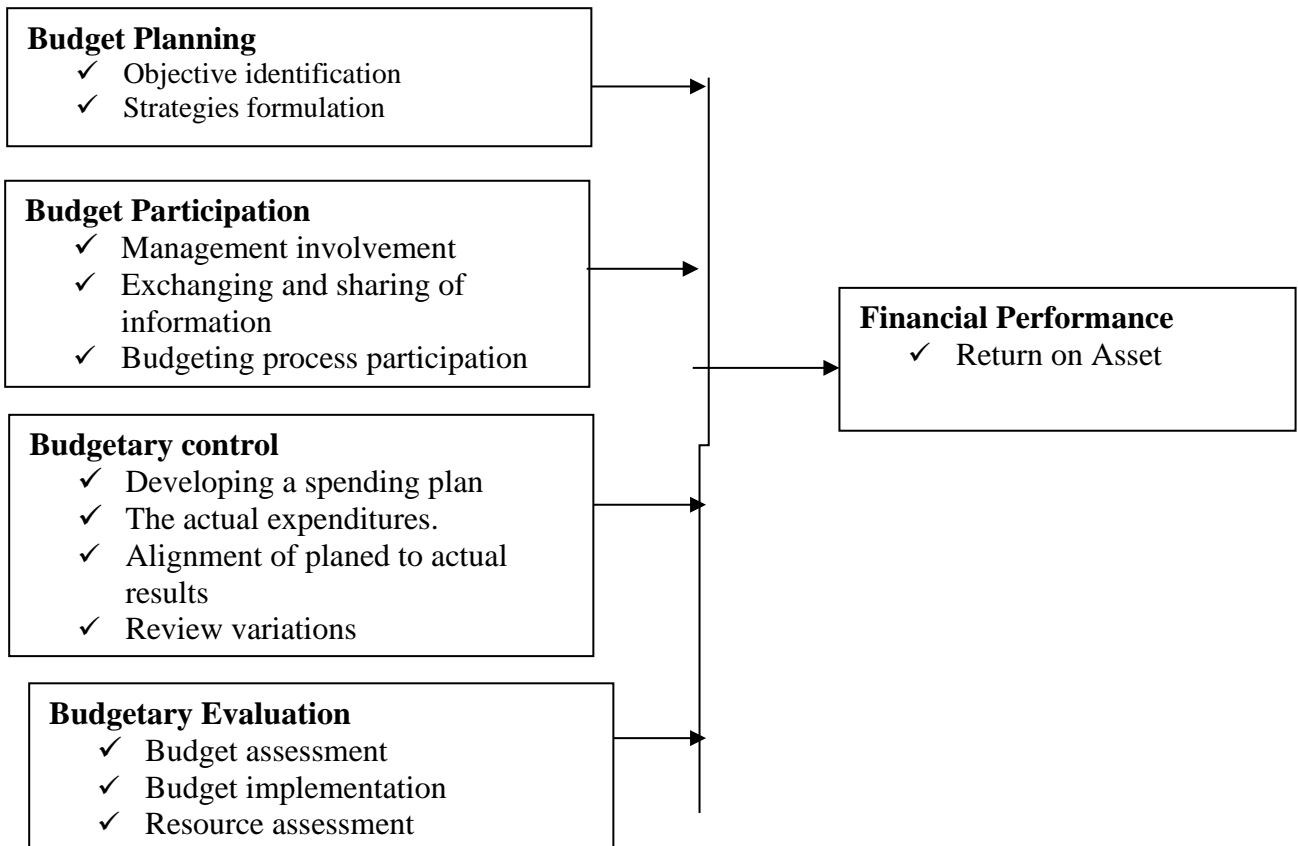
Mkanjala (2017) undertook an analysis on the elements influencing budgeting planning at the United States International University Africa (USIU-Africa). The study was conducted across 38 departments with 30 responders who had no past experience creating budgets. The majority of responders, according to the survey, agreed that the budget preparation was periodically evaluated to ensure that it was appropriate for the time and avoided financial mismanagement.

According to Laryea's (2016) study on the effect of budgeting on the financial performance of non-financial organizations in Ghana, budget evaluation is seen as the most crucial component of the budget procedures, and its influence on financial performance was the budget evaluation. If properly analyzed, variations were found to greatly increase the financial performance of the businesses. Consequently, by doing this study in Kenya, the current study attempted to fill a contextual gap that existed.

Figure 1: Conceptual framework

**INDEPENDENT VARIABLE  
BUDGETARY PROCESS**

**DEPENDENT VARIABLE**



**Research Design**

The study used a correlational research approach to look at how manufacturing organizations manage their budgets. The correlational research design is helpful when assessing the magnitude of the connection between two or more variables. The correlation coefficient statistic was utilized to determine the intensity of the link when measuring such associations.

**Target Population**

The study populace in this instance was forty five respondents from nine manufacturing firms traded at the NSE (NSE, 2022)

**Sampling Design**

Census sampling was applied in study whereby data was fetched from all the forty five heads of departments (finance manager, procurement, production manager, CEO and marketing manager) from the nine listed manufacturing firms as at 31<sup>st</sup> December 2021.

**Data Collection Instruments.**

Both primary and secondary data were utilized. The primary data was acquired employing a questionnaire designed with the research's goals in mind. Questionnaire is an instrument consisting

of questions, which the respondents are supposed to fill as a way of collecting data from the field. The questionnaire is more suitable and easier to administer in gathering the data from a large respondent for a study (Alshenqeeti, 2014).

The financial statements of listed manufacturing companies on the NSE were used to gather the secondary data. The publicized annual statements of the manufacturing firms for the five years commencing in 2017 and concluding in 2021 under investigation acted as the foundation for the financial performance indicator data.

**Data Analysis and presentation**

The SPSS version 26 software was utilized to evaluate the data that was gathered through the questionnaires, which was checked for accuracy and consistency. By using descriptive statistics like mean, standard deviations, and frequencies, data was examined. Correlation and regression analysis are the inferential statistics that were utilized. Linear regression analysis was utilized to evaluate the degree of associations between the independent variables (budgetary process) and the dependent variable, whilst correlation analysis was utilized to evaluate the intensity of connection between the variables (financial performance). The study used a multiple linear regression model since the direct effect function below expresses cross-sectional data, which is thought to be appropriate for such data:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Financial performance

$\beta_0$  = Constant

$X_1$  = Budgetary planning

$X_2$  = Budgetary participation

$X_3$  = Budgetary Control

$X_4$  = Budgetary Evaluation

$\beta_1 - \beta_4$  = Regression Coefficient

$\varepsilon$  = Error Term

The analyzed data was eventually be exhibited through frequency tables, graphs and pie charts

**RESEARCH FINDINGS AND DISCUSSIONS**

**Descriptive Statistics**

*Table 1: Descriptive Statistics of Budgetary Planning*

	N	Mean	Std. D
Line managers prepare budgets for each of their departments	43	3.5349	.50468
The executive managers notify the individuals preparing the budget plan of their plans	43	3.4651	.90892
Budget plans are generated utilizing historical data as a reference point	43	3.3488	.78327
The budget plan outlines the allowances and variances to be applied to the varying parameters	43	2.9302	.79867
The budget plan outlines the allowances and variances to be applied to the varying parameters	43	4.8140	.58781
Valid N (listwise)	43		

*Source: Study Data (2023)*

In table 1 above, on the aspect of the procedures that should be followed during the budgeting process are specified in the budget plan, it was noted that majority of the responders agreed to a very great extent with the assertions at a mean of 4.814 with a variation of 0.588. These results are consistent with those of Onduso (2013), who discovered a link between the budgeting process and the assembling companies' financial health.

On the aspect of line managers prepare budgets for each of their divisions, which are then totaled together to generate the master budget and the executive managers notify the individuals preparing the budget plan of their plans, it was noted that majority of the responders agreed to a great extent with the statement at a mean of 3.535 and 3.465 with a variation of 0.505 and 0.909 respectively. On the aspect of budget plans are generated utilizing historical data as a reference point and the budget plan outlines the allowances and variances to be applied to the varying constraints, it was noted that majority of the responders agreed to a moderate extent with the statement at a mean of 3.349 and 2.930 with a variation of 0.783 and 0.799 respectively.

*Table 2: Descriptive Statistics of Budgetary Participation*

	N	Mean	Std. Dev.
The company makes sure that employees participate in the budgeting process to increase budgeting success	43	3.7907	1.12458
The company places a strong emphasis on information sharing and exchange amongst all levels of management	43	2.4651	.50468
Computers are utilized by the company to help with budgeting process coordination	43	3.4186	1.82877
Valid N (listwise)	43		

*Source: Study Data (2023)*

In table 2 above, on the aspect of the company makes sure that employees participate in the budgeting process to increase budgeting success and computers are utilized by the company to help with budgeting process coordination, it was noted that majority of the responders agreed to a great extent with the statement at a mean of 3.791 and 3.419 with a variation of 1.125 and 1.829 respectively. These findings contradict with those of Mulani et al. (2013) who revealed that a positive connection exists between budgeting process and SME's performance. On the aspect of the company places a strong emphasis on information sharing and exchange amongst all levels of management, it was noted that majority of the responders agreed to a little extent with the assertion at a mean of 2.465 with a variation of 0.505.

*Table 3: Descriptive Statistics of Budgetary Control*

	N	Mean	Std. Dev.
Managers can align real results with the plan thanks to budgeting control	43	3.1860	.95757
The firm's strategic planning and operational control are connected by budgeting control	43	3.6279	.78750
Budget operational control in the company is comparing actual costs and spending to the budget and then implementing the appropriate corrective action	43	3.9302	.91014
Budget control begins at the lowest levels and works its way up	43	4.0930	.68362
Budget control aids in comprehending budget variance, allowing one to ignore some factors and focus on others	43	4.0698	.79867
Valid N (listwise)	43		

*Source: Study Data (2023)*

In table 3 above, on the aspect of the firm's strategic planning and operational control are connected by budgeting control, budget operational control in the company is comparing actual costs and

spending to the budget and then implementing the appropriate corrective action, budget control begins at the lowest levels and works its way up and budget control aids in comprehending budget variance, allowing one to ignore some factors and focus on others, it was noted that majority of the responders agreed to a great extent with the assertion at a mean of 3.628, 3.930, 4.093 and 4.070 with a variation of 0.788, 0.910, 0.684 and 0.799 respectively. On the aspect of managers can align real results with the plan thanks to budgeting control, it was noted that majority of the responders agreed to a moderate extent with the assertion at a mean of 3.186 with a variation of 0.958.

*Table 4: Descriptive Statistics of Budgetary Evaluation Process*

	N	Mean	Std. Dev.
The budgetary process is actively monitored and evaluated by the managers	43	4.0698	1.26105
The organization evaluates the impact of budget implementation	43	3.9070	.68362
Valuation is undertaken by a body that is impartial toward the company and has the necessary resources and expertise to carry out assessments	43	3.2093	1.12458
Evaluating if resources have been utilized properly and effectively	43	3.4651	1.00827
Valid N (listwise)	43		

*Source: Study Data (2023)*

In table 4 above, on the aspect of the budgetary process is actively monitored and evaluated by the managers, the organization evaluates the impact of budget implementation and evaluating if resources have been utilized properly and effectively, it was noted that most of the responders agreed to a great extent with the statement at a mean of 4.070, 3.907 and 3.465 with a variation of 1.261, .684 and 1.008 respectively.

*Table 5: Financial Performance*

Mean	Std. Deviation	Skewness	Kurtosis	Minimum	Maximum
.1012	.05848	.348	-1.237	.02	.20

*Source: Study Data (2023)*

As illustrated in Table 5 the average performance of listed manufacturing firms is 0.1012, with a maximum of 0.20 and 0.02. This infers that financial performance of manufacturing firms is stable with nearly normal distribution based on its performance as also confirmed by its kurtosis and skewness.

### **Correlation Analysis**

The researcher created a correlation matrix between the variables utilizing the SPSS software. The results are summarized in Table 6.

Table 6: Correlations

		Budgetary Planning	Budgetary Participation	Budgetary Control	Budgetary Evaluation	Financial Performance
Budgetary Planning	Pearson Correlation	1	.924**	.883**	.918**	.691**
	Sig. (2-tailed)		.000	.000	.000	.009
	N	43	43	43	43	43
Budgetary Participation	Pearson Correlation	.924**	1	.927**	.988**	.758
	Sig. (2-tailed)	.000		.000	.000	.004
	N	43	43	43	43	43
Budgetary Control	Pearson Correlation	.883**	.927**	1	.928**	.883
	Sig. (2-tailed)	.000	.000		.000	.015
	N	43	43	43	43	43
Budgetary Evaluation	Pearson Correlation	.918**	.988**	.928**	1	.654
	Sig. (2-tailed)	.000	.000	.000		.100
	N	43	43	43	43	43
Financial Performance	Pearson Correlation	.691**	.758	.883	.654	1
	Sig. (2-tailed)	.009	.004	.015	.100	
	N	43	43	43	43	43

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Study Data (2023).

Results of the correlation analysis suggested that, with the exception of the budgetary evaluation, which was insignificant, all aspects of the budgetary control investigated in this study were positively and significantly correlated with financial health. Budget planning, budgetary involvement, and budgetary control were all positively and significantly correlated with the financial health of manufacturing enterprises traded on the NSE at 0.691, 0.758 and 0.883 respectively but significant at 0.009, 0.004 and 0.015 respectively ( $p < 0.05$ ). The Pearson correlation coefficient for budgetary evaluation, on the other hand, was 0.654 and had a negligible level of 0.100 ( $p > 0.05$ ) indicating a somewhat favorable association between financial success and budgetary evaluation.

### Inferential Statistics.

Multiple regressing analysis was computed to derive the relationship between the variables.

### Model Summary

From the Model Summary Table 7, the R2 value was 0.477, which indicates that all independent variables—Budgetary Planning, Budgetary Participation, Budgetary Control, and Budgetary Evaluation—contributed 47.7% of the total variability in the dependent variable (financial success). Variables excluded from the model made up the remaining 52.3% of the data.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.691 <sup>a</sup>	.477	.422	.04445

a. Predictors: (Constant), Budgetary Evaluation, Budgetary Planning, Budgetary Control, Budgetary Participation

Source: Study Data (2023).



### Analysis of Variance

The Analysis of Variance (ANOVA) presents the calculations that give information on the levels of variability that exists in the regression model and forms a basis for the tests of significance. The information on the ANOVA table estimates the level of significance of the model as a predictor of the outcome variable. Table 7 displays the ANOVA table for the data collected.

Table 7: ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.069	4	.017	8.673	.000 <sup>b</sup>
	Residual	.075	38	.002		
	Total	.144	42			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Budgetary Evaluation, Budgetary Planning, Budgetary Control, Budgetary Participation

Source: Study Data (2023).

The ANOVA results in table 7 above suggested that the regression model was statistically significant in anticipating the connection between the budgeting process and the financial health of traded industrial companies at the NSE since the estimated p-value was less than 5%. This is indicated by the computation of the 0.000 p-value. The tabulated result was 4.2, which, when compared to the estimated F=8.673, infer that the model was significant using the F\* test table (5%, 4).

### Regression Coefficients

Table 8 displays the values of the regression constants that assisted the researcher in assessing the significance of independent factors on the dependent variable.

Table 8: Regression Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.225	.072		-3.147	.003
	Budgetary Planning	.162	.039	1.283	4.100	.000
	Budgetary Participation	-.003	.070	-.035	-.043	.966
	Budgetary Control	-.108	.025	-1.381	-4.259	.000
	Budgetary Evaluation	.030	.060	.392	.500	.620

a. Dependent Variable: Financial Performance

Source: Study Data (2023).

The researcher employed regression analysis to establish a link between the NSE-listed manufacturing companies' financial success and their budgetary process. The subsequent regression equation was developed.

$$Y = -0.225 + 0.162X_1 - 0.003X_2 - 0.108X_3 + 0.030X_4$$

Where:

Y = Financial performance

X<sub>1</sub> = Budgetary planning

X<sub>2</sub> = Budgetary participation

X<sub>3</sub> = Budgetary Control

$X_4$  = Budgetary Evaluation

**Based on the findings, the subsequent hypotheses were tested:**

**$HO_1$ : Budgetary Planning does not statistically affect the financial health industrial enterprises traded at the NSE, Kenya**

Table 8, the study noted that Budgetary Planning ( $\beta=0.162$ ,  $p<0.05$ ), showing that it was positive and statistically significant. Thus, hypothesis  $HO_1$  was rejected. These results are congruent with those of Onduso (2013) who found out that a connection between budgeting process and financial health of the assembling firms existed.

**$HO_2$  Budgetary Participation does not statistically affect the financial health industrial enterprises traded at the NSE, Kenya**

Table 8, the study noted that budgetary participation ( $\beta=-0.003$ ,  $p>0.05$ ), showing that it was negative and statistically insignificant. Thus, hypothesis  $HO_2$  was not rejected. These results contradict with the findings by Mulani *et al.* (2013) who revealed that a positive connection exists between budgeting process and SME's performance.

**$HO_3$  Budgetary Control does not statistically affect the financial health industrial enterprises traded at the NSE, Kenya**

Table 8, the study noted that budgetary control ( $\beta=-0.108$ ,  $p<0.05$ ), showing that it was negative and statistically significant. Thus, hypothesis  $HO_2$  was rejected. These results are congruent with those of Imo and Des-Wosu (2018) who supported the hypothesis that there is a strong positive connection between budgetary control and state-owned company financial success. It also supports the findings by Kerosi (2018) who found that budgetary control practices are favorably correlated with financial performance of MSMEs.

**$HO_4$  Budgetary Evaluation does not statistically affect the financial health industrial enterprises traded at the NSE, Kenya**

Table 8, the study noted that budgetary evaluation ( $\beta=0.030$ ,  $p>0.05$ ), showing that it was positive and statistically insignificant. Thus, the study fails to reject hypothesis  $HO_2$ . These results contradict the findings by Elhamma's (2015) who found that is a significant and favorable link between firm performance and budgeting assessment.

## **CONCLUSION AND RECOMMENDATIONS**

### **Conclusion**

The study findings indicate that budgetary planning had a very favorable impact on the financial health of manufacturing companies traded on the NSE. In view of this finding budget plans are generated utilizing historical data as a reference point where it outlines the allowances and variances to be applied to the varying parameters before line managers prepare budgets for each of their departments. This implies that addressing budgetary planning issues improves the financial health of industrial enterprises traded at the NSE. Planning a budget ahead of time makes it easier to create one and use it to manage a manufacturing facility's operations. It aids in reducing the possibility that a manufacturing company's financial performance would disappoint.

The study equally found out that budgetary participation has insignificant negative effect on financial health of industrial enterprises traded at NSE. This informs the conclusion that the aspect

of manufacturing firms making sure that employees participate in the budgeting process to increase budgeting success and placing a strong emphasis on information sharing and exchange amongst all levels of management does not necessarily influence their financial health. This implies that adopting budgetary participation does not improve financial health of industrial enterprises traded at NSE. Citizens are engaged in the process of choosing how public funds are spent via a kind of citizen involvement known as budgetary participation. Following budget allocation, local residents are often given a part in the process' examination and monitoring.

The study also established that budgetary control has a detrimental and substantial impact on the financial health of industrial companies traded on the NSE. Therefore, the study concludes that starting budgetary control at lowest levels, aligning of real results and adhering firms strategic planning and operational control leads to increases performance. This indicates that addressing the budgetary control increases the financial health of industrial enterprises traded at NSE. Budgetary control enables tracking and measuring expenses against the initial forecast. This system also encourages taking action against any variance to keep the manufacturing firm running cost-efficiently.

Finally, the study found that budgeting evaluation has a marginally favorable impact on manufacturing companies traded on the NSE. Therefore, the study concludes that actively monitoring and evaluating of budgetary process and implementation by the managers does not necessarily affect the financial health of industrial enterprises at NSE. This shows that improving the budgetary evaluation does not always result in better financial results for manufacturing companies traded on the NSE. Manufacturing companies do not always require strong, realistic budgets and ongoing monitoring to guarantee that their budget continues to fulfill their needs.

## **Recommendations**

The researcher established that budgeting has a very favorable impact on the financial health of manufacturing companies traded on the NSE. This study hence recommends the application of budget plans that are generated utilizing historical data as a reference point where it outlines the allowances and variances to be applied to the varying parameters before line managers prepare budgets for each of their departments to help improve the financial health of industrial enterprises at NSE.

The researcher observed that the financial health of manufacturing enterprises traded on the NSE is significantly impacted negatively by budgetary restriction. This study hence recommends that budgetary control should start at the lowest levels, aligning of real results and adhering firms strategic planning and operational control that helps to enhance the efficiency of manufacturing companies listed on the NSE.

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