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Research Article

Account and Financial Management Journal ISSN: 2456-3374

The Effect of Budgetary Control on Financial Performance of Kigali Serena Hotel in Rwanda.

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ARTICLE INFO

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ABSTRACT

The present research on " The Effect of Budgetary Control on the Financial Performance of Hotels in Rwanda": Case Study of Kigali Serena Hotel undertaken within a period of 2010 – 2015 had objective of analysing the effect of budgetary control on the financial performance of hotels in Rwanda. The study used both primary and secondary data and intered into SPSS and then analyzed using descriptive statistics for variance analysis. A structured questionnaire were given to a sample of 25 employees drawn from a total population of 52 employees. Basing on data, The study revealed that, there is a strong positive relationship between budgetary control technique and financial performance with correlation coefficient, r = 0.752 and p = 0.01. Since r > 0.1, therefore, financial performance as measured by ROA is strongly influenced by budgetary control techniques. The respondents argued that the process of budgeting depends on past performance while organizational performance now days depends on the availability of recourses and how customers view the customer service in place, quality of service, delivery and distribution, competitors in the same industry and finally communication to the clients. Budgetary controls are seen as important tool in planning and control of resources to enhance performance in many organizations.

1. Introduction

According to Otley and Pollamen (2000) cited by Byrne (2011), budget and budgeting are concepts traceable to the Bible days, precisely the days of Joseph in Egypt. It was reported that nothing was given out of the treasure without a written order. History says that Joseph budgeted and stored grains which lasted the Egyptians throughout the seven years of famine. Budgets were first introduced in the 1920s as a tool to manage costs and cash flows in large industrial organizations. John (1996) states that it was during the 1960s that companies began to use budgets to dictate what people needed to do. In the 1970s performance improvement was based on meeting financial targets rather than effectiveness companies then faced problems in the 1980s and 1990s when they were not willing to spend money

DOI: 10.18535/afmj/v2i1.01

on innovations in order to stay with the rigid budgets, they were no longer concerned about how customers were being treated, only meeting sales targets became essential (Kren, 1992).

Schick (1999) argue that many developing countries in Africa have engaged in detailed planning exercises of various types in the period after independence and this has resulted in a wide range of literature on planning. Little attention was paid to budgetary controls although this is generally recognized as the main instrument for allocating resources to specific recurrent and development activities. In recent years, however, budget systems have received more attention and literature on public expenditure management and become more common. The budget is increasingly recognized as the key tool for economic management (Kiringai, 2002). It is nevertheless also recognized that a country can have a sound budget and financial system and still fail to achieve its intended targets.

In business organizations, budgeting are formally associated with the advent of industrial capitalization for the revolution of the eighteenth century, which presented a challenge for industrial management (Marcormick & Hardcastle, 2011). However, budgeting at the early state of its development was concerned with preparing and to permit correct performance evaluation and consequently rewards. Information that management accounting control system helps managers, by monitoring company's changing environmental circumstances, is to compare opportunities and threats in the market so that they can obtain added value against competitors because it is important in facilitating the preparation of budgets, since budgeting and accounting are closely related (Bromwish,1990).

According to Bremser (1988), budgets are known to have an important role to transmit the expectation of top management to lower levels and are used to communicate top management's expectations to managers and employees. According to Lucey (1993), it is a quantitative expression of plan of action prepared in advance of the period to which it relates, expressed in money terms approved prior to the period. Lucey (1993) further urges that performance is influenced by many factors which includes planning and coordination, clarification of authority and responsibility, effective communication both internal and external, control of resources available, both human and non human and motivation of both the lower and middle management.

If the actual numbers delivered through the financial year turn to be close to the budget, this actually demonstrates that the organization's management understands its business and has been successfully driving it in the direction they had planned. On the other hand, if the actual results diverge wide from the budget, this sends out an out of control signal (Kpedor, 2012). For this reason, budget based control means manager's evaluation according to budgetary goals. In this context, budgeting benefits and its possible negative effects on attitudes and behaviors of managers on performance are still among the subjects of strategic management control systems that are being researched presently nearly all large businesses reforecast their forecast their activities, as months pass, the actual income achieved and expenses incurred can be compared to the budget and forecast (Callahan et al., 2007). Basically, a budget system enables management more effectively to plan, coordinate, control and evaluates its activities. It is a device intended to provide greater effectiveness in achieving organizational efficiency (Chenhall & Langfield, 1998).

It seems that budgeting influence performance of any business. However, the argument is that though this effect cannot be ruled out; there is a possibility whether the way of linkage is negative

DOI: 10.18535/afmj/v2i1.01

or positive. Hence, this study attempts to explore the effectiveness of budgetary control on performance of business organization in Rwanda.

In recent times, companies have performed poorly due, to the fact that they lack effective and efficient budgets, and budgetary control systems to adequately and judiciously allocate resources to meet organizational goals, and maximize performance. A study conducted by Boquist (2001) observed that companies continue to blunder and fail because they have flawed budgetary planning and control systems, which they apparently fail to recognize.

Particularly in hotels especially in Serena hotel also fail to recognize the power of budgets and budgetary control over performance outcomes. This has been attributed to various factors prominent among which is the ineffectiveness of budget and budgetary control system in these organization (Joshi and Abdulla, 1996). Most organizations have suffered poor budgeting processes. Several assumptions have been made about the roles of budgeting on the organization's profit planning that is in planning, budget execution, evaluation of performance, communicating and coordinating; forecasting and authorization all of which are claimed to influence the execution of planning (Hopwood,1976). It is against this scenario, that the researcher picked interest in analyzing the effect of budgetary controls on financial performance of hotels in Rwanda.

The Study Will Focus On The Following Objectives :

1. Variance analysis, responsibility accounting, adjustment of funds, zero based budgeting (ZBB) are the techniques of the budgetary controls used in KIGALI Serena hotel.
2. Net profit Margin/Surplus, Return on investment, high turnover and development index are the indicators of financial performance of Kigali Serena Hotel.
3. Budgetary control correlates positively to the financial performance in Serena Hotel.

2. Objectives

The study is focused in achieving the following three objectives:

1) To assess techniques of the budgetary controls used in Kigali Serena hotel.
2) To analyze the indicators of financial performance of Kigali Serena Hotel.
3) To establish the relationship between budgetary control techniques and financial performance indicators in Kigali Serena Hotel.

3. Literature review

Budgetary control is known as the way of controlling organisation in which different budgets are made and with these budgets, organisation finds its weak points and then it improves these weak points. Budgetary control involves analyzing the results of the budget once you implement it, where different techniques are used such as variance analysis, responsability accounting, adjustment of funds, Zero Based Budgeting (ZBB).

According to Henri (1916) as it pertains in management: control of undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted. Control is checking current performance against pre determined standards contained in the plans, with a view to ensure adequate progress and satisfactory performance (ELF Brech, 1996).

Budgetary control is a tool implored by management to keep track of actual performance to ensure budgeted standards are met (Kpedor, 2012). It entails a repetitive circle of planning and control which is usually followed by appropriate information about actual result to the management for comparing them against the budgeted and initiating a control action if necessary (Defranco,

DOI: 10.18535/afmj/v2i1.01

1997). Absence of effective budgetary control breeds disregard for laid down procedures, loss of focus and shoddy coordination of activities and these are capable of crippling an organization.

Performance of business refers to the ability of business to meet the required standards, increased market share, improve facilities, ensuring returns on profitability, and total reduction and once this is achieved, a business is believed to be performing effectively (Flolick, 2006). Management largely determines the extent to which an organization achieves its goals and objectives. Performance is essential reflects by how the organization undertake its activities and environment the management creates any which the workers operate performance of private institutions simply mean to achieve out of executions of its operations.

Joshi and Abdulla (1996) examined some aspects of budgetary control and performance valuation systems by utilizing data based on a questionnaire survey of 42 medium and large size companies located in the State of Bahrain. The study found that the conventional form of budget controllability principle was practiced to a great extent. It was concluded that bonus is affected by budget performance along with new assignments, but not salary.

Mwaura (2010) conducted an investigation into the participatory budget setting and budget commitment as a factor that affects performance of the NSE listed companies. This study used a causal research design to identify cause and effect relationship. The population of interest in this study comprised 55 companies listed where it considered only 53 still operating ones. Data for this study was both quantitative and qualitative hence both descriptive and content analysis techniques were employed. The descriptive statistical tools helped the researcher to describe the data and determine the extent used. In addition, to quantify the strength of the relationship between the variables, the researcher used a multiple regression. The study concluded that budgetary participation affects return on capital employed and return on assets to a great extent. It was further found that budgetary participation affects return on investment and budget commitment to moderate extents.

Marcormick and Hardcastle (2011) carried out a study on budgetary control and organizational performance in government parastatals in Europe. A sample of 40 government parastatals were used for establishing the relationship between budgetary control and organizational performance, secondary data was used and a period of ten years was reviewed. A regression model was used for data analysis and the results of data analysis revealed a positive relationship between budgetary control and organizational performance of government parastatals.

In their study, Nickson and Mears (2012) examined the relationship between budgetary control and performance of state ministries in Boston Massachusetts, a sample of five ministries were examined to test the relationship between budgetary control and performance of state ministries, secondary data was used and a review of 10 years was used, a regression model was used for data analysis and a statistical positive relationship was found between budgetary control and performance of state ministries. The results of the regression analysis concluded that proper budgetary control measures led to performance of state ministries.

Silva & Jayamaha (2012), study sought to evaluate budgetary process of apparel industry in Sri Lanka and see whether budgetary process has significant impact on performance of such industry. The budgetary process of apparel industry was assessed by using variables such as planning, coordination, control, communication and evaluation. The performance of apparel industry in Sri Lanka was examined by using

Return on Assets. Based on the data extracted from apparel industry's financial statements, correlation coefficients and regression analysis showed that budgetary process have significant associations with the organizational performance of apparel industry in Sri Lanka. This confirms that efficient apparel companies maintain sound budgetary process which contributes to higher levels of organizational performance hence a positive relationship**.**

4. Methodology

The research is analytical and empirical in nature and makes use of both primary and secondary data. The population for the study is the employees of kigaliserena hotel. The study used both quantitative and qualitative data. After the data collected were organized, edited and coded, and entered into Statistical Package for Social Science (SPSS) and were analyzed using descriptive statistics.The sample period undertaken for the objectives is from the year 2010 to 2015.

4.1. Sample size

According to Alain Bouchar formula, the sample size is calculated using the following formula $NC = \frac{n}{(n+1)*1/N} = \frac{N*n}{N+n}$ Where NC is the sample size, N is the total population and n is the universal size which is 46 accoring to the formula.

$$\text{then} NC = \frac{52*46}{52+46} = \frac{2392}{98} = 25 employees.$$

According to Roscoe (1975), rule of thumb who contends that any size between 30 and 500 is sufficient enough to give credible results. This is what makes to this research believe that the sample would be representative and that the results would be consequently exact.

4.2. Data Analysis

The study used both quantitative and qualitative data. After the data collected were organized, edited and coded. Quantitative data were entered into Statistical Package for Social Science (SPSS) and were analyzed using descriptive statistics. The SPSS analyzed questionnaires with many questions include both close ended and open ended questions. The package used to determine frequencies in order to discover the degree of occurrence to each variable. The outputs were presented in frequency, percentages tables and graphs.

4.3. Model

The following Regression Model was used to analyze the effects of budgetary controls on Performance of hotels (Serena Hotel):

Y= β0+ β1x1+ β2x2+ β3x3+ β4x4+ β5x5+Ɛ

Y : Financial Performance of Serena hotel measured by ROA;

X_1: Planning;

X_2: Monitoring and Control;

X_3: Participative Budgeting.

X_4: Cost Reduction; and

X_5: Availability of Resources

βo= Intercept,

β = Coefficient of independent variables, and

Ɛ = error term

The independent variables X1, X2 and X are variables of budget used for this study which were measured using the various questions to be presented to the respondents in the questionnaire. The computer programme SPSS 16.0 version was used to analyze the data. Correlation and regression analysis were utilized to test the effect of budgetary control on financial performance of hotels in Rwanda. Information on Financial Measures will be extracted from the organizations published annual reports.

5. Results and Discussion

The analysis of the data shows that 72 % of respondent were males as against 28% of females. One can conclude that Kigali Serena Hotel employs more male than female. This is because

DOI: 10.18535/afmj/v2i11.01

the hotel work involves a lot of standing, lifting heavy weights and working under hot conditions like in laundry and in production that cannot say favors a pregnant woman. Since this is a big hotel, it needs strong men. 76 % of respondents were in the age of 31 and 50 years old, 12% within the 51 years and above while 12% also were also in the age range of 20-30 years. The survey showed majority of respondents were within in productive age of 31-50. 64% of respondents had university degree while 28% accessed Master's Degree, 8% had PhD. This indicates that the majority of Respondents had University Education level. This implies that data for the study was obtained from learned respondents hence the reliability of the data.

5.1. Contribution of budgetary control on the organizations performance of Kigali Serena Hotel.

Concerning the contribution of budgetary control on financial performance of Kigali Serena Hotel, out of the total of 25 respondents, total respondents representing 100% agreed that budgetary control aids the company's administration to identifies the budgeting financial skills required for better decision making, Budgetary control integrates the organization's strategic planning with budgets and processes of cost control, economizes management time by using the management by exceptional principle, cost savings, facilitate prediction of financial milestones by the company, facilitating prediction of financial milestones by the company and providing cash expenditure tracking and reduces operational costs.

5.2. The techniques of budgetary control in Kigali Serena Hotel

Almost sample size 100% of respondents agreed that Serena Hotel using techniques of budgetary control by indicating variance analysis, responsibility accounting, adjustment of funds and 60% of sample size sides with zero based budgeting. This shows that operation and financial decision is preferable for making decision. This Decision making helps the organization to face and tackle new problems and challenges and also Quick and correct decisions help to solve problems and to accept new challenges and how to utilize the available resources for achieving the objectives of the organization and the financial performance.

5. 3. Financial performance of Kigali Serena Hotel

The data used for this exercise is made up of turnover for 2010, 2011, 2012 2013, 2014 and 2015 financial year of the company. It is a simple calculation of percentage change between the budget and actual performance to justify the efficiency of control and same to performance indicators. The table below indicates each performance of the budget against the actual for the years under research. Based on the findings, it is clear that financial performance of Kigali Serena hotel is good according to the increasing of sales in previous five years.

Budget is the most effective way to control cash-flow because it allows investments in new opportunities at the appropriate time. If budget is based on business plan, a financial action plan is created and this can serve useful functions particularly if the budget is revised regularly as part of annual planning cycle. Intelligent budgeting incorporates good business judgment in the review and analysis of past trends and data pertinent to the business. This information assists a company in decisions relating to the type of business organization needed, the amount of money to be invested, the type and number of employees to hire (staffing plans) and the marketing strategies required.

This is because the company usually devises both long-term and short-term plans to implement its strategies and to conduct an ongoing evaluation of its performance. The budget can provide the basis for detailed sales targets, inventory production, cash investment or borrowing and capital expenditure. if used wisely, budgeting process increases management's ability to deploy resources more efficiently and effectively.

5. 4. Factors affecting budgetary controls in Kigali Serena Hotel

During the study, various factors affecting budgetary controls in Kigali Serena Hotel were identified where 10 out of 25 respondents (40%) revealed that the budget process is affected by price fluctuations, 4 respondents (16%) indicated that limited knowledge about budgetary controls hinders its operations, 24% of respondents said being the ever increasing cost of production, 3 respondents (12%) revealed to be the unexpected expenditures, 1 respondents (4%) said to be the changing business environmentand also stated to be the wastage by production staffs and stealing that affects the smooth running of operations of the budgetary controls of Kigali Serena Hotel.

5.5. Suggested solutions addressed to the factors affecting the budgetary control process in Kigali Serena Hotel

The result showed that 17 out of 25 respondents (68%) argued that the best way to ensure active interest of responsible supervision and performance, there should be a continuous consideration of price changes while budgeting in the organization as this enables responsible personnel to know what are actually the prevailing market prices when formulating budgets hence benefiting the organization, 2 of the 25 respondents (8%) further identified that for the controls to be effective, management is supposed to train every stakeholder so as to make everybody on board which will give enough knowledge about the subject. Besides the above 6 respondent (24%) argued that there must be increasing supervision during production so as to eliminate wastages, stealing/fraud and misuse which in turn may affect the budgeting process of Kigali Serena Hotel as a result of shortages created.

5. 6. Analysis of financial ratios

Financial ratios come to investing, analyzing financial statement information (also known as quantitative analysis), is one of, if not the most important element in the fundamental analysis process.

Liquidity ratio :Liquidity ratios are the ratios that measure the ability of a company to meet its short term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due. The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets. If the value is greater than 1, it means the short term obligations are fully covered. Generally, the higher the liquidity ratios are, the higher the margin of safety that the company posses to meet its current liabilities. Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties. the liquidity of 1.4 times in 2010, 166.4 times in 2011, 1.0 times in 2012, 1.1 times in 2013, 0.8 times in 2014 and 1.0 times in 2015. Results show an increase in the liquidity from 2010 to 2011 and a decrease in the liquidity in 2013. In summary, despite of decrease in years of 2014, the current ratio shows that the Serena hotel was solvent since all years the current assets are greater than the current liabilities except the year of 2014.

Net Profit Margin ratio : The profitability of Serena hotel whereby in 2010 and 2011 there were high rate of profit means that one 1 Franc of sales in 2010 and 2011 generated 0.11 Franc of net profit , 2012 and 2013 one Franc of sales generated 0.09 and Franc of net profit , 2014 and 2015 one Franc of sales generated 0.043 Franc of net profit.

Return on Assets (ROA) :ROA is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".The profits of each Year earned from total assets means that 1 franc of total assets generated 0.43 and 0.47 and 0.41F in the year of 2010, in 2011and 2013 respectively 1 franc of total assets earned 0.17 and 0.18 F in 2014 and in 2015 respectively in general these show that those three years 2010, 2011and 2013; the profit from assets was higher than in the year of 2014 and 2015.

Return on Equity (ROE) :Return on equity (ROE) measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth.

The returns on equity whereby in the year of 2011 one F of total equity earned 0.77 F , in 2010,2012 and 2013 one F of total equity generated 0.69, 0.60 and 0.61 repectively and in 2014 and 2015 a one F of total equity generated 0.26 and 0.29 F respectively , so these show that in the first three years 1 F of equities generated between 0.60 and 0.77 but in 2014 and 2015 the return of 1 F of equities was between 0.26 and 0.29 F which are not good. The study in table 14 is giving the indicators that show a strong positive relationship between budgetary controls and organizational financial performance whereby 100% of respondents agreed with Planning, Monitoring and Control, cost reduction, availability of resources and evaluation.

5.7. Budgetary control and organizational performance of Serena Hotel.

The researcher was interested in finding out whether organizational performance of Serena Hotel depends on proper budgetary control and to confirm if budgetary control correlates positively to the financial performance in Serena Hotel. Here the budgetary control comprises planning, monitoring and control, evaluation, Cost reduction and Adequate Availability of Resources mean while organizational performance indicators are Profit maximization, Return on investment, Development index and Return on asset.

All the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between the independent and the dependent variables.

The correlation between Organizational performance as measured by profit maximization and Planning was 0.9927, the correlation between Organizational performance as measure by profit maximization and Monitoring and Control was 0.9111, the correlation between Organizational performance and Evaluation was 0.9775, the correlation between Organizational performance and Adequate availability of financial resources was 0.9183, and lastly the correlation between organizational performance and cost reduction was 0.8437.

5. 9. Pearson correlation

Correlation between sets of data is a measure of how well they are related. The most common measure of correlation in stats is the Pearson Correlation. It shows the linear relationship between two sets of data. In simple terms, it answers the question; two letters are used to represent the Pearson correlation: Greek letter rho (ρ) for a population and the letter “r” for a sample.

DOI: 10.18535/afmj/v2i1.01

The calculated r=0.98 which shows a very strong relationship between budgetary controls and organizational performance of Kigali Serena Hotel.

The following regression model was adopted for the study:

Y = βo + β1x1 + e

Where:-Y = Financial performance as measured by ROA

X1 = Use of budgetary control techniques

βo = Intercept

β = Coefficient of independent variables

e= the standard error

The testing of the relationship between the variables was tested using Pearson correlation coefficient. N is 25 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .752** This implies that, the use of budgetary control techniques explains 75.2% of observed change in Financial performance as measured by ROA.

The use of budgetary control techniques, are critical factors for financial performance as measured by ROA. The interactions use of budgetary control techniques of the factors create an impetus for financial performance as measured by ROA.

To conclude, based to the study,it is clear that financial performance of Kigali Serena hotel is good according to the increasing of sales in previous five years. The research study revealed that there is positive impact of budgetary controls on the performance of Kigali Serena Hotel and respondents forwarded a number of advantages which include among others, as aiding management in planning and coordinating their efforts, ensures controls, so that plans and objectives laid down in the budgets are achieved, budgeting acts as a motivator to staffs when targets are met, increases production efficiency, eliminates waste and controls costs, coordinates the activities of the various departments as far as hotel operations are concerned, compels managers to think ahead to anticipate and prepare for the changing environment and finally provides a yardstick against which actual results are compared with.

There is a very strong relationship between budgetary controls and organization performance. The results indicate that independent variable has positive high correlation to dependent variable equal to 0.98 meaning that that 98 percent of the variation in organizational performance explains from five independent variables of budgetary control including Planning, Monitoring and Control, Cost Reduction, Evaluation and adequate availability of resources.

There is indeed a strong positive relationship between budgetary control technique and financial performance with correlation coefficient, r = 0.752 and p = 0.01. Since r > 0.1, this means the relationship is strong. Therefore, financial performance as measured by ROA is strongly influenced by using of budgetary control techniques.

Budgetary controls are seen as important tools planning and control of resources to enhance performance in many organizations. However, other factors like, good quality of employees, ability of management to lead and direct, the availability of resources in terms of capital and human resources among others must be blessed with management, in addition to budgetary controls to encourage effective financial performance.

As recommendations : Budgetary controls are important in influencing performance therefore more efforts should be made by management of organizations both profit and non-profit to sensitize the employees on its importance so as to enhance performance. It also recommends that organizations should develop more formal

DOI: 10.18535/afmj/v2i1.01

practice in the development of budgetary controls, that is, Planning, Monitoring and Control and budget participation, evaluation cost reduction. Most organizations have minimal formal budget controls in their organizations hence the need to develop a clear policy on budget control processes.

Based on the findings, organizations need to investigate other factors that contribute to better performance apart from budgetary controls, like employees motivation and invest more in staff development in order to enhance the performance.

For further research, it is suggested that sample size used may have been quite small to enable get an overall picture of the total hotels in Rwanda. Therefore more research in this area should focus on increasing the sample size and cover a larger number of organizations in Rwanda so as to enhance better generalization of the results.

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