

**AN ASSESSMENT OF THE BUDGET AND BUDGETARY CONTROL IN
ENHANCING FINANCIAL PERFORMANCE OF AN ORGANIZATION
A CASE OF TANZANIA ELECTRIC SUPPLY COMPANY LIMITED
(TANESCO)**

**AN ASSESSMENT OF THE BUDGET AND BUDGETARY
CONTROL IN ENHANCING FINANCIAL PERFORMANCE OF
AN ORGANIZATION
THE CASE OF TANESCO**

By

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**A Thesis/Dissertation Submitted in Partial/Fulfillment of the Requirements for
the degree Masters of Science in Accounting and Finance of Mzumbe University**

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled “**An assessment of the budget and budgetary control in enhancing financial performance of an organization: The case of TANESCO**” in partial/fulfillment of the requirements for the award of a degree of Master of Science in Accounting and Finance of Mzumbe University.

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ACKNOWLEDGEMENT

I am gratefully to the Almighty God through Jesus Christ for his mercy and grace in enabling me to carry out my field research and successfully complete this research study.

To mention everyone who has contributed to this report is impossible. Kindly, I would specifically thank my research supervisor **Mr. Rocky Alex** who diligently guided me in the formulation of research problem and development of research proposal and this report as well. Without his tireless review of the draft, constructive criticisms and guidelines this work would have been impossible.

I also thank my parents **Mr. and Mrs. Joseph** for their great contribution in the whole process of report writing until the submission of my report.

I also thank the whole staff team of Tanzania Electric Supply Company Limited (TANESCO) for their great contribution in providing reliable materials and information necessary for completion of my research report. To mention a few: Mr. Alex Mengele head of Budget Unit (Head office) and Mr. Bernard Mushi Senior Finance Officer.

I would not forget to show my appreciation to all my classmates and my friends who have been hand in hand with me in research discussions, and on advice on how and what type of data to be collected that suit my report.

Finally all Mzumbe University libraries' staff for their cooperation in assisting me books, journals and internet services for literature review.

ABSTRACT

The study aimed at assessing budget and budgetary control in enhancing financial performance of an organization. Specifically the study focused on identifying the budgeting process of TANESCO, assessing the trend of budget performance of TANESCO from the year 2006-2012, and to determine the contribution of budget in the financial performance of the company.

The study adopted a case study research design as the best way of collecting data and assessing the budget and budgetary control in enhancing financial performance of an organization. The study comprised 80 respondents from TANESCO-Headquarter. Questionnaire, interview and group discussion were used to collect data. Data were presented into tables, graphs and charts for easy analysis and discussion of findings.

The study findings indicated that budgeting process starts with identification of financial objectives and it end up with monitoring, adjustments and providing feedback for the necessary corrective measures. Also the study indicated that TANESCO is experiencing negative variance in its budget trend for each financial year and lastly the study revealed that budget and budgetary control contribute much to the effectiveness of the organization.

The study concluded that in order to enhance the financial performance of TANESCO there must be proper control and management of the organization's budget. The study therefore; recommended that in order to enhance performance budgetary control need to be done from the beginning of the budgeting process until the end of the budget implementation and formulation of the new budget.

LIST OF ABBREVIATIONS

ABC	-	Activity Based Costing
ABM	-	Activity Based Management
BOD	-	Board of Directors
CFO	-	Chief Financial Officer
CIMA	-	Chartered Institute of Management Accountants
EWURA	-	Energy and Water Utilities Regulatory Authority
MWC	-	Masters Workers Council
ROCE	-	Return on Capital Employed
ROI	-	Return on Investment
TANESCO	-	Tanzania Electric Supply Company Limited
ZBB	-	Zero Based Budgeting

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CHAPTER ONE

PROBLEM SETTING

1.1 Introduction

Budgeting is a vital tool in organizations for directing activities and employees' efforts toward the organization's common objectives. Budgeted results communicate to employees the organization's expectations regarding their job performance, which is evaluated based on some comparison of actual versus budgeted results (Abernethy & Brownell, 1999).

This chapter presents information on background of the study, statement of the problem, objectives of the study, research questions and significances of the study.

1.2 Background of the study

Budgets show how public and private actors plan for the spending of finite public resources. Modern budget systems originate from the rise of the modern state in Western Europe in the 16th and 17th centuries when the rising costs of warfare were leading to an increase in taxation. Great Britain firstly adopted the practice of an annual national budget in 1780s. The past two decades have seen a clear trend among industrial countries toward bringing about a stronger performance orientation in public expenditure management. Budgeting at the early stage of its development was concerned with preparing and permitting correct performance evaluation and consequently rewards. In the 1970s performance improvement was based on meeting financial targets this necessitated companies to operate within the budget. Furthermore, in the late 1980s New Zealand were for-runners in initiating the practice of budgeting, followed in the early to mid-1990s by United States, France, Canada and Denmark.

Robinson (2007), in developing countries, the organization of budgetary system is subordinated to the problems of eliminating the remnants of feudalism and colonialism. In view of the weakness of the inadequacy of their capital, the most important measures in the areas of economics and culture in these countries such as India, the Arab Republic of Egypt and others were financed through the state budget.

At the same time, in order to involve broad layers of the population in the accomplishment of national economic and political tasks, the governments of these countries follow a policy of developing the plan and budget capital of local bodies.

According to Maheshwari (2006) budget is the money that is available to an organization and a plan of how it will be spent over a period of time.

According to Brown et al (2001), budget as a plan quantified in monetary terms prepared and approved prior to defined period of time, usually shows planned income to be generated and expenditure to be incurred during that period and the capital to be employed to attack a given objective.

Lucey (2009) agrees that although many of the principles of budgeting apply equally to non-profit organization and profit seeking organization a key difference is that the latter organizations budgets focus on the relationship between expenditure (input) and sales revenue (output). In non-profit organization outputs are much more difficult to measure hence traditionally budgeting has been concerned with making sure that for each expenditure heading actual spending does not exceed the budget authorized cash.

In recent years, much attention has been given to the strengthening of budget and planning and their interrelationship in developing countries including Tanzania. The advocacy of this has come from prominent international agencies as World Bank and International Monetary Fund. These agencies are all interested in encouraging developing and underdeveloped countries to improve their budget practice. All these show the importance attached to budget as a management process.

Similarly in Tanzania Electric Supply Company Limited (TANESCO), budgets therefore occupy a leading place among the special tools of management employed to direct and control the affairs of large and diverse organization. As a good financial plan must have a financial control system for monitoring the situation, both to ensure that the plan is carried out properly and to facilitate rapid adjustments if economic and operating conditions change and require modifications to the plan. According to

Coates (2002), budgets and budgeting control are used not only by governments, but in other public and private bodies.

In certain type of organizations, the budgetary process usually starts at the organizational sub unit where various activities take place. As Lewis (2005) stated, “the basic reason for requiring estimates for subordinate officials is that higher officials do not have enough detailed information, time or specialized skills to prepare plans themselves. This is perhaps the only point of convergence of the budgetary process in both private and public institutions”.

Various research studies by Covalleski et al. (2003) have highlighted, organisations need to pay serious attention to budgeting and budgetary controls as key elements of management control and a crucial tool in facilitating the achievement of organisation goals and as a basis for performance review. Furthermore, strategically for an organization to run effectively, there are four critical factors: organizational objectives or where it intends to go, plans or how it intends to accomplish such objectives, coordination or where individual plans fit in the overall organizational objective and control that is whether operations conform to the plan of operations relating to that period.

A budget is basically used in almost all organization, be it private or public sector, ministries and non-profit organizations in planning and control processes. Organizations develop plans on how to go about its future operations and as a way of assessing the performance of their organizations, through making comparisons of actual results against budgeted results. A failure to achieve budget targets, the organization may be regarded as inefficient. For instance, In 2008/2009 EWURA financial report through comparison between budgeted and actual income reveals that in financial years 2006/2007 and 2007/2008 actual income was less than budget. EWURA’s report admitted that, this discrepancy is probably more reflective of inexperienced institution working out its method than any real problem with obtaining funding for the institution (EWURA Official Financial Report, 2010). This situation portrays the significance of having a sound budgeting system for ensuring effective allocation of resources and control of operations.

Therefore, budget and budget control mechanisms keep the plans of an organization running smoothly and up to date. As such, control is very important because if you cannot control the internal processes, constraints on cost, time and objectives will follow. With this, budgeting and budgetary control are the devices that an organization makes use for all these purposes.

1.3 Statement of the Problem

In recent times, companies have performed poorly due to that they lack effective and efficient budgets and budgetary control systems to adequately allocate resources to meet organizational goals and maximize performance. A study conducted by Boquist (2001) observed, companies continue to blunder and fail because they have imperfection in budgetary planning and control systems which they actually fail to recognize. As a result, corporate strategy and capital allocation become misaligned and remain so despite disapproving financial performance.

Many organisations recognize the need to have a well-developed and comprehensive budgeting and budgetary control systems in order to minimize budget variances and maximize efficiency. It is common knowledge that Public utilities in Tanzania are not performing up to the expectations for which they are established. The fact that most of them are run with budget allocations from their sponsoring governments rather than out of the result of their performance has given rise to the problem of hiding inefficiency in these companies. Hence, management shy away from clearly defined goals or targets against which results or performance can be compared during the budget period.

A budget is basically used in almost all organization, be it private or public sector, ministries and non-profit organizations in planning and control processes. Organizations prepare plans on how to go about its future operations and as a way of assessing the performance of their organizations, through making comparisons of actual results against budgeted results.

Despite the importance of budgeting, various corporations/ companies/ organization fail to recognize the power of budget and budgetary control over their performance outcomes (Eberhard, 2002). Hence, these companies go ahead without paying

attention to improving their performance through their budgets due to wide budget/actual variances.

TANESCO like any other utility company faces some shortfall in its budget performance which consequently can affect the performance of the company. This is evidenced by some shortfalls in its budget performance, where it recorded a failure to attain the grid generation mix during the three quarters up to September 2010; sales were below the target (TANESCO Corporate Budget Report, 2021).

Therefore this study attempted to fill the knowledge gap by assessing budgeting and budgetary control in enhancing the performance of public utility companies in Tanzania, where by TANESCO as a case study will be considered.

1.4 Objectives of the study

1.4.1 General objective

The study aimed at assessing budget and budgetary control in enhancing financial performance of an organization.

1.4.2 Specific objectives

- i. To identify the budgeting process at TANESCO.
- ii. To assess the trend of budget performance at TANESCO from the year 2006-2012.
- iii. To determine the contribution of budget in the financial performance of the company.

1.5 Research questions

- i. What is the budgeting process at TANESCO?
- ii. What is the trend of budget performance at TANESCO from the year 2006-2012?
- iii. What is the contribution of budget in the financial performance of the company?

1.6 Significance of the study

The study findings are useful to:-

Organization:

This study extends awareness to the organization in terms on how to improve its performance by means of budgets and budgetary controls. Moreover, it has exposed the organization on the challenges it face on budgeting and budgetary control and the way forward.

Policy makers:

The study has posed challenges on the stated topic and hence benefits policy makers who after identifying the challenges will come forward to prevent it by making policies which guide the organizations throughout the whole budgeting mechanism in public utility companies in Tanzania.

1.7 Scope of the study

The study was conducted at TANESCO Head Office Dar es Salaam Region. Focused on assessment of budgeting and budgetary control in enhancing financial performance in public utilities companies; departments focused were accounting department and other sections like procurement, human resource department and the like.

1.8 Organisation of the study

The study was organised in the manner of chapters as below;

Chapter one gives an introduction of the research report. It gives the basic information about the research to be undertaken. This chapter therefore consists of the background of the study, statement of the problem, objectives, research questions, significance and scope of the study. Chapter two covers literature review; which provides theoretical bases of the study, empirical studies comprising of previous international and regional studies and conceptual framework for the study.

Thereafter was research methodology; showing research design, data collection method, type of measurement, sampling technique and sample size, area of the study and management of data and analysis techniques. Chapter four: Provides details on presentation and analysis of the findings obtained under the research study. The

presentation of the findings is based on data gathered by the researcher about the objectives of the study. Chapter five provides discussion of the findings based on the data presented and analysed. Chapter six gives the summary, conclusions and policy implications of the research study. That is the summary of the research findings and discussion, conclusion based on the results of the findings and policy implications drawn from the research study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter aimed at highlighting theoretical and empirical overview of varying literatures with related theme of “Budgeting and Budgetary control in enhancing performance in public utility companies”.

2.2 Definition of concepts

Budget

According to Brown and Howard of Management Accountant (1982) a budget is a predetermined statement of managerial policy during a given period which provides a standard for comparison with the results actually achieved.

To improve understanding of the concept of budgets, Chartered Institute of Management Accountants [CIMA] Official Terminology (2005), a budget is “A quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows.”

Generally, a budget is a set of interlinked plans that quantitatively describe an entity’s projected future operations.

Budgeting

Armstrong (2006) defines budgeting as the process of creation of a budget: statement of quantitative and usually financial terms of planned allocation and the use of company’s resources; it can be one year, five years or even longer term.

Budgeting is the process of preparing a detailed statement of financial results that are expected for a given time period in the future. “Expected” means something that is likely to happen and “Future” means a period in time to come.

Budgetary control

Budgetary control is a system of management control in which actual results for a period are compared with budget for that period (Dyson, 2001).

Budgetary control is the establishment of budgets relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with the budgeted results, either to secure by individual actions the objectives of that policy or to provide a basis for its revision (CIMA terminology, 2006).

Performance refers to qualitative and quantitative description of results which enables to shape the future of an entity.

Organisation performance is a set of financial and non-financial indicators which offer information on the degree of achievement of objectives and results (Lebans & Euske, 2006).

2.3 Theoretical review

A theory is a reasoned statement or groups of statements, which are supported by evidence, meant to explain phenomena (Kombo, 2009).

This study will base on Structural Functionalism Theory (Emile Durkheim, 1858-1917). This theory proposes that a human society is like an organism and is made up of structures called social institutions. These institutions are specially structured so that they perform different functions for society welfare.

According to this theory, as the result of being interrelated and dependent on each other, one organ can affect the other and ultimately the whole. The whole can also affect one or all the social institutions. Based on this theory, the public institutions need to ensure that every aspect needed for budgeting and its implementation is available and function effectively.

2.4 Overview of Budget and Budgeting

The word budget originated from a French word “baguette” which means a little bag. In Britain it was used to describe the leather bag in which the Chancellor of the Exchequer carried the statement of government needs and finances to parliament.

Later on, the budget was used to describe the documents contained in the bag. Today, budget is described in a broader meaning and has been defined by various authors in different ways.

The need for utilization of scarce resources surrounding mankind effectively and efficiently, invite economic skills, on which the use of budgeting is inevitable (Armstrong, 2006). That is to say budgeting cuts across all personalities; starting from individuals, partnership, cooperative societies, companies, multinational corporations and nations hence, necessitating emergence of various definitions by different authors.

Frederick (2001) defines budget as a plan that is measurable and timely. In addition, Drury (2006) defines budget as a plan expressed in quantitative, usually monetary term covering a specific period of time usually one year in other words a budget is a systematic plan for utilization of manpower and material resources. In a business organization a budget represents an estimate of future costs and revenues.

A budget can be prepared based on certain projections depending on the organization. For instance, the electricity utility company can base its projections on population growth which is predictable for five to ten year periods and it must plan asset acquisition years ahead because of long lead times involved in dams construction and the like.

Lucey (1996), a budget is prepared and approved before its implementation showing income, expenditure and capital to be employed. It may be drawn up showing incremental effects of former budgeted or actual figures, or compiled by zero-based budgeting approach. As Blocher et al (2002) argue that, budgets help to allocate resources, coordinate operations and provide a means for performance measurement. Furthermore, budgeting involves planning for various cost generating activities and revenue producing of an organization. The importance of budgeting is emphasized by an old saying, "*Failing to plan is like planning to fail*". Thus, budgeting is essentially financial planning or planning for performance.

Thus, from the definitions of budget as stated earlier three major concepts or aspects are highlighted: First; is the planning aspect of a budget: the plan is referred to as statement of objectives or goals of the organization. Second; is the measurability aspect: this enables to measure what is planned, the extent to which the plan can be achieved. Lastly; it is time aspect: it gives the possibility to say if the plan is achieved and covers certain duration.

In summary, a budget is a statement setting out monetary, quantitative aspects of an organization's plans for the future period monthly, quarterly or yearly. Budgetary control is the analysis of what happened that is when stated plans are compared with actual results.

The primary concern during budget implementation process is to ensure the fulfilment of financial and economic aspects of the budget. The financial tasks include; spending the amounts for the purposes specified, minimizing expenditures during the end of the year. The economic tasks on the other hand are; ensuring that the physical targets of programmes and projects are achieved and macro-economic aspects of the budget such as borrowing and deficit levels. In managing budget implementation one of the key areas of focus is the revenue and expenditure flow pattern.

The budget is also a tool for the implementation of social, economic and political priorities which impact on the lives of the population. A successful budget must be a product of a process that is based on sound and quality information, rigorous impact analysis and effective feedback mechanism to internalize lessons of past budgets. It is an integrated output of a dynamic process in which the connections between various sectors are critical for its ultimate impact and should be looked at in a holistic manner (Kwanashie, 2005).

Budgeting has come to be accepted as an efficient method of short-term planning and control. It is employed, in large business/organisations but even small businesses are using it at least in some informal manner. Through the budgets, an organisation wants to know clearly as to what it proposes to do during an accounting period or a part thereof. The technique of budgeting is an important application of management

accounting. Probably, the greatest aid toward good management is the use of budgets and budgetary control. It is a versatile tool and helps managers to cope with many problems including inflation.

2.5 Benefits of budgeting to an organization

Every organization whether small, medium or large is expected to prepare a budget that guides their day to day operations. The need for preparation and maintenance of budgets is based on some importance, some of the benefits includes:

It provides clear guiding principle for managers and supervisors and is the major way in which organizational objectives are translated into specific tasks and objectives related to individual managers.

Large organizations consist of many people and parts similarly to TANESCO. These components need to be coordinated to work together in a cohesive fashion. The budget is the tool that communicates the expected outcome and provides a detailed script to coordinate all of the individual parts to work in performance.

It helps managers in identifying constraints and bottlenecks before they become major problems to the organization (Jackson & Sawyers, 2001). For instance, in electricity production efficient operation of the power plant can be limited by supply of natural gas. Thus, a well-developed a budget will always consider capacity constraints this means managers can learn well in advance of threatening production and distribution bottlenecks.

Moreover, budgeting assist managers to have better understanding of their business and it provides a yardstick by which business performance can be measured. If negative deviations are discovered, it permits timely corrective action to be implemented (Borja & Lombeida, 2002).

Furthermore, according to Jackson and Swyers (2001) budgeting has to do with forecasting and estimating the future profitability of the company, due do that reason the budgeting process forces management to focus on the future and not to be disturbed by daily crisis in the organization.

In most organizations it is common for managers to argue and compete for allocations of limited resources. Each business unit has employees deserving compensation adjustments, projects needing to be funded, equipment replacement and the like. This naturally creates strain within an organization, as the sum of individual resource requests will usually be greater than the available pool of funds. Successful managers will learn to make a strong case for the resources needed to their units through a budget which enables effective allocation of resources in relation to funds available.

The budget can be a useful device for influencing managerial behaviour and motivating managers to perform in line with the organisational objectives (Drury, 2001). A budget provides a standard that under certain circumstances may motivate managers to strive to achieve the standard. However, it is possible for managers to view budget as a pressure device in trying to get them to achieve a level of performance that they do not see as achievable. Nevertheless, motivation would be enhanced through the feeling of involvement which participation in the budgeting process can promote.

2.6 Human aspects in budgetary process

The success of organisational control depends upon the actions of top management and their appreciation of the importance of sound interpersonal relationships between different levels of the hierarchy. Management accountants through the budget process can motivate employees and improve attitudes amongst managers towards budgetary control; this is possible through having a sound and effective budgetary process.

A sound budgetary process communicates organizational goals, allocates funds, motivates employees, encompasses participation and provides feedback. It establishes goals and policies, examine definite requirements, incorporate assumptions and provide flexibility (Lucey, 2009). That is a comprehensive budget usually involves all segments of an organization as a result representatives from each unit need to be included throughout the process of budget preparation. The process is likely to be lead by budget committee mainly consisting of senior-level personnel. In

large organizations, budgeting is a collective process in which operating units prepare their plans in conformity with corporate goals published by top management. Each unit plan is intended to contribute to the achievement of corporate goals. The principal stages involved in the budget process include:

1. Communicate the details of objectives and strategy to those liable for preparation of budgets;
2. Communicate the details of budget preparation procedures to those liable for preparation of budgets;
3. Discover the limiting factor which restricts overall budget flexibility and forms the focus of the budget cascade;
4. Prepare preliminary set of budget;
5. Discuss budgets with line managers;
6. Organize and review budgets;
7. Accept budgets in absolute form;
8. Carry out ongoing appraisal of budgets as they are implanted (Weetman, 1996).

The budget construction process will normally depend on the organization chart. Some entities follow a top-down or mandated approach others follow a bottom-up or participative approach.

2.6.1 Top-Down Budget

This approach begins with upper-level management establishing parameters under which the budget is to be prepared. Lower-level personnel have little input in setting the overall budget objectives of an organisation. The approach has a major disadvantage that; lower-level managers may view the process as dictatorial standard because they may find themselves put in a position of ever-reaching to attain targets for their units and as a result may create goal divergence. On the positive side: it provides effective communication device within an organisation. Moreover, top-

down approach assists managers to maintain financial control over the budget of which is difficult when bottom-up approach is used.

2.6.2 Participation in budgeting (Bottom-up Budget)

Responsibility accounting assumes that manager' influence costs and that the best way of controlling these costs is to hold these managers responsible for the costs they influence (Garrison, Noreen & Seal, 2003). This means that bottom line or sectional managers are required to develop their own budgets and are then held responsible for meeting their targets. Bottom-up budget is most useful when lower-level managers actively are involved or engaged in the budgeting process. Participation adds reliability to the budgeting process and creates greater commitment and accountability toward the budget, as budgets are set by management but the people to realize the budget standards are the staff.

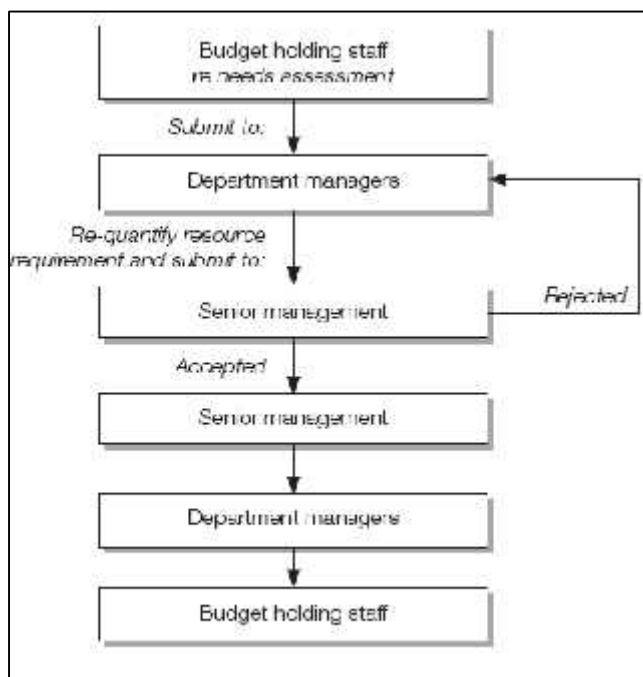
Drury (2001) highlights that any control process which does not recognize human nature and its requirements may be counterproductive. That is participation must be emphasized; it has a huge potential for encouraging communication of organizational goals, improving attitude towards budgeting system and increasing subsequent performance. Hilton, et al. (2000) demonstrated, participative approach to budgeting since it can be more effective and people may be more motivated to achieve budgetary goals if they have consulted in the budget preparation.

Prior studies on the relationship between participative budgeting and performance have provided diverse results. Covaleski et al. (2003) found that, there exists a positive relationship between budget participation and performance while other scholars found negative relationship. All in all, the key to successful performance necessitate the involvement of managers and personnel at all levels as it helps to ensure departments will attain targets and operate within the budget. Controller must be able to negotiate and communicate effectively with people in all levels of an organization.

Issues relating to participation in budget process have been well discussed by Sullu (1991) in his paper on "*Behavioural Dimension of Budgetary Planning & Control*".

He emphasized that budgeting is not mechanistic technical procedure; its success is totally dependent upon the goodwill and co-operation of the participants. Without this, budgeting will become a mere paper exercise with no real impact on the operations of the organization. In the process he added that; it is quite wrong to ignore human factor. If human factor and its elements will be lacking in the budget process, then the whole process will be useless and will appear as a paperwork that will not help any organization. This statement highlights that; the central behavioural issue is the degree of participation in the preparation of budget that upper-level management is willing to entrust to middle-and-lower managers. This has become one of the most important aspects of the budgetary process since in reality the approved budget represents a consensus and bargained commitment among many people in the organization.

Figure 2.1 Bottom-up Approach



Source: CIMA, guide to devolved budgeting (1997)

Today, participation in the budget making process is considered as one of the general approach that can increase the effectiveness of the company's budget, which would also increase managerial performance, and which in turn can improve the performance of the company (Lina, 2001).

2.6.3 Negotiated budget

This type of budget adopts both the top-down and participative styles of budgeting and creates an environment where there is shared responsibility for budget preparation. The budget process becomes collaboration between lower and top management rather than a one-way exercise. In the combined approach, lower management submits the budget to upper management and then upper management modifies the submitted budget to reflect the operational knowledge that they have.

Therefore, the approach chosen would to a large extent depend on the nature of the organization (Bratton & Gold, 2007). It is widely felt that budget systems developed using participative or negotiated approaches would elicit greater support from workers and managers. Argyris (1952) has criticised many schemes for not offering any real participation and as such contribute little or no value.

2.7 Feedback and control

Feedback concerning the degree to which budget goals have been achieved is another element to be considered in the budgeting process. Reports should be issued with sufficient frequency to facilitate adjustments to off-target operations. When members of the organization do not know the results of their efforts they have no indication of success or failure and no incentive for higher performance (Frank, 2002).

The performance of an organization depends on sound budget process. To ensure effective budgetary process in any organization information feedback is of paramount. Employees within an organization need to be informed of their units' budget adjustments and changes, as well as information on the reasons behind various budget decisions.

Control in organizations is exercised by information feedback loops which gather information from the output side of a department, function or process which is used to govern future performance by adjusting the input side of a system (Lucey, 1996). Hence, feedback on performance, when presented in a constructive, objective and unbiased manner has been showed to be quite important as a motivator in giving reliable estimations in the budgeting process.

Budgeting sets clear financial goals for the organization. Webster (2001) indicates that budgeting provides a basis for judging the financial performance of the organization. Feedback is an important role in budgeting for attaining the expected quality and standards in planning, control and staffing. Moreover, it focus on the extent to which employees have achieved expected levels of work during specified period of time and the extent to which they are informed regarding any budget adjustments. As also supported by Cook (1968), feedback is generally positively associated with performance and forms a basis in the whole process of budgeting.

Thus, management needs to learn to support rather than control in order to let its employees take the incentives in defining and solving problems. That is to install confidence in the employees and back them up when mistakes arise by providing constructive feedback throughout the whole process of budgeting, as this will motivate employees towards achieving organization objectives.

2.8 The concept of budgetary control

The system of budgetary control can be traced back from the contribution of Anthony (1965) on management control. In Anthony's framework, control activities in an organization are categorized into three types, namely; strategic planning, management control and operational control. Strategic planning is the process of setting organizational goals and overall corporate strategies. Operational control is the process of ensuring that specific tasks are carried effectively and efficiently. Management control links strategic planning and operational control.

Buyers & Holmes (1995) defines budgetary control is "a system of controlling costs which includes the preparation of budgets, coordinating the department and establishing responsibilities, comparing actual performance with budgeted and acting upon results to achieve maximum profitability." This definition denotes the following essentials of budgetary control:

- i. Establishment of objectives for each function and section/unit of the organization.
- ii. Comparison of actual performance with budget.

- iii. Ascertainment of the causes for such deviations of actual from budgeted performance.
- iv. Taking suitable corrective action from different available alternatives to achieve the desired objectives.

The exercise of control in the organisation with the help of budgets is known as budgetary control. Drury (2001) defines control “as a process of ensuring the firm activities conform to its plan and that its objectives are achieved”. Thus, there can be no control without objectives and plans. In addition, Drury (2001); a budgetary monitoring and control process assumes that expenditures must agree with budgeted plans and maintains information about expenditure. It helps expenditures to be kept within planned limits thus, assisting managers to track the flow of resources accurately and consistently.

Practically, budgetary control involves departmental or functional heads in the organization, receiving a copy of budget relating to their activities showing over or under expenditure in relation to budget allowance. From this departmental or functional heads will be able to decide on the corrective step to take. This is to say variances are the responsibility of departmental or functional heads and every one of them has to explain the variance and act in time to stop future occurrence of adverse variances.

Holland (2005) define budgetary control as the establishment of mechanisms authorising responsibilities of executive to the requirement of a policy and continuous comparison of actual results against plans, either to secure by individual action the objectives of that policy or to provide a basis for revision. In other words, budgetary control deals with regulating the activity of the business or organization to follow in the pattern that had previously been planned in the budget. Furthermore, Buyers and Holmes (1995) considered budgetary control as a means of control in which the actual state of affairs is empowered with that planned for, so that appropriate action may be taken with regards to any deviations.

Budgetary control attempts to deal with uncertainties by reacting when the unexpected becomes evident through variance of results. Ezzamel (1990)

demonstrated, in environmental uncertainty situation the variance analysis is more important because the risks are higher. Variance analysis deals with the analysis of the difference between what was planned and actual results. From the output of variance analysis, management must decide which variances require investigation and corrective action.

Organisations practice different degrees of variance analysis techniques, from basic variance analysis to more complex and detail analysis in order to monitor achievement of results. A study by, Guilding et al. (2000) found that accountants in New Zealand and U.K. tend to see variances from budget as being important and performance appraisal was based mainly on budget achievement.

In summary, budgetary control involves a constant check and evaluation of actual results against budget stated. It is a continuous process that helps in planning, controlling and coordinating organization activities. Lucey (1996) argues that, no system of planning can be successful without having an effective and efficient system of control. The system of budgetary control involves: preparation of separate budgets for each budget centre, consolidation of all functional budgets to present overall organization objectives during the fourth coming budget period, comparison of actual level of performance and budgets and reporting the variances with proper analysis to provide basis for future course of actions.

2.8.1 Role of budgetary control

Zheng (2009) demonstrated, budgetary control is vital, not just to verify expenditure or income against targets but also to identify changing patterns or circumstances that may give rise to the need for corrective management action or changes in the policy. Consequently, the head of finance should take all reasonable steps to ensure that regular monitoring of all aspects of budget takes place, whether it is income, expenditure, borrowing levels, project progress, operational outcomes or cash flows and the results of such monitoring is appropriately documented. Moreover, resources from donations, grants or partnership are being used for the purposes for which they are intended and that any necessary documentation is safeguarded. Monitoring results need to be reported in appropriate manner, action is taken where results

indicate that a change of policy, budget or practice is needed and monitoring data is fed back into the planning cycle for the following years' budget.

2.8.2 Requisites for effective budgetary control

For budgetary control to be effective, the following requisites are essential.

Clear and realistic goals

A budgeting system operates better where the objectives and goals of the organization are unambiguous. That is, the objectives and goals must be clear and understood to insure consistency in the organization. In absence of clear goals, employees will lack a proper direction. Thus, the financial manager or budget officer must ensure that objectives and goals are properly laid down, as well as departmental goals must align with organization corporate goals. In addition, previous studies by Yuen (2004) also state that clear goals promote the performance of employees by urging them to do the best. Several empirical research studies have supported the positive effects of goal clarity on performance (Locke & Schweiger, 1979).

Management Support

Amoako and Acquah (2008) conceptualize that, for budgetary control system to be successful, it must be initiated and supported by management. A company will be able to implement its budget plans efficiently if management has a positive attitude towards budgeting and provides direction for budget implementation and control.

Authority and Responsibility

The first step is to have clear organization chart explaining the authority and responsibility of each individual executive. The authorities and responsibilities of each manager should be clearly identified and established. Thus, the performance of each manager should be evaluated in terms of the assigned authorities and responsibilities (Donaldson, 2001).

Proper Communication

Proper communication is also a condition for effective budgetary control system, because communication creates understanding among employees. The flow of information should be quick so that the budget is implemented hence two-way communication is important. What is required to be achieved and how it is to be achieved should reach the lowest level. Similarly, Holland (2005) added, upward

communication in respect of implementation difficulties should reach the top level to sort out without loss of time. The performance reports from various levels help the top management in monitoring and evaluating the general performance of the organization.

Participation

Budget preparation and control are done at the top level. However, involvement of all persons, including at the lower level is necessary in framing the budget and its implementation for the success of budgetary control. Hilton, et al. (2000) noted that in practice, budgets are executed at the lower level. With experience, they can offer practical suggestions that can lead to success. Therefore, the success of budgetary control system depends more on active participation of all employees of the organization.

Creation of responsibility centers

For effective and efficient management, large activities are segmented into units or departments. Where each division or sub-unit is assigned activities to perform and its manager is given specific authority and responsibility centers (Lucey, 1996). Thus, a budgetary control system will operate better where there is a well-established and defined responsibility center.

Adaptation of Accounting System

An adequate accounting system is a pre-requisite for sound budgetary control system in facilitating planning and control process. An accounting system should be structured around the areas of responsibility (Drury, 2001).

Education

Education is a necessary fact that influences budgeting. For a successful budgeting, every individual within the organization must be acquainted with all aspects of budgeting (Lucey, 2009). That is, they must be educated on the characteristics and method of budgeting; how to interpret budget results and how performance is evaluated through budgets. Education can be done through conducting seminar conference, discussions and the like.

Flexibility

Future is uncertain. Despite the best planning, still there may be occurrences that may require adjustments. Budgets should work in the changed circumstances

therefore; flexibility in budgets is required to make budgets work under changed circumstances. As otherwise it may not make for better control and comparison of actual and budgeted figures (Drury, 2001).

2.8.3 Limitations of budgetary control

Although the budgetary control system is a powerful tool of planning and control. Adams, et al. (2003) explained certain important limitations on budgetary control under several headings as follows:

Budgetary control is based on estimations and forecasts. Budgetary control starts with formulation of budgets. If budget plans are made on the basis of inaccurate forecasts then, the budget programme may not be accurate and effective.

Conflict of goals. Often, budget goals are set without consideration of overall atmosphere of the business entities, which at times are at cross roads. When such goals contradict each other, the real target cannot be shot at precisely.

Effective implementation of budgetary control depends upon willingness, cooperation and understanding among people reasonable for execution. Thus, lack of cooperation leads to ineffective performance.

Change in the economy. Planning well in advance may fail to take into account the economy scenario (inflation, business cycles) and policies of the government. Such factors cannot be predetermined with accuracy. Hence, estimates cannot be accurate which may result in undesirable consequences. Moreover, changing environmental conditions may also hinder effective implementation of budgetary control. For instance, In Tanzania the generation of electricity produced by TANESCO largely depends on hydro plants (54%) given uneven conditions of drought and availability of rainfall. These conditions create interruptions towards effective performance of the company in terms of units produced in relation to an increasing demand of population and industries.

2.9 Organisation performance

The concept of organization performance is based upon the idea that an organization is the voluntary association of productive assets, encompassing capital, human and resources; for the purpose of achieving a shared purpose (Barney, 2002). Budgets have widely been used by various organizations as a basis for performance evaluation, as stated by Drury (2001) budgets provide a useful means for managers in evaluating their performance and the overall organization performance through comparing budgeted plans with actual results to determine if planned objectives have been realised in case of variances appropriate measures are emphasized. Performance measurement is a vital building block of total quality management and total quality organization. Historically, companies have always measured performance in some way through financial performance, be its success by profit or failure. An organization desires to develop its own set of metrics as a starting point in understanding current performance.

In the context of organisational financial performance, performance is a measure of the change of financial condition of an organisation or the financial outcomes that result from management decisions and execution of those decisions by members of the organisation (Carton and Hofer, 2006).

Planning and the use of appropriate budgets are promoted by educators, academics and accounting practitioners as a means of enhancing financial performance (Hansen et al. 2003; Perren and Grant, 2000). Generally, it is considered that higher levels of performance are expected when the budgeting practices match to contingency theory and are consistent with its internal needs.

Budgeting also plays a serious role in strategic planning. When outlining future financial goals, the following should be considered;

- **Technology**

Budgeting for technology requires organizations to realize that equipment must be replaced in order to have the product with high quality and quantity required. The

budget should replace equipment's according to the current technology. The replacement should be made at least each year.

- **Capital Improvements**

Determining the funding needed for capital improvements is as important for many non-profit leasehold improvements reaching the end of their expected lives? These are all questions that may be answered easily; however, if they are not considered during the budgeting process, the organization may find its expenses far greater than the funds set aside for these projects.

- **Meeting Overhead Needs**

As many organizations have recognized over the past years, utility costs are certainly not a steady factor. Although it is not possible to predict fluctuations in variable costs such as these, the organization must consider price rise and other increases in overhead costs. In addition, it is important to review trends and determine if certain costs are unnecessary. Many organizations are driven by program grants, which often do not cover overhead costs and therefore may cause an insufficiency situation. Although non-profit organizations are mission driven, overhead costs can get out of control if not closely monitored and budgeted for.

- **Planned Giving and Capital Campaign**

For any organization, it is very important to consider the future inflows, since the budget seems to look in depth the organizations expenses. Revenues from planned giving and capital campaigns can be substantial. During the budgeting process, it may happen that shortfalls in future periods shall require considerable fundraising. So it is important for an organization look the cash flows in future in order to ensure the sustainability.

- **Borrowing funds**

Borrowing is one of the financial strategies. The use of borrowed funds can allow organizations to place less reliance on the timing of donations and fundraising events. Thus the organization should make sure that there are good results. By so

doing the organization will be in better position to obtain the loan. For example, if the organization is considering the purchase of equipment, purchasing a new building or needs additional funds to cover operations during a period of low cash inflows, a line of loans budgeting is an on-going process. Budgets should be revised throughout the year and allow for increases or decreases in the budget as necessary.

In an attempt to measure the organisation performance, the financial performance can be measured by various financial measures as depicted:

Return on Investment (ROI)

The worthiness of an investment is measured by how much cash the investment is expected to generate. According to Fields (2002) ROI is a financial performance measure that assists an organisation in evaluating whether a proposed investment opportunity is worthwhile within the context of the company's business objectives and financial constraints.

It is calculated by taking; $ROI (\%) = \frac{Net\ Profit}{Investment} \times 100$

Whereby, $Net\ Profit = Gross\ Profit - expenses$

$Investment = stock + market\ outstanding + claims$

Investment decisions should be analyzed carefully because such analysis is of assistance in the decision making process and because the decisions are irreversible, have long-term strategic implications, are uncertain and involve considerable financial exposure.

Revenue (Sales)

Revenue is the income generated from the sale of goods or services, or any other use of capital or assets, associated with the main operations of an organisation before any costs or expenses are deducted. It is income received by an organisation in the form of cash or cash equivalents over a period of time.

Sales Growth is the percentage increase (decrease) in sales between two time periods.

Profit (Profit Growth)

Profit is the amount of money the company makes after deducting expenses over a period of time. Since organisations normally want profit to grow, profit growth is calculated to show the percentage profit grew from one period to another in measuring the financial performance of an organisation.

Current ratio

As a financial ratio that focus upon liquidity of the business or organisation. Current ratio compares asstes which will become liquid within approximately twelve month (total current assets) with liabilities which will be due for payment in the same period (total current liabilities) and is intended to indicate whether there is sufficient short-term asstes to meet the short-term liabilities.

Fields (2002) a ratio below 1.0 means that current assets are less that current liabilities, this is clear indication that the company has liquidity problems. However, a ratio in excess of 1.0 does not necessarily mean the company is adequately liquid; as a high ratio could be because the company has too much inventory. Hence, a good target ration to assure intelligent asset management might be 1.8 to 2.2.

Return on Capital Employed (ROCE)

ROCE measures a company's profitability and the efficiency with which its capital is employed. It is especially useful when comparing the performance of companies in capital-intensive sectors such as utilities and telecoms, this is because ROCE considers debt and other liabilities as well. Thus, providing a better indication of financial performance for companies with significant debt. In general, a stable and rising ROCE is highly preferable in companies to investors.

Hence,

$$ROCE (\%) = \frac{\text{Earnings Before Interest and Tax (EBIT)}}{\text{Capital Employed}} \times 100$$

Generally, the selection of financial measure of performance highly depends on the nature of the organization (i.e. nature of operation), organization policies, objectives and organization structure

2.10 Budget categorization according to TANESCO corporate budget manual

Basically, there is different categorization of budgets prepared by different companies or business. Horngren et al. (2002) revealed, the focus of any company is preparation of a master budget: which is the central planning tool that management team uses to direct the activities of a company as well as evaluating the performance of its responsibility centres, master budget includes: operating, capital and financial budget.

As stipulated in TANESCO budget manual, the company normally prepares four kinds of budget; capital budget, revenue and expenditure budget, salaries and incentive budget, and cash flow budget.

Capital budget: this included all activities aimed at improving existing fixed assets and acquisition of new ones financed by the company and/or government and other stakeholders. Budgeting for capital assets will add value to the investment.

Revenue and expenditure budget: this budget considers all activities related to electricity billing process, revenue collection and all activities related to operation expenses (i.e. production costs, repair and maintenance).

Revenue budget: encompass budgeting for the units to be sold and sales value to be earned and other miscellaneous income budget.

Expenditure budget: the operating expenses have to be budgeted on the basis of the activity of the business units. Operating expenditure budget includes the following sub budgets; repairs and maintenance expenses, transport cost, safari expense and other expenses.

Salaries and Incentive budget: the budget covers various packages offered to employees to enhance human capital. The budget encompasses basic salaries, statutory payments, recruitment and staff welfare budget.

Cash flow budget: this budget is used to assess whether the company has sufficient cash to fulfil regular operations and/or whether too much cash is being left in unproductive capacities.

In addition the company also prepares **Generation budget:** each plant or power station shall be listed showing its capacity, current year output and percentages. The branch shall have to budget for machine output taking into account all factors affecting generation. Each generating machine will be listed showing its consumption rate, generating outputs for the current year, fuel and lubricate oil consumption.

2.11 Empirical review

Contingency-based research proposes that there is no single approach to budgeting suitable for all businesses and organisations. Instead, the suitability of a particular approach is argued to be contingent upon the characteristics of an organisation that is; its size, strategy, culture and the environment in which it operates to best link the core functions of budgeting (King et al.2010). Contingency theory is part of behavioural theory which claims that there is no best way to organize a corporation or to make decisions and that an organisational style that is effective in some situations may not be successful in others.

For many years traditional budgeting approach has been used extensively by many organisations, but with regard to being efficient, it is generally considered that traditional budgeting process is very bureaucratic. Significant concerns regarding the apparent ineffectiveness of traditional budgets include: they are seen as rigid commitment, restrict staff creativity and prevent them from responding to customers, strengthen departmental barriers while hindering flexibility and that they emphasize cost minimization rather than the maximizing of value (Hope & Fraser, 1997). In addition, traditional methods rely on past information which can have negative knock on effects. An example is the incremental budgeting tool, where previous year's budget is slightly adjusted for the new year without any analysis into areas which are over/under performing.

An alternative option for incremental budgeting is Better Budgeting. Better budgeting entails five techniques that can be used to overcome some of the limitations of traditional methods (Neely et al. 2003).

Activity based budgeting involves planning using value adding activities, following a similar concept to ABC and ABM. In supporting this view Hansen et al. (2006) resources and capital allocation decisions are consistent with ABM analysis, which involves structuring organisation activities so that they better meet customers and external need.

Zero base budgeting forces managers to justify their budgets every year to try and prevent dysfunctional behaviour and budget games. Furthermore Hansen et al. (2006) this approach requires extensive and in-depth analysis. Although ZBB has been used successfully in industries and government, it is time consuming and costly. Thirdly, a Value based technique encourages a focus on creating shareholder wealth and linkages with strategy. Profit methods consider both short and long-term projections whilst ensuring sufficient cash is generated.

Finally, Rolling budgets create frequent budgets to provide more accurate forecasts. Thus, every month or quarter a separate budget is prepared, which means that the budget tends to be more realistic and a legitimate measure for evaluating performance (Garrison et al, 2003). A major problem with better budgeting techniques is that they can actually take more management time to be used effectively, which is likely to cause greater dissatisfaction with the processes.

Turyakina (2004) pointed that, budgets play a highly important role in performance evaluation. Attaining corporate objectives is per amount to success. Performance of any organization is often evaluated by measuring success in meeting the budget objectives. When budget is successfully implemented and executed will enable realization of company objectives and once this has been done the organization is said to have achieved at performance level. Thus, efficient budget management is important for smooth performance of any organization.

In a study, Douglas (1994) used a case study approach and found that budgeting places high importance on budget-actual- comparison for performance evaluation purpose; both at corporate and subordinate levels. Moreover, there are other factors that influence motivation to perform; participation in the whole budgeting process that is involvement of all employees, from subordinate to corporate level in preparation of budget. Budgeting and budgetary control mainly forms and give an

organization the structural support to achieve its goals and objectives and maximizing performance through effective resource allocation.

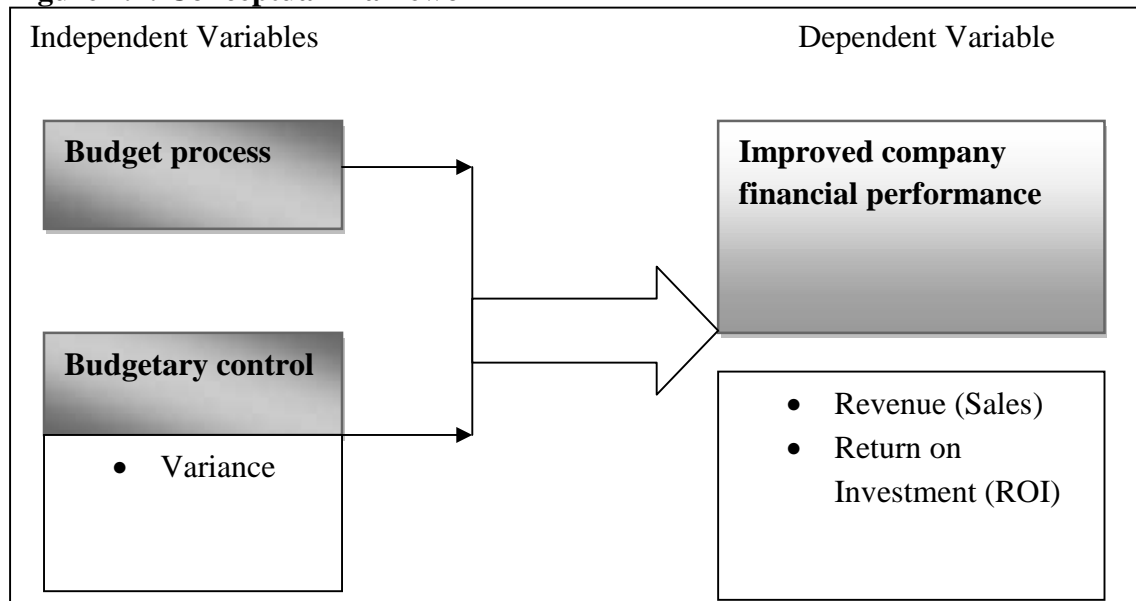
A study by Joye and Blayney (1990) found that budget variances were used by 93% of respondents for setting goals and evaluating performance by Australian firms. Guilding et al. (2000) found that accountants in New Zealand and United Kingdom tend to see variances from budget as being important and performance appraisal was based mainly on budget achievement.

According to Joshi et al. (2003), examines budgetary planning, control and performance evaluation in developing countries. A questionnaire survey of 54 medium and large sized firms including both listed and non-listed firms was conducted. His findings revealed that most of the firms prepare long-range plans and operating budgets, and use budget variance to measure performance for timely recognition of problems and to improve the next period's budget. Moreover, findings showed that the main purposes of budgeting in most companies are to: forecast, assist in profit maximization and control performance by investigating variances. Poor cooperation and ineffective planning are the main reasons for not achieving the required standard targets.

2.12 Conceptual framework

The conceptual framework for the study is based on the factor enhancing financial performance of an organisation within the context of budgeting. To enhance organisation financial performance the study will basically three variables to show their relationship in the model. Variables used will be budget process, budget control and organisation financial performance.

Figure 1.2: Conceptual Framework



Source: Researcher (2014)

The framework shows that the budget process and budgetary control has significant role in enhancing organization financial performance. Organization financial performance which is the independent variable varies according to other independent variables which are budget process and budgetary control.

Then budgetary control is expressed in terms of variance as the main control technique and financial performance will be measured in terms of revenue (sales).

2.13 Summary

This chapter has demonstrated deep understanding on related literatures concerning the research topic under study and most of the literature revealed that, budgeting and budgetary control is the cornerstone through which most of organisation's use in allocation of resources, motivation tool, performance measurement tool and decision making.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the procedures that were used in the research, including research area and design, population and sampling techniques, methods of data collection and data analysis techniques.

3.2 Research design

This is the procedure that guides the investigator in the process of data collection, analysing and interpretation of data. It provides a systematic plan of procedures for the researcher to follow; a research design is the arrangement of conditions in collecting and analysing of data in a manner that aims to combine reliance to the research purpose with economy in procedure (Kothari, 2006). Therefore, this study utilized a case study design method.

Yin (1984) defines a case study research method “as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used.”

In other words, a case study is a unique way of observing any natural phenomenon which exists in a set of data. By unique it is meant that only a very small geographical area is examined in detail. For the purpose of this study; this design was used because it enabled the researcher to conduct in depth analysis of the study unit (TANESCO-Head Office) and it allowed the use of multiple data collection techniques.

3.3 Research Area

The research study was conducted at TANESCO-Head Office Ubungu Terminal located in Dar es Salaam Region. The location was chosen because it enabled the researcher to easily reach the target population thus reducing costs such as transport.

3.4 Population

The population of the study comprised of 200 employees who are working with the company at TANESCO-Head Office. Departments focused were accounting and finance departments and other sections including human resource, planning, project, distribution, generation, transmission and procurement department.

3.5 Sample size and Sampling Technique

The sample size comprised of representative sample of 80 respondents which were obtained from the following departments as presented in the table below:

Table 3.1: Sample size

Respondent	Number of respondents	Percentage (%)
Accounting and Finance department	20	25.00
Planning department	10	12.50
Distribution department	10	12.50
Transmission department	10	12.50
Generation department	10	12.50
Procurement department	5	6.25
Project department	8	10.00
Human resource department	7	8.75
Total	80	100.00

Source: Field Data, 2014

3.5.1 Sampling Techniques

The researcher used purposive and simple random sampling techniques.

Simple random sampling was used to select respondents from the population whom questionnaires were administered since it was not possible to study the whole population. Simple random sampling was considered adequate because chances of selection were equal at any stage in the sampling process.

The researcher used this method to select number of departments that were included in the study since all departments of TANESCO-Head Office had equal chance to be selected as representative.

Purposive sampling was used when subjects were selected because of their characteristics they possessed. This included their characteristics of being in the company to provide the needed data for analysis.

3.6 Data Collection Methods

For the researcher to obtain in-depth information, various methods of data collection were used, they included;

3.6.1 Primary data

Primary data refers to type of data in which the researcher collects data directly from the field. It is also referred to as first hand data obtained from the field; it is usually collected through various methods as observation, questionnaires and experiment. The following include primary methods of data collection that were used:

Questionnaires

According to Leedy (1984), questionnaires are appropriate instruments widely utilized by researchers to obtain facts about current conditions, practices and also to make inquiries concerning attitudes and opinions. Furthermore, they were used due to their ability to collect as much information as possible within a short time which helped the researcher to save time. Thus, the researcher used close-ended and open-ended questionnaires that were administered to the respondents.

Questionnaires were used to address the specific objectives specifically, the budget process, clarification on trend of budget performance and budget contribution towards financial performance of TANESCO.

Interview

This is a two systematic communication or face to face communication between the researcher and the respondent intended to obtain information relevant to this research study. This enabled the researcher to get in-depth information from the respondents and it increased flexibility in data collection. Interview method was used to obtain in-depth information concerning the budget process of TANESCO and contribution of budget towards the company financial performance, the researcher interviewed head of budget unit and chief accountant at TANESCO Head office.

3.6.2 Secondary data

These include data that have been already collected and readily available from other sources. It covers all published or second-hand information such as books, journals, statistics, financial reports and the like. These kinds of data are cheaper and quickly obtainable than primary data.

To supplement primary data, company financial reports (2006 to 2013), corporate budget reports (2006 to 2012) and policy documents were used for the purpose of obtaining information about the objective relating to the trend of TANESCO budget performance.

3.7 Data Analysis

After data collection, data analysis intended to derive descriptive statistics by classifying, organizing and summarizing the data into tables and graphs as deemed appropriate. In addition narration was used to summarize the important points obtained through documentary review. Data analysis assisted with the use of Microsoft Excel for analysis basing on descriptive analysis. Data were systematically presented according to theme following the chronology of research objectives that enabled easy interpretation of the findings.

CHAPTER FOUR
PRESENTATION AND ANALYSIS OF THE FINDINGS

4.1 Introduction

This chapter starts with presentation and analysis and of the background information about the respondents, and thereafter it presents and analyze data basing on the specific objectives of the study which were to identify the budgeting process of TANESCO, to assess the trend of budget performance of TANESCO from the year 2006-2012, and to determine the contribution of budget in the financial performance of the company.

4.2 Background information of the Respondents

4.2.1 Respondents' Departments

This section of the study aimed at establishing the number of respondents departments. The study distributed 80(100%) questionnaires to the study respondent. Therefore, the analysis was done using 72(82%) questionnaires returned and completely filled. The data in table 4.1 below shows the summary of results:

Table 4.1 Number of respondents

Department	Frequency	Percentage
Accounting & Finance	19	26
Procurement Management	9	13
Human resource	8	11
Generation	8	11
Transmission	10	14
Distribution	5	7
Marketing & Customer service	7	10
Planning	6	8
Project	0	0
Total	72	100

Source: Field data, 2014

The summary in the table shows that; out of 80 questionnaires distributed, only 72(82%) respondents responded whereas 8(18%) did not respond. This response was enough to enable effective presentation and analysis of the collected data and provide conclusion.

4.2.2 Respondents categorized by gender

Gender of the respondent's analysis is presented on table 4.2 below. The results show that 75% of respondents were male while 25% of respondents were female. From this study it was concluded that the number of male was high compared to the number of female participated in the study and budgeting activities as whole. This can be attributed by cultural issues that women are not supposed to be educated, early pregnancy as well as early marriages are among the factors which lead to this situation. This concur with Leenders and Flynn (2006) that women who are not educated do not have the skills and knowledge's to obtain the higher wage earning jobs.

Table 4.2: Gender distribution of the respondents

Gender	No. of respondents	Percentage (%)
Male	54	75
Female	18	25
Total	72	100

Source: Field Data, 2014

Table 4.2 above shows that the respondents participated under this research study and those involved in budgeting and budgetary control, the number of male exceeds the number of female. This affects equality of participation in decision making and effective implementation of the budget.

4.2.3 Age of Respondents

The study revealed that the study respondents are in different age categories. This is as indicated in table 4.3 below

Table 4.3: Respondents by age

Age group	Responses	
	Number of respondents	Percentage (%) of the total
20 – 25	06	08
26 – 35	37	51
36 – 45	20	28
Above 45	9	13
Total	72	100

Source: Field Data, 2014

Table 4.3 above presents the age of the respondents, from the table above the results show that 08% of the respondents were below 25 years old, 51% were between 26 - 35 years old, 28% were between 36 to 45 years and 13% were above 45 years old. This shows that majority of respondents are within the age group of 26 to 35 years (51%). This situation shows that the majority of the respondents are young and energetic to supply their mental and physical efforts to the organization. This is supported by the study done by Migino (1998) who observed that active aging reflects the desire and ability of many to remain engaged in economically and socially productive activities while the risks of chronic illness and disability increase or goes with age, means that it have direct relationship.

4.2.4 Education level of Respondents

The study showed that a total of 18 respondents equivalent to 25% of respondents had below certificate level of education, 12 (17%) of the total respondents had a certificate level of education, 15 (21%) of the total respondents had diploma, 31% of respondents had degree qualification and 07% had above degree (Post graduate and Masters) qualification. This shows that the respondents are quite high to perform relies but also to respond effectively to the questionnaires provided. This support the study done by Sitthy (2001) who said that education level of an employee determines ;2his/her ability in day to day activities.

Table 4.4: Education level of respondents

Level of education	Number of respondents	Percentage (%)
Secondary	8	11
Advanced	10	14
Certificate education	12	17
Diploma education	15	21
Bachelor degree	22	31
Postgraduate/Masters degree	5	7
Total	72	100

Source: Research Findings, 2014

The table 4.4 above indicated that there is a good number of respondents with college education and therefore able to enable TANESCO to perform budgeting and budgetary control in more efficient manner. However; existence of the respondents with low level of education affects the ability of an institution to achieve effective budgetary control.

4.2.5 Working experience with the institution

The study intended to determine from the respondents the number of working years among the respondents involved in the implementation of the budget. The results are as presented in table 4.5 below.

Table 4.5: Years of working experience with TANESCO

Years of Working	Number	Percentage (%)
0-1 year	4	6
2-5 years	35	49
6-10 years	18	25
Above 10 years	15	21
Total	72	100

Source: Field Data, 2014

The data in table 4.5 above shows that 6% had worked for less than a year, 49% had worked for 2-5 years, 25% of the total respondents had worked for 6-10 years, while 21% of the respondents had worked for more than ten years. This implied that

majority of the respondents had worked for more than one year with the organization and therefore had extensive experience with the organization and helped to reveal various aspects on implementation of the budget. Again this is supported study done by Flynn (2006) who noted that most of the respondents experienced in their jobs, effectively perform their jobs.

4.3 Budget process at TANESCO

The study intended to determine the departments involved in annual budgeting process at TANESCO and their extent of involvement. All departments are involved annual budgeting process but the extent of involvement differs from one department to another. The data in table 4.6 below shows that finance and accounting departments are highly involved in budgeting as compared to other departments, this was measured in terms of how the questionnaires were returned from each department :-

Table 4.6: Involvement of departments in budgeting process

Department	Extent of involvement	Rank
Accounting & Finance	28%	1 st
Procurement Management	10%	4 th
Human resource	02%	8 th
Generation	08%	6 th
Transmission	13%	3 rd
Distribution	09%	5 th
Marketing & Customer service	05%	7 th
Planning	17%	2 nd
Project	08%	6 th

Source: Field Data, 2014

The summary in table 4.6 above shows that accounting and finance departments are highly involved in budgeting process followed by Planning department then transmission department and the like. The researcher went further finding out the reasons for such involvement and it was revealed out that, high or low involvement of the department in the budgeting process depends on its inputs in the whole process.

Furthermore; the responses indicated that budgeting process starts from the user department where the real requirements are identified. As indicated in the table 4.7 below:

Table 4.7: Budget process initiation

Where it starts	No. of respondents	Percentage (%)
User department	67	93
Top management	5	7
Total	72	100

Source: Field Data, 2014

Data in table 4.7 above shows that 67(93%) of the total respondents said that the budgeting process starts at the user department in any organization specifically TANESCO and only 05 (07%) of the total respondents said that the process starts from top management. Based on majority responses it indicated that the budgeting process starts from the user department i.e. the department in need of the materials.

In addition, the study intended to identify the procedures involved in budgeting at TANESCO. It was revealed that, the company goes through five procedures: identification of goals, creating spending categories, preparation of estimate budget, approval of budget and monitoring and feedback as shown in the tables below:

Table 4.8 Identification of goals

Response	No. of respondents	Percentage (%)
Yes	30	41.7
No	42	58.3
Total	72	100.0

Source: Field Data, 2014

This is the first step in budget process, the summary in table 4.8 above depicts that 58% of the respondents revealed in spite being the first step in budgeting still there is a problem in identification of company goals or planning in budgeting process this is highly contributed by shortage of funds and political influence.

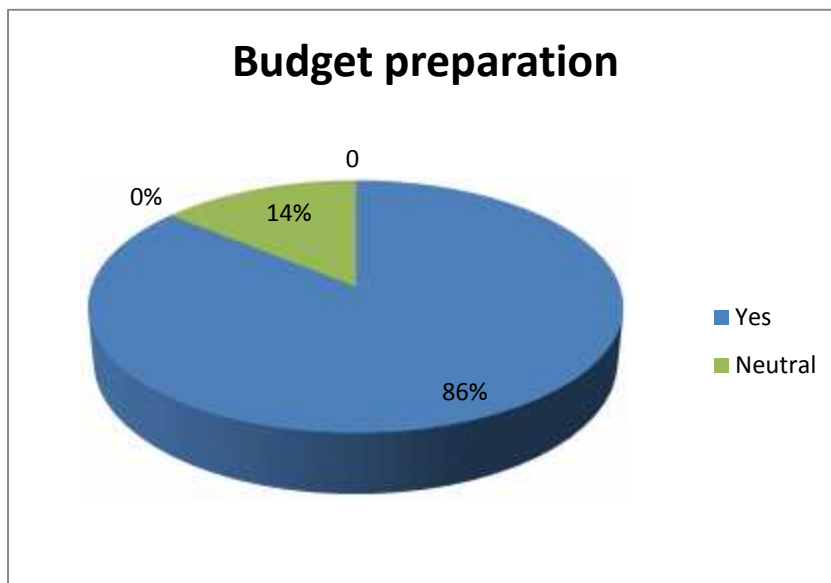
Table 4.9: Categories of spending at TANESCO

Category	Financial years						
	2006	2007	2008	2009	2010	2011	2012
	TSHS'M	TSHS'M	TSHS'M	TSHS'M	TSHS'M	TSHS'M	TSHS'M
Capital development	28	34	33	45	36	47	32
Non-capital expenditure	40	41	34	36	39	31	45
Miscellaneous	32	25	33	29	25	22	23

Source: Field Data, 2014

The summary in the table 4.9 above indicates that TANESCO is identifying its requirement categories from one financial year to another, ranging from capital development to miscellaneous category. Each department, zones and regions of TANESCO are required to estimate their spending in the respective categories.

Figure 4.1: Preparation of departmental budget



Source: Field Data, 2014

The summary in figure 4.1 above shows that many respondents agreed that they are involved in preparing the budget for their departments. This is in line with the findings of Drury (2001) that any control process which does not recognize human nature and its requirements may be counterproductive.

Table 4.10: Delay in approving the budget

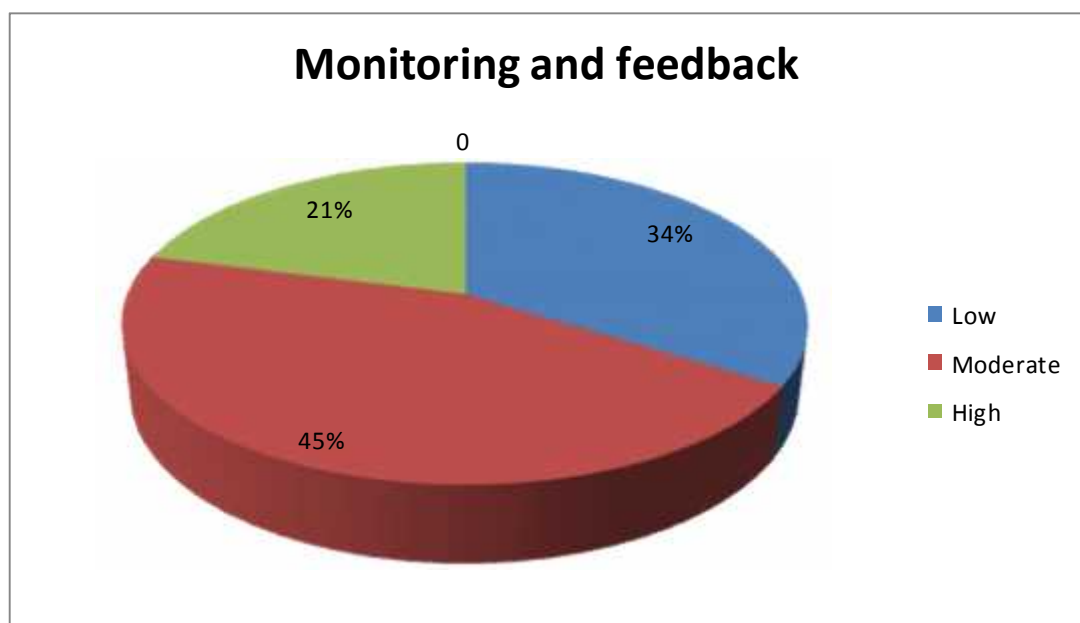
Year	Estimated date	Actual date	Delay (in days)
2006	2.7.2006	12.7.2006	10
2007	10.7.2007	23.7.2007	13
2008	11.7.2008	17.7.2008	06
2009	20.7.2009	28.7.2009	08
2010	13.7.2010	19.7.2010	04
2011	20.7.2011	31.7.2011	11
2012	11.5.2012	27.5.2012	16

Source: Field Data, 2014

The summary in table 4.10 indicates that in each financial year there is delay in the approval of the budget. This situation affects TANESCO in trying to implement its budget due to the fact that the budget cannot be implemented without getting approval of the board of directors.

The findings revealed that monitoring and feedback is last step in budget process at TANESCO. The study also intended to determine whether monitoring process is done effectively or not and the findings are summarized in figure 4.2 below:-

Figure 4.2: The extent of monitoring and feedback



Source: Field Data, 2014

The summary in figure 4.2 above shows that many respondents about 45% agreed that monitoring and providing feedback to the appropriate authorities is moderate, while 34% of the total respondents said that it is low and only 21% of the total respondents said that it is high.

4.4 Trend of Budget Performance at TANESCO

Data relating to the trend of budget performance was highly obtained from TANESCO budget reports and some based on the opinions' from the respondents since some of the company reports were highly confidential.

Table 4.11: Response on how the company evaluates budget performance

Response	No. of respondents	Percentage (%)
Do not calculate variance between actual and budgeted performance.	7	10
Do not calculate variance but compare actual performance and budgeted performance and attempt to achieve budget target	26	36
Regularly calculate variance in respect of various operational aspects and take suitable remedial action	39	54
None of the above. Please explain your Company's approach	Nil	Nil
Total	72	100

Source: Field Data, 2014

The summary in table 4.11 above shows that about 39(54%) of the total respondents said that TANESCO regularly calculate variance in respect of various operational aspects and take suitable remedial action, 26(36%) of the total respondents said that do not calculate variance but compare actual performance and budgeted performance and attempt to achieve budget target and only 7(10%) of the total respondents revealed that variance between actual and budgeted is not calculated.

The study revealed different responses from respondents' opinions on the comparison of the current sales and previous years. The response on this aspect is as given in table 4.12 below:-

Table 4.12: Current sales compared to previous year's sales

	Frequency	Percentage
Increased	52	72
Decreased	9	13
Remained constant	11	15
Total	72	100

Source: Field Data, 2014

Data in table 4.12 above shows that 52(72%) of the total respondents revealed that the current sales are increasing as compared to the previous years, 11(15%) of the total respondents reported that current sales remained constant over the whole period and 9(13%) of the total respondents reported that that the current sales are reducing due to changes in the economic conditions

In addition, the study revealed different respondents opinions on the comparison of the current expenditures and previous years. The response on this aspect is as given in table 4.13 below:-

Table 4.13: Current expenditures compared to previous years

	Frequency	Percentage
Increased	63	88
Decreased	9	13
Remained constant	0	0
Total	72	100

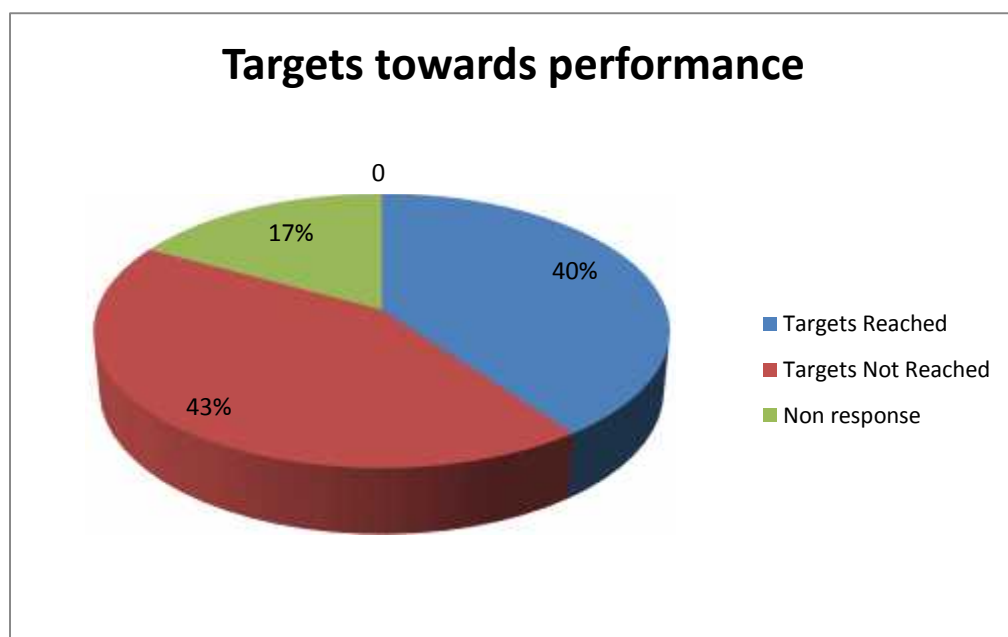
Source: Field Data, 2014

Data in table 4.13 above revealed that 63(88%) of the total respondents indicated that current expenditures have increased as compared to the previous years' this is due to

increase in company project expansion and operations and 9(13%) of the total respondents reported that expenditures to be decreasing.

The study also intended to determine whether TANESCO sales and expenditures are according to the budget/targets. The response on this is as shown in figure 4.3 below:-

Figure 4.3: TANESCO sales and expenditures according to the budget/targets



Source: Field Data, 2014

Data presented in figure 4.3 above shows that 43% of the total respondents reported that the targets are not reached; this is due to high cost to purchase fuel to run independent power producers thus a way forward is relying on Government through Treasury and Ministry of Energy support by donating funds to offset the deficit and shortage of funds to run company operations meanwhile 40% of the total respondents reported that organisation sales and expenditures are according to the targets set by the company.

Moreover, the study intended to depict Budget performance for the financial year ended 31.12.2006 to 2012 at Tanzania Electric Supply Company Limited (TANESCO) as shown in the table 4.14 below

Table 4.14 Sales, Budgeted and Actual Performance of TANESCO T.SHS'M

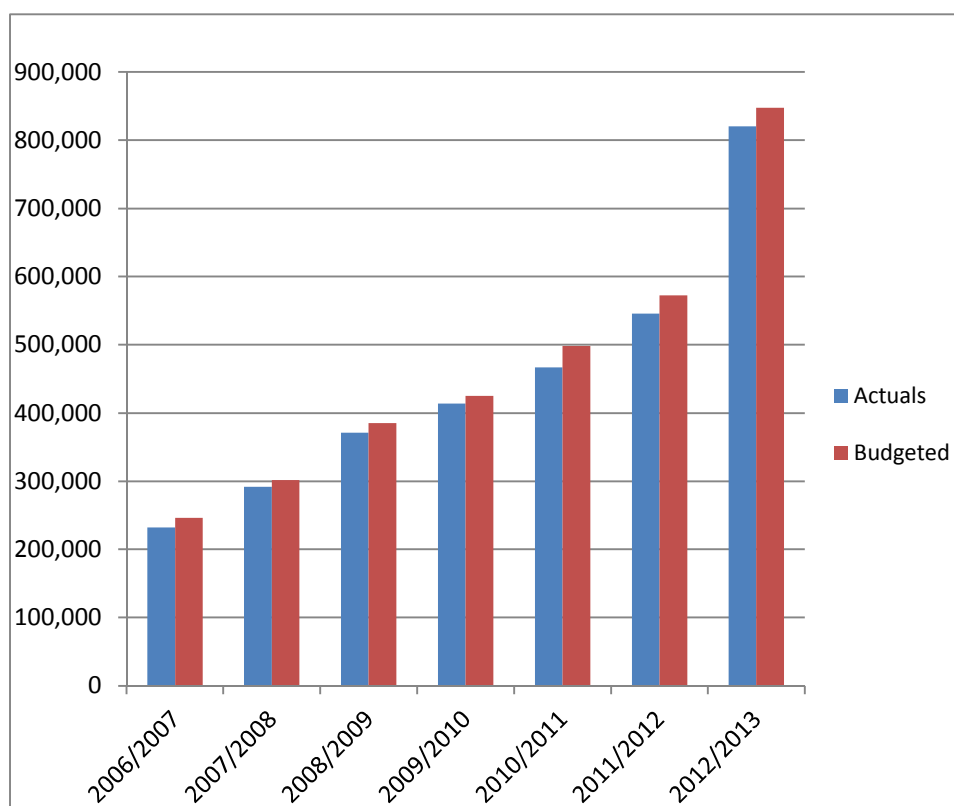
Financial Years	Actual Income TSHS'M	Budgeted Income TSHS'M	Variance
2006/2007	232,146	246,200	-6%
2007/2008	292,006	301,630	-3%
2008/2009	371,257	385,200	-4%
2009/2010	413,501	424,900	-3%
2010/2011	466,477	498,230	-6%
2011/2012	545,658	572,450	-5%
2012/2013	820,436	847,290	-3%

Source: Budgets and Final Accounts Reports for TANESCO, Financial year 2006-2012

In the above table 4.14, it shows that there is a steady variation between projected income and actual income attained this portrays a positive trend as income was increasing from one financial year to the next. There is a greater variation between budgeted and actual income from the years 2006/2007 to 2012/2013 were a huge variation is depicted in financial years 2006/2007 and 2010/2011. Hence, higher variation shows a negative trend in TANESCO budget performance due to failure to achieve budgeted income.

Figure 4.4; a bar graph showing budgeted and actuals of revenue/sales for the years 2006 to 2012.

Figure 4.4: Actual Vs. budget sales performance from 2006 to 2012



Documents and records at TANESCO show that, budgeted revenues are higher than actual revenues resulting in revenue deficit and the company was not able to achieve revenue target for 2006 to 2012. Moreover, considering a distinct financial year the trend of revenue was increasing from one period to the next.

Table 4.15: Showing budget and actual expenditure for the years 2006 to 2012 in TSHS'M

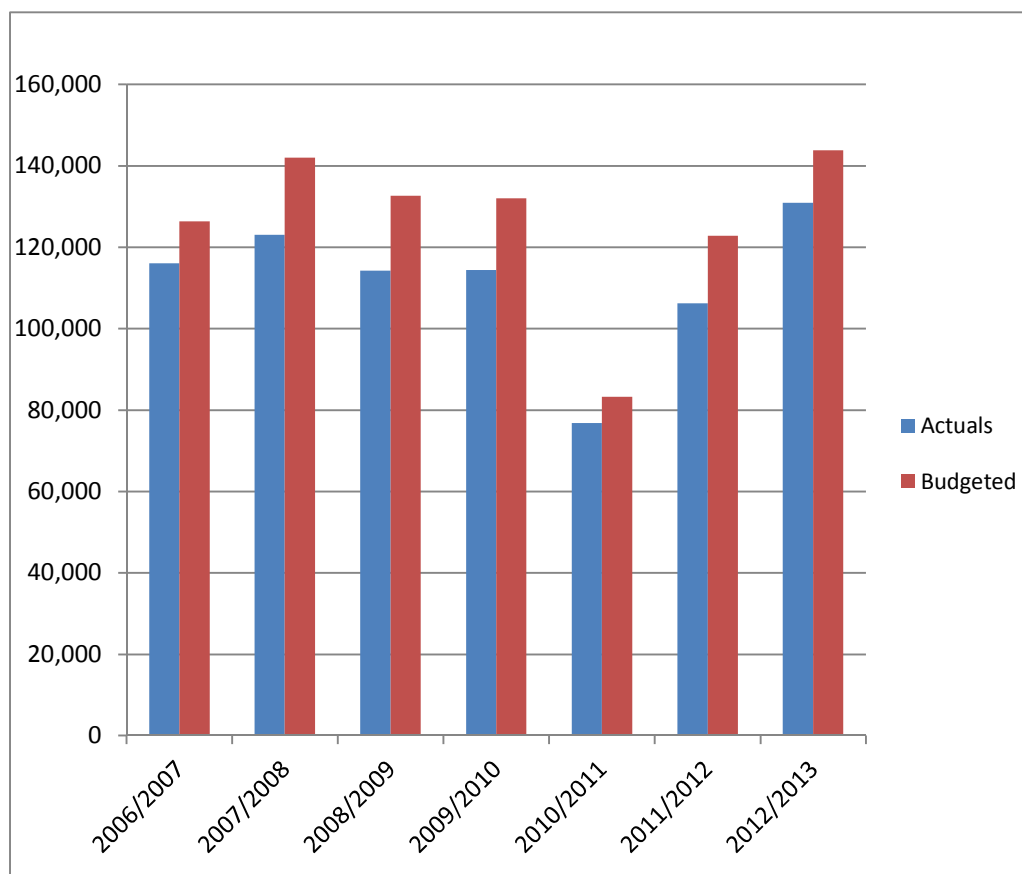
Financial Years	Actual Expenditure TSHS'M	Budgeted Expenditure TSHS'M	Variance
2006/2007	116,082	126,400	8%
2007/2008	123,080	142,070	13%
2008/2009	114,199	132,700	14%
2009/2010	114,396	132,000	13%
2010/2011	76,851	83,290	8%
2011/2012	106,227	122,800	13%
2012/2013	130,956	143,860	9%

Source: Budgets and Final Accounts Reports for TANESCO, Financial year 2006-2012

In the above table 4.15, portrays that TANESCO was able to operate within budgeted expenditure evidenced by reduction in actual expenditures in each financial year. In 2010/2011 there was a drastic reduction in actual expenditures from financial year 2009/2010.

Figure 4.5 a bar graph showing budgeted and actuals expenditures for the years 2006 to 2012.

Figure 4.5: Actual Vs. budget expenditure performance from 2006 to 2012



Source: Field data, 2014

Secondary data at TANESCO show that, the budget for expenditure is always higher than actual expenditure. The percentage of variance of actual against budgeted expenditure was 8%, 13%, 14%, 13%, 8%, 13% and 9% for years 2006 to 2012 respectively. This reveals that TANESCO expenditures are over estimated in budgeting process. 90% of the respondents related to budgets revealed that these are

due to the following: poor forecasting abilities and poor data base for planning and budgeting.

4.5 Contribution of budget in the Financial Performance

For the following key performance indicators respondents were required to rate the company performance in terms of financial indicators as compared to its targets.

Table 4.16 Rate of budget performance

	Much Better Off	Some How Better Off	About the same	Some How Worse Off	Much Worse Off
1.Revenue (Sales) growth	14	31	19	05	03
2.Return on Investment (ROI)	22	18	29	03	-

Source: Field Data, 2014

The data in table 4.16 above shows different responses from respondents on the revenue growth and Return on Investment (ROI). 31 of the total respondents revealed that revenue growth is somehow better off, 19 of the total respondents said that revenue growth is about the same, 14 of the total respondents said that revenue is much better off, 5 of the total respondents said that revenue growth is somehow worse off, and 3 of the total respondents said that revenue growth is much worse off. On the other hand 29 respondents revealed ROI was about the same. Generally, it was revealed that budget contribute highly towards revenue to about 43% than ROI.

Respondents were required to assign a percentage value to the following key financial performance indicators based on your Company's actual performance against budgeted performance in the last budget periods.

Table 4.17: Value of the measurements

	>100%	100%- 75%	75%-50%	50%-25%	25%-0%	<0%
1.Revenue (Sales) growth	8	19	28	11	6	0
2.Return on Investment (ROI)	1	33	20	12	5	1

Source: Field Data, 2014

The data in table 4.17 above shows that ROI has a higher percentage value compared to revenue. This means the company performance in terms of ROI is higher.

For the following key performance indicators respondents were required to rate the company performance in terms of its internal operation.

Table 4.18: Rate on internal operation

	Much Better Off	Somehow Better Off	About the same	Somehow Worse Off	Much Worse Off
1.Units generated	29	21	10	9	3
2.Cost effectiveness	8	20	12	27	5

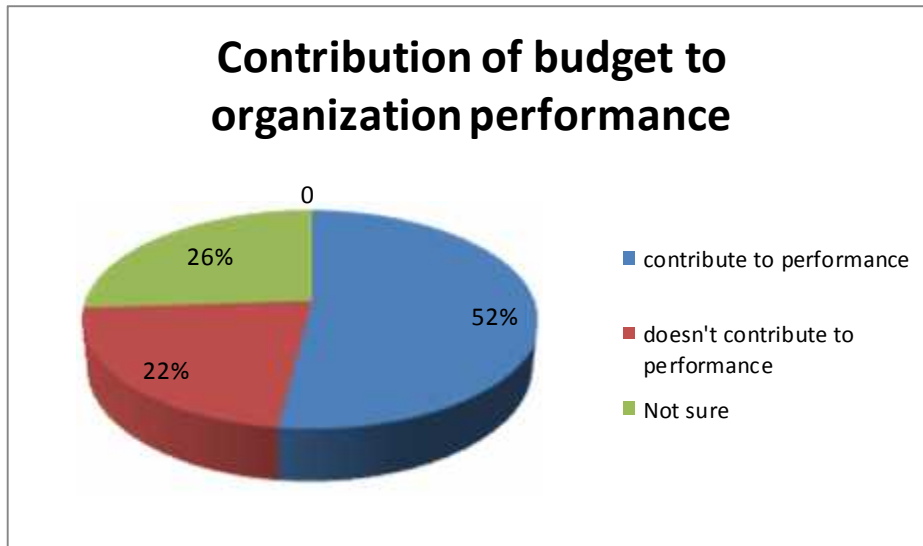
Source: Field Data, 2014

The data in table 4.18 above shows different responses from respondents on the units generated and cost effectiveness. 29 of the total respondents reported that units generated were much better off, it portrays a positive perception on internal performance of the company and 27 of the respondents reported that cost effectiveness was somehow worse off.

Contribution of budget to TANESCO financial performance

The study revealed that the budget contribute effectively to financial performance of the organization. As it is through budget the company is able to direct and control its operational affairs to achieve its strategic objectives. This situation is as revealed in figure 4.6 below:

Figure 4.6: Contribution of budget in financial performance



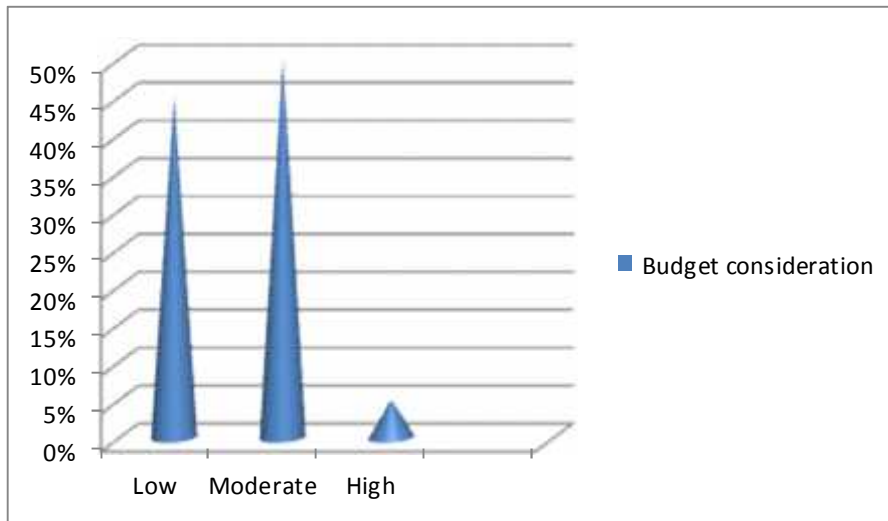
Source: Field Data, 2014.

Data in figure 4.6 above shows that 52% of the total respondents said that budget contribute to organization financial performance, only 22% of the total respondents responded that it does not contribute to financial performance and 26% of the total respondents said that they were not sure of whether the budget contributes to organization performance or not.

A guide of decision making

The study indicated that the budget is used as a guide to managers and supervisors in making decisions.

Figure 4.7 Consideration of a budget in making decisions



Source: Field Data, 2014

Data in figure 4.7 above shows that 50% of the total respondents revealed that the extent of budget consideration is moderate, 45% of the total respondents said that managers and supervisors are lowly considering a budget when making different decisions, and only 5% of the total respondents said that the budget is highly considered in making decisions of the organizations. This means that, budget is not the only tool used in making company decisions since it is moderately considered in decision making.

A tool for communicating expected outcome

The study revealed that the budget is used as a tool in communicating the expected results to the stakeholders of TANESCO. However; the researcher went further finding out whether the budget after being prepared and approved by appropriate authorities is communicated on time to the stakeholders. The findings with regard to this aspect are as indicated in table 4.19 below:-

Table 4.19: On time communication of budget contents

Response	No. of respondents	Percentage (%)
Yes	24	33
No	43	60
Neutral	5	07
Total	72	100.0

Source: Field Data, 2014

Based on respondents opinions the results in table 4.19 means that, there is a problem in timely communication of budget results or outcome to TANESCO stakeholders; as staffs are not informed on time as a result this may affect immediate budget actions not to be implemented by the company.

Identification of budget constraints

The study revealed that TANESCO is using its budget to identify the constraints that affect the financial performance in general. This is revealed from the data in table 4.20 below:-

Table 4.20 Use of the budget in identifying constraints of performance

Response	No. of respondents	Percentage (%)
Yes	33	45.8
No	30	41.7
Neutral	9	12.5
Total	72	100.0

Source: Field Data, 2014

Data in table 4.20 means that there is greater use of budgets as the way of identifying budget constraints through comparing of actual outcome against budgeted by TANESCO to depict any discrepancy.

Yardstick for measuring business performance

The table 4.21 below shows the targeted and actual level of performance for different financial years:-

Table 4.21: Measuring business performance

Financial year	Targeted level of performance (%)	Actual level of performance (%)	Variance (%)
2006	89	78	11
2007	97	80	17
2008	95	85	10
2009	96	80	16
2010	90	79	11
2011	93	80	13
2012	89	80	09

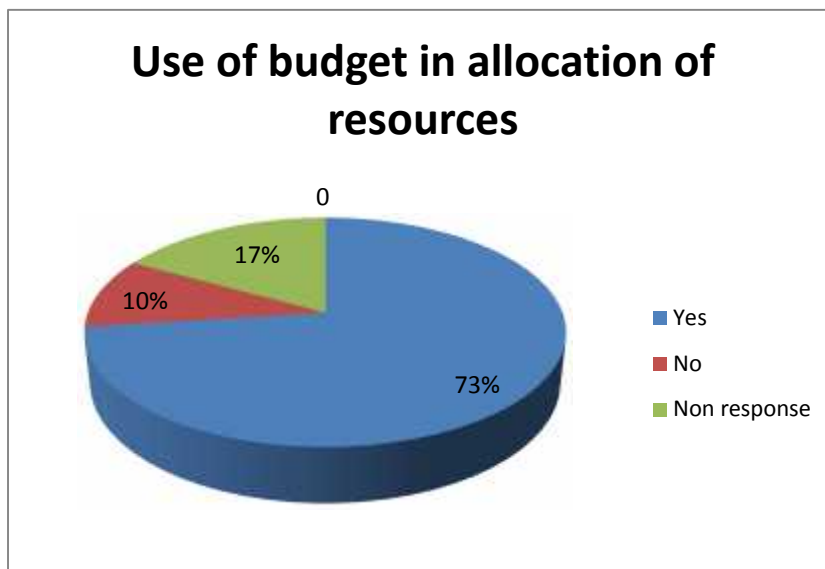
Source: Field Data, 2014

Data in the above table 4.21 means that, the company make use of budgets in measuring its business performance in such a way the company can be in a position to determine its performance level in each year through comparing actual against budgeted.

Proper allocation of resources

The study revealed that the budget is used as a means of allocating the resources of the organization. Data in figure 4.8 below indicate the responses on use of budget in allocation of resources:-

Figure 4.8 Use of budget in proper allocation of resources



Source: Field Data, 2014

Data in the above figure 4.8 means that to ensure effective use of scarce resources TANESCO use budget to allocate the finite resources to each department within the company in order to ensure maximum usage of available resources.

CHAPTER FIVE

DISCUSSIONS OF THE FINDINGS

5.1 Introduction

This chapter present discussion of the findings based on the specific objectives which were to identify the budgeting process, to examine the trend of budget performance for the year 2006 to 2012 and to determine the contribution of budget to company financial performance. Thus, the chapter is divided into three parts based on the aforesaid specific objectives.

5.2 The budgeting process at TANESCO

5.2.1 Identification of financial goals

In order to effectively carry out budgeting; the first step is identification of the financial goals that need to be achieved. The study indicated that the first step in the budgeting process at TANESCO identification of the goals that need to be achieved in the given financial year. The following findings were obtained from the respondents with regard to the identification of financial goals that 58% of the respondents revealed that there is a problem in goal identification

The study showed that the majority of the study respondents indicated that TANESCO to the large extent is not identifying its financial goals at the beginning of the budgeting process. The researcher went further interviewing those who said that the goals are identified so that they can explain what mechanisms are used in identification of those financial goals. The results shows that these goals are not identified by all staff and this cause some of the ideas that are good for sustainability of the company to be left behind. This is contrary with the views provided by Armstrong (2006) who argues that having goals is essential to tracking your progress. May be your goals include debt freedom, building savings, or giving extravagantly. Whatever they are, take the time to think about your short term and long term goals. Write them down. These are your financial motivators. This situation therefore brings a problem in controlling the budget at TANESCO.

5.2.2 Creating spending categories

The study indicated that creating spending categories is the second and most important step in the budgeting process. However; the collected data indicates various spending categories vary from one financial year to another as presented in table 4.9 ranging from capital development to non-capital expenditures. This is supported by Michel (2007) who argues that here is where you will give your dollars purpose. In addition to the obvious categories, list all larger non-monthly expenses (life insurance, birthdays, and car repairs). Think of those big things that happen that you can plan for financially (property taxes, holidays, and car insurance). Don't forget a "fun money" category or miscellaneous. You need to give yourself some breathing room. All of these enable the organization to have better control of the budget and the whole organization. This facilitates achievement of the TANESCO goals and objectives.

5.2.3 Preparation of an estimate budget for each department

After identifying the spending categories, the organization needs to go further to identify and prepare an estimate budget for each department that will form part in the budget of the whole organization. Many respondents agreed that they are involved in preparing the budget for their departments. It was clearly observed that all departments/ business units are involved in preparing their budgets which are then compiled and submitted to the budget section responsible in compiling and managing all units department to form company corporate budget. Budget section compiles the submitted reports into a corporate budget. The section will articulate the consolidated corporate budget to Head office Management team for review, scrutiny, harmonization and comments. Attention is placed on cost drivers to see their relevance. In case of any changes the budget section is informed.

5.2.4 Approval of the budget

The study findings indicated that after preparing the budget estimates from each department; the compilation of the budget is made to formulate the whole organization budget of TANESCO. After management review of the corporate budget CFO will present to the top executive management to seek approval for

presenting the budget to the Master Workers Council (MWC). MWC review the budget and provide room for discussion. Thus, the budget updates will be incorporated in the corporate budget before submitted to the BOD for approval and implementation. The corporate budget is implemented upon approval by the company BOD.

However; the findings indicated that there are a lot of challenges in compiling and approving the budget. Among of them is delay in getting approval from the board of directors. This situation affects TANESCO in trying to implement its budget due to the fact that the budget cannot be implemented without getting approval of the board of directors. Furthermore; the researcher went further interviewing the respondents why there is such a delay, the only reason obtained is lack of resources to call upon the board of directors. This is supported by Smith (2008) who argues that budgeting process has a lot of problems in controlling its budgets due to delay in getting the approval of the respective bodies.

5.2.5 Monitoring and feedback

The findings indicated that the last step in budgeting process is monitoring and feedback. The new budget utilization often commence on 1st January. Thus, business units will be responsible for monitoring their budget targets. Business units will give monthly reports explaining the efforts done to attain budget target. All variance are required to be explained detailing the reasons for such variances and remedies to curb any negative variance, positive variances should be explained to demonstrate their justification. The findings furthermore, intended to determine whether the monitoring process is done effectively or not and the findings are many respondents about 45% agreed that the monitoring and providing feedback to the appropriate authorities is moderate, while 34% of the total respondents said that it is low and only 21% of the total respondents said that it is high. This situation proves that TANESCO is facing some difficulties in reaching its budget goals due to inadequate monitoring and control, and providing feedback so that necessary steps can be taken to achieve the intended objectives of the organization.

5.3 To assess the trend of budget performance at TANESCO from the year 2006-2012

The data shows that actual sales have been increasing from one financial year to the next, this portrays a promising condition to the company in revenue collection and the increase in number of customers connected with electricity. However, the findings revealed budgeted revenues are higher than actual revenues resulting in revenue deficit. According to respondents the reasons are that: revenue was over-estimated without taking into account people ability to pay; as a result of poor performance of the company and its inability to fulfill promises to constituents, payment defaults were high during those years; supervision of revenue collection declined because of Management low motivation. Moreover, in every financial year there is occurrence of wide variance in budgeted and actual sales. The variances were 6%, 3%, 4%, 3%, 6%, 5%, 3% for the financial year 2006, 2007, 2008, 2009, 2010 and 2011 respectively. This is an indicator that TANESCO is unable to achieve its budgeted plans due to the fact that the revenue collected is relatively low. Moreover, wide variation from the year 2009-2011 was highly contributed by problem of hydrology condition which so far affected the generation of electricity. As to a large extent the generation of electricity at TANESCO highly depend on hydro power plants that is hydrology (TANESCO Corporate Budget Manual, 2011). This is supported by Smith (2008) who argues that without monitoring and ensuring proper revenue collection of the public entities and the central government, the targeted objectives of the organization cannot be achieved.

5.4 The contribution of budget in the financial performance of the company

5.4.1 A guide of decision making

The study indicated that the budget is used as a guide to managers and supervisors in making decisions. This was revealed from the interview with line managers and supervisors shows that 45% of the total respondents said that managers and supervisors are lowly considering a budget when making different decisions, 50% of the total respondents said that the extent of budget consideration is moderate and only 5% of the total respondents said that the budget is highly considered in making decisions of the organizations. Lack of high consideration of the budget limitations

among managers and supervisors is the reason for low performance in many public organizations in Tanzania including TANESCO. This situation is against the views of Jackson (2001) who argues that the budget provides clear guiding principle for managers and supervisors and is the major way in which organizational objectives are translated into specific tasks and objectives related to individual managers.

5.4.2 A tool for communicating expected outcome

The study revealed that the budget is used as a tool in communicating the expected results to the stakeholders of TANESCO that include employees, customers, government authorities and shareholders. However; the researcher went further finding out whether the budget after being prepared and approved by appropriate authorities is communicated on time to the stakeholders. The findings with regard to this aspect shows that 43(60%) of the total respondents indicated that the budget is not communicated on time to the employees and other interested stakeholders, 24(33%) of the total respondents said that the budget is communicated on time and 5(7%) of the total respondents they were neutral on this response. This situation shows that TANESCO is not communicating its budget on time to the interested parties. Large organizations consist of many people and parts similarly to TANESCO. These components need to be coordinated to work together in a cohesive fashion. The budget is the tool that communicates the expected outcome and provides a detailed script to coordinate all of the individual parts to work in performance.

5.4.3 Identification of budget constraints

Identification of the budget constraints is possible if there is budgetary control in any organization. This is due to the fact that any bottleneck that is to prevent implementation of the budget in organization. The study revealed that TANESCO is using its budget to identify the constraints that affect the performance of the company in general. This is revealed from the data shows that 33(45.8%) of the total respondents indicated that budget is used to identify bottlenecks that affect organization financial performance, 30(41.7%) of the total respondents revealed budget is not used in identifying the budget constraints and 9(12.5%) of the total

respondents they were neutral on this response. This indicates that the budget is a useful tool in identifying the budget constraints. It helps managers in identifying constraints and bottlenecks before they become major problems to the organization (Jackson & Sawyers, 2001). For instance, in electricity production efficient operation of the power plant can be limited by supply of natural gas. Thus, a well developed a budget will always consider capacity constraints this means managers can learn well in advance of threatening production and distribution bottlenecks.

5.4.4 Yardstick for measuring business performance

The study revealed that the budget is used as a yardstick in determining the performance of the organization. The findings revealed the targeted and actual level of performance for different financial years shows that for all financial years there is no any year in which TANESCO has achieved the targeted level of performance. This is the role of budget in controlling the performance of the organization. According to Borja & Lombeida, (2002); moreover, budgeting assist managers to have better understanding of their business and it provides a yardstick by which business performance can be measured. If negative deviations are discovered, it permits timely corrective action to be implemented.

5.4.5 Proper allocation of resources

The study revealed that the budget is used as a means of allocating the resources of the organization. This situation is possible due to the fact that; the organization is able to achieve the intended objectives through proper allocation of resources. This shows that 73% of the total respondents said that the budget is used in allocation of resources, 10% of the total respondents said that the budget is not used in allocation of resources, while 17% of the total respondents had no any response on that. This is supported by Zheng (2009) in most organizations it is common for managers to argue and compete for allocations of limited resources. Each business unit has employees deserving compensation adjustments, projects needing to be funded, equipment replacement and the like. This naturally creates strain within an organization, as the sum of individual resource requests will usually be greater than the available pool of funds.

Successful managers will learn to make a strong case for the resources needed to their units through a budget which enables effective allocation of resources in relation to funds available.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

6.1 Introduction

This chapter is divided into three main parts. The first part gives the second part gives the summary of the research findings and discussions, the second part gives conclusion based on the results of the findings and discussion , and the last part provides recommendations or policy implications drawn from the research study.

6.2 Summary

The study aimed at assessing budget and budgetary control in enhancing financial performance of an organization. Specifically the study focused on identifying the budgeting process of TANESCO, assessing the trend of budget performance of TANESCO from the year 2006-2013, and to determine the contribution of budget in the financial performance of the company.

The study findings indicated that budgeting process starts with identification of financial objectives and it end up with monitoring, adjustments and providing feedback for the necessary corrective measures. Also the study indicated that TANESCO is experiencing negative variance in its budget trend for each financial year and lastly the study revealed that budget and budgetary control contribute much to the effectiveness of the organization.

The study concluded that in order to enhance the financial performance of TANESCO there must be proper control and management of the organization's budget. The study therefore; recommended that in order to enhance performance budgetary control need to be done from the beginning of the budgeting process until the end of the budget implementation and formulation of the new budget.

6.3 Conclusion

The conclusion made under this research study is divided into three main parts according to the specific objectives as follows:-

6.3.1 Budgeting process at TANESCO

The study concludes that budgeting process at TANESCO starts with identification of the financial goals. In order to effectively carry out budgeting; the first step is identification of the financial goals that needs to be achieved. The study indicated that the first step in the budgeting process at TANESCO identification of the goals that need to be achieved in the given financial year. The following step is creating spending categories, then preparation of an estimate budget for each department. After identifying the spending categories, the organization needs to go further to identify and prepare an estimate budget for each department that will form part in the budget of the whole organization. Approval of the budget follows and monitoring and feed backing of the budget implementation are the last stages in the budgeting process and its control. The findings indicated that the last step in budgeting process is monitoring and feedback. However; the study concluded that the whole budgeting process is not effective due to weak internal control mechanisms in the organizations such as segregation of duties, poor communication and inadequate monitoring.

6.3.2 Assessment of the trend of budget performance at TANESCO from the year 2006-2012

The study concludes that there is variance in the actual and budgeted level of performance in each financial year. This situation affects the ability of TANESCO as whole and its regional offices not to be able to achieve the intended level of performance and therefore affecting the budget performance. Occurrence of variance results from internal and external factors affecting the company.

6.3.3. Contribution of budget in the financial performance of the company

The study concluded that the budget is used as a guide in decision making. The study indicated that the budget is used as a guide to managers and supervisors in making decisions. This was revealed from the interview with line managers and supervisors. Also as; a tool for communicating expected outcome the study revealed that the budget is used as a tool in communicating the expected results to the stakeholders of TANESCO that include employees, customers, government authorities and

shareholders. However; the researcher went further finding out whether the budget after being prepared and approved by appropriate authorities is communicated on time to the stakeholders. Identification of budget constraints-identification of the budget constraints is possible if there is budgetary control in any organization. This is due to the fact that any bottleneck that is to prevent implementation of the budget in organization. Yardstick for measuring business performance-the study revealed that the budget is used as a yardstick in determining the performance of the organization. Finally; the study concluded that if there is budgetary control in the organization it is easy to achieve the intended budget objectives.

6.4 Recommendations

In the view of the study findings and conclusion reached, the study recommends the following to TANESCO and other related companies with respect to budgetary control:-

6.4.1 Top management support

In order for Tanzania Electric Supply Company (TANESCO) and other related organizations to implement its budget and achieve the intended financial goals there must be a support of top management. The management should provide the material and non-material support to budgetary control officers. Doing so; Tanzania Electric Supply Company (TANESCO) will be in the position of implementing its budget effectively.

6.4.2 Controlling budget activities

The study recommends that in order to effectively and efficiently control activities involved in budget implementation, there should be detective and preventive controls. Detective controls may involve reconciling what is recorded in the papers such as annual financial performance reports and what is actually done, so as to reveal out any deviations, and preventive controls may involve locks and access codes. The use of these controls at TANESCO will eventually enable effective implementation of its budget.

6.4.3 Training and development

The study recommends that training should be given TANESCO staff and any other stakeholder of annual financial budget implementation this can be through attending seminars' and organizing workshops that are related to budgeting and budgetary control. Also, National Board of Accountants and Auditors (NBAA) can be involved by Tanzania Electric Supply Company (TANESCO) so that they can provide training to the stakeholders of budgeting and budgetary control.

6.4.4 Working closely with suppliers and other budget stakeholders

Developing list of trusted vendors and work with them closely – today the emphasis on the supplier base is to have optimum supplier base that will enable the organization obtain its requirements without any disruption. In order to obtain support from suppliers an optimum supplier base should be achieved and work with them closely. This situation will enable effective implementation of the budget as materials required during budget implementation can be obtained on time and at right quality and quantity.

6.4.5 Risk assessment and management

The study recommends that in order to effectively implement the budget and achieve budgetary control there must be risk assessment and control. This may cover quality, quantity and time. This can be achieved through the support from Government by ensuring on time release of the fund needed to implement various financial issues. The budget is useless if there is no sufficient fund in the organization that can enable it achieves the intended objectives.

6.5 Policy implications

Based on the study findings the study implies the following to policies related in budgeting and budgetary control:-

Improvement of the fund facilities –many types of sources of finance involved in budgetary activities is not adequate. This implies that these policies need to be changed and new policies supporting easy control of the budget. This situation will

help to improve the chance for those involved in budgetary control to have reliable sources of finance needed to implement the organization budget.

A guide in allocation of resources- based on the reach findings it is clearly indicated that the budgeting polices need to clearly identify and put clear the means that can be used in allocation of resource. This situation needs to be reversed so as to have a policy regarding allocation of resources in budgeting process.

Budget infrastructure improvement- the study findings indicated that budgetary control is hard to achieve due to inadequate economic and social infrastructure. This implies that the policy that relate to budgetary control need to be improved so as to insert the necessity for improving infrastructure related economic and social infrastructure that will enable easy implementation of the budget.

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APPENDICES

Appendix 1: QUESTIONNAIRE

Dear respondent,

This questionnaire is designed to assess on “**Budgeting and budgetary control in enhancing performance in public utility companies in Tanzania**”: A case study of Tanzania Electric Supply Company Limited (TANESCO). The questionnaire intends to collect information for academic purpose only and be regarded confidential.

In order to make this study successful, the researcher kindly requests you to fill in the questionnaires brought to you.

Please **TICK** a correct item or fill where appropriate from the list of questions provided below.

PART 1: DEMOGRAPHIC INFORMATION

1. In which department do you work in this company? (please tick)

- A. Accounting & Finance department
- B. Planning department
- C. Generation department
- D. Transmission department
- E. Procurement department
- F. Human resource department
- G. Distribution department
- H. Project department
- I. Other department (specify)

2. Gender: Male...../Female.....

3. Respondent's Age

20 to 25 years	26 to 35 years	36 to 45 years	Above 45 years

4. Education level (please tick)

- A. Ordinary level
- B. Advanced level
- C. Certificate education
- D. Diploma education

- E. Degree level
- F. Postgraduate/Masters level

5. Work experience with the company

Less than 1 year	1 to 5 years	6 to 10 years	Above 10 years

PART 2: IDENTIFY THE BUDGET PROCESS IN TANESCO

6. How many departments are involved in budget process? {Please list them}

.....

.....

.....

.....

7. Where does budget process start in your organization?

.....

.....

.....

8. Are you normally involved in preparing the budget? Tick () where appropriate answer

YES { } NO { }

If NO, who prepares the budget?

.....

.....

9. What are the steps/procedures involved in the budget process in your organisation?

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PART 3: ASSESS THE TREND OF BUDGET PERFORMANCE OF TANESCO FROM THE YEAR 2006 – 2012.

10. How does the Company evaluate its budget performance? Check () only one statement from the following which best reflects your Company:

- Do not calculate variance between actual and budgeted performance.
- Do not calculate variance but compare actual performance and budgeted performance and attempt to achieve budget target.
- Regularly calculate variance in respect of various operational aspects and take suitable remedial action.
- None of the above. Please explain your Company's approach:

11. How are your organisation current sales compared to the previous years?

Increased	Decreased	Remained Constant

Others (specify).....

12. How are your organisation current expenditures compared to the previous years?

Increased	Decreased	Remained Constant

Others (specify).....

13. Are organisation sales and expenditures according to the budgets/targets?

Targets Reached	Targets not reached	Others (specify)

If NO, what corrective action have been taken to ensure expenditures and sales are according to the budget?

.....

PART 4: DETERMINE THE CONTRIBUTION OF BUDGET IN THE FINANCIAL PERFORMANCE OF AN ORGANISATION

14. For the following key performance indicators of the Company in the past budget periods, please rate the Company's performance? For each statement, please tick () the appropriate scale.

5=much better off 4=somehow better off 3=about the same 2=somehow worse off 1=much worse off

	1	2	3	4	5	Remarks
1.Revenue(Sales) growth						
2.Return on Investment (ROI)						

15. Consider the budgeted performance as 100%. What percentage value would you assign to the following key financial performance indicators based on your Company's actual performance against budgeted performance in the last budget periods? For each statement, please tick () the appropriate scale.

	>100%	100%- 75%	75%-50%	50%-25%	25%-0%	<0%
1.Revenue (Sales) growth						
2.Return on Investment (ROI)						

16. Rate how well the Company is performing in terms of its internal operation (for example: units produced, cost effectiveness) based on your Company's actual performance against budgeted performance in the last budget periods. For each statement, please tick () the appropriate scale.

5=much better off 4=somehow better off 3=about the same 2=somehow worse off 1=much worse off

	1	2	3	4	5	Remarks
1.Units produced/ generated						
2.Cost effectiveness						

17. Do you think budgets contribute positively to the financial performance of the organisation?

Contribute to performance	Doesn't contribute to performance	Not Sure

18. What is the contribution of budget in your organization?

.....

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.....

.....

19. Are there any limitations affecting budgeting and the budgeting control in your organization? {Please list them}

.....

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.....

20. In your view, how can the above limitations are addressed to make budgets and budgetary control more significant?

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(Thank you for your co operation)