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**EFFECT OF BUDGETING PROCESS ON THE OPERATIONAL PERFORMANCE OF
FREIGHT FORWARDING FIRMS IN KENYA**

Fidelis Wambui Njomo

ADMISSION NO. 037042

**A DISSERTATION SUBMITTED TO STRATHMORE BUSINESS SCHOOL IN
PARTIAL FULFILLMENT FOR THE DEGREE OF MASTERS IN BUSINESS
ADMINISTRATION OF STRATHMORE UNIVERSITY**

VT OMNES VNVM SINT

JUNE 2023

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis

contains no material previously published or written by another person except where due reference is made in the thesis itself.

Fidelis Wambui Njomo

Fidelis

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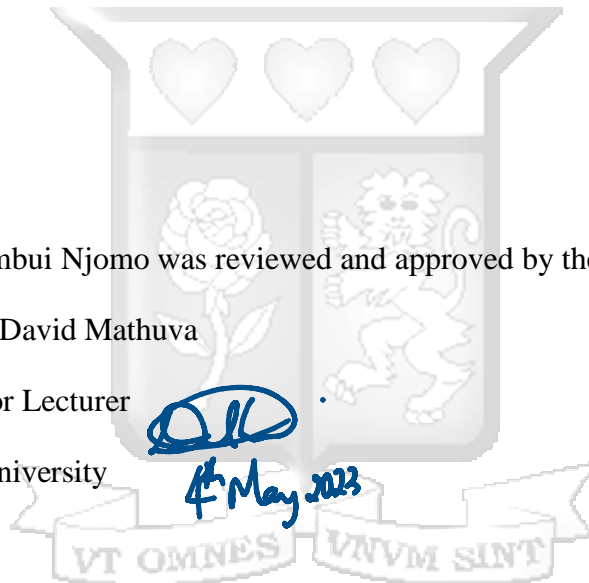
Approval

The thesis of Fidelis Wambui Njomo was reviewed and approved by the following:

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Faculty Affiliation: Senior Lecturer

Institution: Strathmore University



ABSTRACT

Freight forwarders are an integral part of international trade facilitation and their performance is key to national growth and economic development, contributing up to 7.1% of the country's GDP. However, their contribution has declining in recent years with increased competition, increasing transport costs, poor infrastructure and slow reforms in customs regulations impacting the sector's overall performance. This has resulted in dismal operational performance which necessitated this study to seek to examine the relationship between budgeting process and the operational performance of Freight Forwarding Firms in Kenya. The survey specifically analyzed the effect of budget planning and formulation, budgeting control and evaluation, participatory budgeting and firm characteristics effect on the operational performance of Freight Forwarding Firms in Kenya. The research was grounded on theory of budgeting and the stakeholder theory. A positivist research philosophy was used in this study with a descriptive research design applied in solving the research problem. The population for the study was the 1676 firms operating within Nairobi County in the FWA service provision. A sample of 399 firms was selected for inclusion in the study. Both structured and open-ended questions was utilized in the collection of research data. The research applied physical and electronic data collection techniques. Collected study data was analyzed using a mix of descriptive and inferential analysis. The findings were presented in charts and tables. Out of the sample firms the research obtained 77% responses which was considered sufficient and representative for quantitative analysis. The research overall findings led to the conclusion that budgeting process has a positive and significant relationship with the operational performance of the firms. Further, the research concluded that there was a significant moderating effect of firm characteristics on the relationship between budgeting process and operational performance. Independently, the study found out a significant effect of budget planning and formulation as well as budgetary control, monitoring and evaluation on operational performance of the firms. The study concluded there was no significant effect of participatory budgeting on the operational performance of the firms. Recommendations are that firms should adopt new standards, formulating new policies that are aligned to the firm's goals and ensuring there is an overall understanding of the budgeting process within the firm. The study recommends that the companies should leverage on the prior annual budgetary planning reports to make sensible forecasting on the capacity of the firm which is key to attainment of firm goals. The study also recommends that firms should look at setting up budgeting committee at functional levels as a way of ensuring the various departments have a harmonious participatory role in the budgeting process as this can significantly improve firm performance.

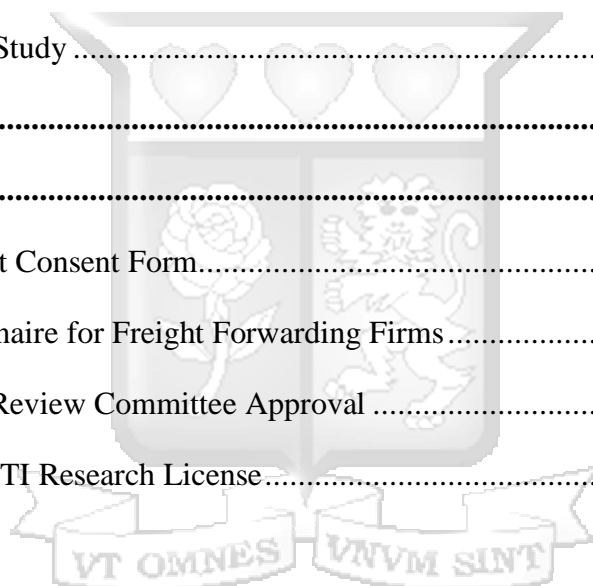
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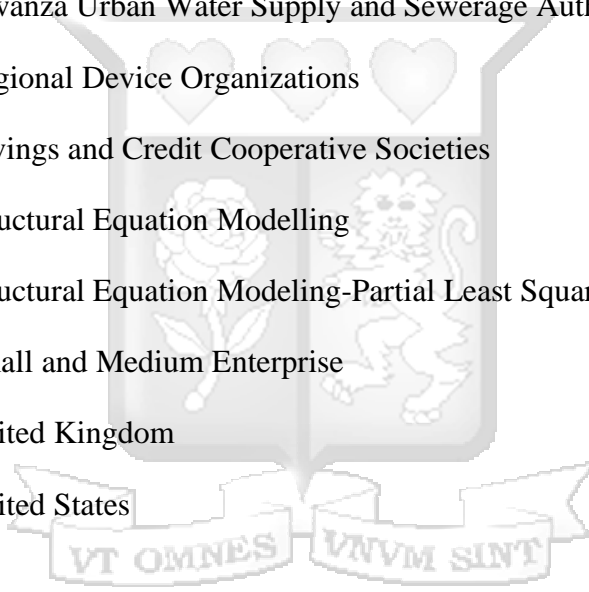
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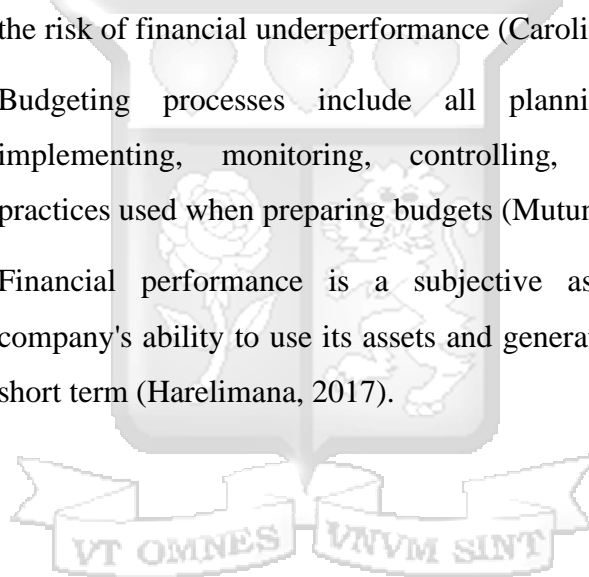
LIST OF ABBREVIATIONS

BPC	Budget Participation Conflict
BME	Budget Monitoring and Evaluation
GDP	Gross Domestic Product
KIFWA	Kenya International Freight and Warehousing Association
KNBS	Kenya National Bureau of Statistics
MWAUSASA	Mwanza Urban Water Supply and Sewerage Authority
RDO	Regional Device Organizations
SACCO	Savings and Credit Cooperative Societies
SEM	Structural Equation Modelling
SEM-PLS	Structural Equation Modeling-Partial Least Square
SME	Small and Medium Enterprise
UK	United Kingdom
US	United States



OPERATIONAL DEFINITION OF TERMS

Budgetary Control	This is the process of developing future budgets and comparing them to actual performance to determine where improvements might be made (Kadenge, 2021).
Budgetary Evaluation	Budgetary evaluation refers to the analysis of the quantity of units produced or services delivered, as well as the labour hours and materials consumed (Egbunike, 2017).
Budget Planning	Budgeting is the process of creating a budget and using it to regulate a company's activities. Budgeting is used to reduce the risk of financial underperformance (Carolina, 2020).
Budgeting Process	Budgeting processes include all planning, predicting, implementing, monitoring, controlling, and assessing practices used when preparing budgets (Mutungi, 2017).
Financial Performance	Financial performance is a subjective assessment of a company's ability to use its assets and generate income in the short term (Harelimana, 2017).



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Trade is an essential aspect of the economy and in extension, the transport sector whose role is to enhance the dynamicity of freight and passengers in a region. Transport is necessary in every step of production and proper strategic planning and coordination in the sector is key to a region's sustained competitiveness and economic growth. In this context, the freight forwarding sector plans and coordinates the transport of goods in transit and freight forwarders are those agents specialized to bridge the gap between a goods' consigner and the consignee (Irafay, 2020).. They offer transport services and their effectiveness enables businesses to optimize supply chains, streamline operations and reduce costs associated with transport and shipping. Kenya Shippers Association (2020) estimates that the global freight forwarding industry transports over 11 billion tons of goods each year worth an estimated \$191.71 billion. This sheer volume of goods attracts significant competition in the sector as can be demonstrated by the fact that 70% of Kenya's freight forwarding market is dominated by overseas players. Companies in the sector are adopting unique practices and investing in emerging technologies to enhance their competitive position.

Freight forwarders provide complex services such as container tracking, freight consolidation, customs documentation, and freight pricing negotiations that present challenges such as cargo loss/delays, inadequate capture of real-time data and extended billing cycles and fee discrepancies. However, despite the sector's importance, most freight forwarding firms suffer from poor planning, financial management, and increasing transport costs. Amir, et al. (2021) argue that these firms need proper financial management to ensure they can meet their financial obligations on time and prevent penalties normally imposed for late delivery. Budgeting is an essential aspect of logistics management and it plays a significant role in management and expenses control (Hutama & Yudianto, 2019). asserts that budgeting, the creation of financial spending plans, is one of the most important financial practices that firms in the transport sector can adopt to ensure their strategies match their current and expected income and expenses.

Budgets are used to direct firm expenditure and determine firm goals, strategies and pathways towards the achievement of strategic goals (Hutama & Yudianto, 2019). They enable firms to monitor and control transportation, warehousing, and inventory management expenses and enable logistic firms to set specific goals and objectives, make informed decisions about investments, business operations, and expansion plans, and evaluate their performance and measure their progress towards specified goals (Yao & Xiao-Na, 2018). Alkaabi and Nobanee (2019) consider budgets to be a reflection of the managements' future plan of action over a determined period of time as they direct spending decisions. Prajapati (2019) opines that firms with well formulated budgets are more competitive since they are better placed to predict spending needs and account for unexpected changes in freight costs.

In Italy and the UK, in addition to directing spending decisions, budgets are also used as management monitoring tools (Dabbicco & Mattei, 2021). In the US, budgeting is part of performance measurement, long-term strategic planning, and routine program management. They have also been associated with improved accountability in the public sector and helps address planning, monitoring and control challenges (Nguyen, 2017). However, while budgeting presents significant potential benefits, its users can only benefit if they adhere to certain principles that guide the budgeting process. These principles set out the policies and procedures coordinating the budget process, from budget preparation, to analysis of variance between initial financial position and budgeted results, to the corrective measures employed. Asimwe (2019) affirmed that budgets can only be successful if the organization can properly identify its core goals, resources required to achieve these objectives, and allocate responsibilities towards these goals, and according to Lu and Willoughby (2018), understanding the budgeting process is key to benefitting from the opportunities offered by budgets.

Dakurah (2017) and Chepngetich (2016) observe high instances where managements were unable to properly utilize budgets and Samira (2018) affirmed that many small and medium businesses (SMEs) do not create or pay attention to budgetary spending limits, hence spend over their means. According to Derfuss (2016), different organizations use budgets with different goals in mind, hence actual impact of budgeting in organizations is still in debate and unsettled. These sentiments are affirmed by Yao and Xiao-Na (2018) who report that budgeting processes are complex and motivated by differing factors for each firm. Furthermore, lack of proper

financial literacy means most managements are unable to properly understand or adhere to the basic principles of budgeting (Chepngetich, 2016). In Ghana, Dakurah (2017), for instance, confirms that certain socio-cultural factors collide with the basics of budgeting, which limits the effectiveness for use as tools for financial control in credit unions. Flaws in the budgeting process is associated with short-sightedness and dysfunctional organizational behaviour (Alade, 2020).

These studies confirm that while in theory, proper planning for financial spending would improve firm's ability to become more financially stable, most firms struggle to properly implement budgets, resulting in significant negative impacts on firm performance. In Kwale, Samira (2018) ascertained that strict budgetary control was the only way to ensure managements adhere to prescribed budgets and according to Addo (2017), proper cash budget management procedures are key to effective budget formulation, implementation and control among top 100 businesses in Kenya. Chepngetich (2016) added that proper budget execution is highly dependent on the implementing manager's financial literacy and ability to motivate employees towards meeting the provisions of the budget. On the other hand, Ceka (2019) revered that proper budget execution is reliant on the institution's implementation, technical expertise, and financial capability. These studies ascertain that certain factors influence the degree of successful budget execution.

Successful budget execution is highly dependent on the procedures directing budget preparation, actualization and control (Addo, 2017). Budgeting enables freight sector firms to better plan for and control their expenses, resulting in improved efficiency and profit maximization. Budgets enable freight firms to better predict freight volumes, understand current industry trends in the supply chain, monitor fuel prices and changes in freight charges and account for unexpected expenses. This study seeks to understand this process in relation to the freight sector averring that proper implementation of the budgeting process would improve the firms' ability to meet transport costs, unexpected expenses and meet consumer costs.

1.1.1 The Budgeting Process

Mutai (2015) defines a budget as a formal expression of the expected income and expenditure for a definite future time. The Institute of Cost and Management Accountants defines a budget as a financial and/or quantitative statement that is prepared earlier for a specified period of time,

detailing the course of action to be carried out during a specific time period. Managements use budgets to facilitate greater efficiency in planning, implementing, and controlling of an organization's resources by deciding goals, control mechanisms and courses to adopt towards realizing these goals (Ho, 2018). Tuan and Rajagopal (2022) links proper budgeting with greater goal orientation, organizational commitment and strategic goal realization.

Ilyas (2021) avers that budgets are central to proper expenditure planning and control as they provide roadmaps that firms can use to set strategic goals and the means to achieve those. Eshetu (2020) identifies two main stages to budgeting, the planning phase and the evaluation stage. The researcher avers that specific organizational goals are usually established in the planning phase and the results periodically compared with the forecasted plan through the controlling function. Leach-López, et al (2015) elaborate that proper planning and control is key to effective budgets which financial effectiveness which in turn, improves organizational performance. Irumba and Alinaitwe (2019) show how in the controlling stage, budgets serve as corrective instruments that provide the criteria against which results are compared and corrective actions initiated.

While the potential benefits of budgeting are well documented, budgeting is still an emerging practice in developing economies and a review of budgeting practices adoption shows great diversity in methods and methodology (Pešalj, Pavlov & Micheli, 2018). The approach taken is dependent on industry type, firm management and strategic goals, resources as well as sector policies. Furthermore, while some companies use a holistic approach and link their budgets to strategic goals, some use gradual processes and set priorities according to their goals (Amir, et al., 2021). Moreover, some firms concentrate on budget planning and formulation while others focus on budget execution, as others focus on the whole budget cycle. According to (Sizer, 2013), large companies usually use budgets as control tools while smaller entrepreneurial firms use budgets primarily as planning tools. Amir, et al. (2021) opine that managerial commitment, the existence of a robust planning process with strong links to the budget, and coordination mechanisms are among the main success factors for the budget process.

Research into the budgeting process delves into different practices applied at different stages of budgeting. Bergmann, Brück, Knauer and Schwering (2020) identify planning and forecasting, implementing, monitoring and controlling, and finally evaluating as the main budgeting processes. Mulani, Chi and Yang (2015) examined the budgeting process from the point of view

of budgetary planning, budgetary sophistication and control and determined a positive relationship between firm performance and the budgeting process.

Budget literature touch on the role of stakeholder participation in all the stages of the budgetary process as an accountability measure. Samira (2018) affirms that stakeholders should be involved in budget preparation, formulation, implementation, monitoring as well as evaluation. In the study by Abongo (2018), participation of departmental heads in establishing goals was identified as crucial to internal harmony and coordination. Gachoka, Aduda, Kaijage and Okiro (2018) also affirmed that participatory budgeting improves the quality of internal control. However, participatory budgeting has also been reported to have insignificant impacts on firm performance as Sarwendhi (2021) reported that while participatory budgeting has insignificant effects budgetary slack and managerial performance, information asymmetry and organizational commitment do impact budgetary slack. Furthermore, Machmud, et al., (2022) report that budgetary participation is only significant when the participating employees have a high perceived locus of control over budget outcomes.

1.1.1.1 Budget Planning and Formulation

Budget planning and formulation is the first stage in the budgeting process (Ceka, 2019). Budget planning involves determination of organizational goals for a financial year and putting in place the resources and practices to be executed to accomplish them. Budget planning enables financial officers to assess an institution's stability through its ability to fund strategies and transform them into goals and objectives (Festo, 2019). Budgets that are well prepared inform how, what and when a particular resource is required or is in stock. Bedford (2015) extends the definition and states that budgetary planning provides guidance on the main issues that should be considered when preparing a budget for any activity. Hence during the planning phase, budgets are formulated, evaluated and implemented (Ramadhan & Rosmawati, 2022). The planning phase of the budgeting process sees the organization review its current financial position and set up goals that should be achieved in accordance with the budget. in the planning stage, freight firms set specific goals and objectives, such as reducing transportation costs or improving delivery times.

Scott and Enu-Kwesi (2018) are affirmative that budget planning refines organizational plans since managers are expected to provide detailed financial evidence of how they expect to meet

organizational goals. According to Meresa (2019), it is important to align budget plans with an organization's overall strategic plan and the planning phase provides a means to forecast resource demand and direct allocation. Consequently, Nwosu, Aguh and Ezeanyim (2020) aver that it is important to involve all employees and managers during the initial stages of budget preparation and approval. In the study by Mukah (2018), bureaucracy and poor organizational culture contributed to the government's inability to meet their budgetary goals. Kaguri (2015) opines that planning is an important element of the budgeting process as it helps in goal identification, setting and resource allocation. This study studied the impact of budgetary planning on the operational performance of freight and forwarding firms.

1.1.1.2 Budgeting Control, Monitoring and Evaluation

Budgetary control is the process through which actual spending is compared against the prepared budgets. This stage of budgeting enables the periodic comparison of prepared against actual expenditure during the planned period (Kadenge, 2021). Budgetary control enables organizations to determine whether corrective actions are needed since budget control processes identify deviations and develop procedures and recommendations to reduce the gap between the planned budget and the actual performance (Klimaitiene & Ramanauskaite, 2019). According to Shuaib and Olanrewaju (2020), budgetary control facilitates controlled spending which maximizes the realization of financial goals and prompts users to operate within the limits of the approved budget. Epstein and McFerlan (2014) are of the opinion that businesses utilize budgetary control in their projections to enhance expenses forecasting, monitoring of variations and evaluating possible corrective measures. Budget control and evaluation stage improves cost control, facilitates performance evaluation and enhances decision making among SMEs such as freight forwarders (Okotchi, et al., 2020).

Budget control assures that goals was realized within the budgets and that any variations was easily identified. According to Purba et al. (2021) budget monitoring is an on-going process whereby monthly expenses are usually examined to identify any significant variances. Budget evaluation refers to the act of comparing current expenditure against planned expenditure (Saputro, Firmansyah, & Meirinaldi, 2022). It is a part of the budgetary control process where the organization's performance is compared to the actual results and according to (Akeem, 2017), budgetary evaluation is a constant procedure that enables enable the making of corrective

decisions based on the reports. According to findings from Schubert and Kirsten (2021), budgeting control has a significant and positive relationship with financial performance of SMEs in Germany. Egbunike (2017) carried out a study on budget implementation among manufacturers in Nigeria and determined that budget/budgetary control is central to organizational transparency while Kenya's Zipporah (2017) shows how county governments were able to use monitoring and evaluation tools to improve revenue estimation and expenditure.

1.1.1.3 Participatory budgeting

Participatory budgeting describes a diverse a range of activities which incorporate decentralized decision making, whereby the larger population is involved in strategic goal selection, setting and in efforts towards goal realization (Ardin, 2017). In businesses, participatory budgeting is a financial planning strategy that involves managers and employees in the creation of a budget that was implemented across a department of the whole organization (Khairullah, Saputra, & Djalil, 2020). Employee inputs are included into the assessment of the company's needs for the upcoming budgetary period and is associated with improved employee satisfaction. However, according to Szczepańska, Zagroba and Pietrzyk (2022), the budget process is a complex financial undertaking that should involve senior managers who are more knowledgeable on the company's needs and have a clearer understanding of the business's vision. However, according to Zainuddin and Isa (2019), lower ranked staff should also participate by executing various duties and responsibilities along the budget process. The findings from Leach-López, et al., (2015) show that low involvement of managers in budgetary planning can result in budget participation conflict (BPC) which has a positive and significant influence on job satisfaction and job performance.

According to Hajdarowicz (2022), participative budgeting inspires employee motivation and commitment as employees feel included in the firm's plans for the future. The study by Carolina (2020) found evidence that participatory budgeting improves employee self-esteem and feeling appreciation of the business resulting in the elimination of budgetary slack. Khairullah, Saputra and Djalil (2020) make similar observations, reporting that participative budgeting is an effective internal control system that is instrumental in reducing the dysfunctional budgeting effects such as bloated managerial compensation behaviors. Amir, et al. (2021) investigated the role of budget participation in Indonesian government offices and determined that budget participation

improves the performance of government officials by eliminating the negative effect on budgetary slack. These findings are replicated in the study by Hutama and Yudianto (2019) which determined that budget participation has a positive influence on budget goals clarity which has a positive influence on performance of government offices in Indonesia. This study studied the impact of participative budgeting on the operational performance of freight forwarding firms.

1.1.1.4 Firm Characteristics

Firm characteristics are those firm specific factors that have significant direct effects on its performance (Afey & Warui, 2019). Firm characteristics define firms and can be classified as internal or micro factors, or as financial and non-financial factors. While some of the characteristics can be expressed on financial statements such as the firm's age, scope of operations, size, efficiency, liquidity and leverage, others such as the managerial capacity and entrepreneurial, as well as risk orientation are difficult to quantify (Kariuki, 2017). Firm characteristics have significant impacts on firm performance and in budgeting, certain firm specific factors can either facilitate or discourage effective budgetary processes (Ho, 2018). In affirming that the budgetary process is critical in performance of any organization, Dan, Liu, Hsu and Yu (2014) added that organizational culture and firm size have significant positive effects on firm performance. In the study by Kira and He (2012), firm characteristics were identified as significant determinants of the agency conflict and informational gap and therefore essential determinants of firm performance and success.

The budgeting process is considered core to effective financial management and can serve as an umbrella concept of performance measurement. However, budgeting processes vary significantly from firm to firm and Amir, et al. (2021) argue that there is no single approach to budgeting suitable for all businesses. Fitri, Nugraha, Hakimah and Manihuruk (2019) opine that effective budget execution is dependent on firm specific factors such as their financial capability and control procedures. Badriyah, Sari and Basri (2015) aver that while age and size have moderating effects on firm performance, the strategic orientation, available resources and ownership structures play a central role in performance outcomes. Indeed, organizations that have five-year strategic plans have more success meeting their budgeting goals (Muslih, 2018). On the other hand, large firms enjoy economies of scale which translates to access to credit as well as quality managerial competency. Large firms can also survive during crisis than small firms due to

accumulated reserves (Ooghe & Prijcker, 2018). This study studied firm characteristics from the lenses of firm size, and the managerial competency and orientation towards budgeting.

1.1.2 Operational Performance

Operational performance refers to the actual outcomes of organizational performance when measured against expected results prescribed by indicators of efficiency/effectiveness, quality improvement, cost reduction, customer satisfaction and time inventory turnover (Croom, Vidal, Spetic, Marshall, & McCarthy, 2018). Operational performance explains the degree of synergy between various units within an organization. Operational performance describes organizational performance in terms of its reliability, production cycle time and inventory turnover (Prajogo, Toy, Bhattacharya, Oke, & Cheng, 2018). According to Zhu, Sarkis and Lai (2019) operational performance entails having an efficient flow of operations in the organization such as reduced delivery lead time, reduced inventory time and optimal performance output. The study measured operational efficiency based on cost, quality, speed, dependability and flexibility. Operational performance has a positive influence on market share, customer satisfaction and profitability (Umair, Zhang, Han, & Haq, 2019).

According to Festo (2019), a firm's operational performance determines the degree to which it has attained its projected goals, whether financial or non-financial. The budgeting process is a management tool that promises to improve an organization's ability to meet its core goals through a set of carefully prepared, monitored and evaluated budget. The study by Prihantari and Astika (2019) affirms that the budgeting process has a significant positive impact on operational performance since it determines resource availability and predicts the future demand to facilitate the realization of organizational goals. Budgeting helps firm managements track expenses, control spending and save or re-invest surplus finances, this helps create financial stability and facilitates the realization of organizational goals (Amir, et al., 2021).

In the freight forwarding business, the forwarder or agent organizes shipments for individuals or corporations to deliver goods from the manufacturer to a market, customer or retailer (Matias & Bungato Jr, 2021). Freight forwarding is a complex business transaction which involves a variety of multiple carriers via air, marine, rail or highway and the forwarding agent has to organize the safe, efficient and cost-effective transportation of goods across multiple dealers. The freight

forwarding business is often long term in nature and proper budgeting is essential to meeting unexpected rises in demands (Kurniati & Nurcahyo, 2018). Their operational performance is dependent on their ability to coordinate goods across different middlemen in the supply chain. This study employed profitability, lead time performance and employee satisfaction as the indicators of organization performance as employed by (Muindi, 2021).

1.1.3 Freight Forwarding Firms in Kenya

Freight and forwarding firms are part of the larger ecosystem in Kenya's economic landscape that deals with the receipt and delivery of goods and services from a state of inception to the destination point (to the consignee) (Karingithi, 2020). The extensive nature of the freight and forwarding business means that four main categories can be identified within the industry, namely; overland transportation, global forwarding, contract logistics and integrator (Hanke, 2012). These forms encompass different specializations. For instance, overland forwarding uses land and rail, global freight involves air and sea transport. Forwarding firms handle a large percentage of the Kenya's imports and exports thus plays a key role in the development of the economy. In 2017, freight forwarding firms made a 7.1% contribution to national GDP (Muoki & Moronge, 2021).

The freight forwarding industry is instrumental to Kenya's economic growth but in the last two decades, the changing global economy has had a significant impact on the sector's competitive position (Gachui, 2020). In addition to increase competition, generic challenges such as corruption, low inventory, poor management and resource capability and slow policy development in regards to customs have contributed to increased failure and underperformance of freight forwarders (FF). 2020 saw a collapse of the global logistics sector and freight forwarders were among the worst hit (Muoki & Moronge, 2021). The business downtime associated with global lockdowns had a significant impact on the firm's inventory which had a significant impact on quality and service assurance. KNBS (2016) SME report affirms that more than two thirds of businesses opened in Kenya close down within the first three years of operation, with poor financial management being the main contributor to high mortality rate, and some of these are in the FF business.

Proper budgeting aims to address the challenges posed by the global lockdowns and inventory management issues experienced by freight forwarders. Having clear forecasts of revenues and costs is one of the areas that can improve the performance of such firms (Abongo, 2018). Budgeting process implementation will eliminate failure to document, failure to make optimal use of budgets and failure to follow the entire budget as planned, thus assure sustained operational performance of freight forwarders.

1.2 Statement of the Problem

Freight forwarders are an integral part of international trade facilitation and their performance is key to national growth and economic development, contributing up to 7.1% of the country's GDP. However, their contribution has declining in recent years with increased competition, increasing transport costs, poor infrastructure and slow reforms in customs regulations impacting the sector's overall performance (Abongo, 2018). While some of the companies have excelled, many have exhibited low performance resulting in their closure. Kitonga (2013) attributes the variations in the performance of freight firms to their inability to properly prepare for unforeseen eventualities, a function that can be accomplished through proper use of budgets. In Malawi, Rabiya and Edward (2016) observed that aside from infrastructural deficiencies and logistical delays, logistics firms lack the ability to follow strict budget lines. Choge (2016) provides evidence that in the logistics sector, managers do not use budgets in decision making and this may affect the quality of their decisions. Okotchi, Makokha and Namusonge (2020) affirm that the budgetary process is a fairly recent practice and has not yet translated to emerge as an effective and efficient tool for addressing organizational challenges.

According to Choge (2016), having a clear understanding of how to prepare and utilize budgets in decision making is essential to increasing the competitiveness of firms in the logistics sector. In the research, managements orientation towards risk was determined to influence the successful budgeting. Yao and Xiao-Na (2018) show that the budgeting process should encourage managers to plan, consider stakeholder opinions, provide information for improved decision making, and increase internal coordination. However, the researchers found that managers find the process too complex and many operate with a haphazard budgeting process. Rayees (2022) on the other hand argues that while participatory budgeting is considered key to budget preparation and evaluation, budgetary literacy training is key to an effective budgeting

process. Pimpong and Laryea (2016) also asserts that participatory budgeting can only be successful if the members involved have adequate financial management knowledge. The study by Namazi, Rezaee and Kheibargir (2020) highlights the importance of increasing managers' budgetary evaluation competency, linking it with improved budget performance. These studies identify various conditions that have to be met for quality budgeting.

Ardin (2017) shows how firms in the logistics sector can leverage quality participation in the budgetary process to enhance decision making and Choge (2016) adds that proper budgeting can enable freight forwarders to predict freight volumes, identify and deal with extra charges, monitor travel costs and understand current industry trends. While the above studies show the importance of different elements of budgeting and their impacts on organizational performance, they cement the assertion by Yao and Xiao-Na (2018) that budgeting is a complex process that many firms are unable to follow through. They also highlight that many firms use haphazard budgeting processes which impact the achievement of agreed objectives and observe that firms lack proper budgetary processes but fail to recognize and take appropriate steps. Research wise, literature is heavily skewed towards the application of budgeting on large, publicly listed organizations in developed countries, and rarely investigates how specific firm factors can affect an organization's ability to carry out the budgeting process effectively. Further, Usman (2015) confirms that researchers have not paid considerable attention to the possible relationship between budgeting process and performance in SMEs in the logistics sector.

Effective budgets promise to improve financial discipline, accountability and transparency within an organization. However, the practice of preparing budgets is a fairly new practice in developing countries. Companies adopt different practices and place varying degrees of emphasis on how to link them with organizational goals. This study sought to establish how budgeting can be improved to ensure it serves as an effective management instrument among freight forwarding firms.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to determine the effect of the Budgeting Process on the Operational Performance of Freight Forwarding Firms in Kenya.

1.3.2 Specific Objectives

The study was guided by the following specific objectives;

- i. To establish the effect of budget planning and formulation on the operational performance of freight forwarding firms in Kenya.
- ii. To examine the effect of budgetary control, monitoring and evaluation on the operational performance of freight forwarding firms in Kenya.
- iii. To examine the effect of participatory budgeting on the operational performance of freight forwarding firms in Kenya.
- iv. To examine the moderating effect of firm characteristics on the relationship between budgeting process and operational performance of freight forwarding firms in Kenya.

1.4 Research Questions

- i. To what extent does budget planning and formulation on the operational performance of freight forwarding firms in Kenya?
- ii. What is the effect of budgetary control, monitoring and evaluation on the operational performance of freight forwarding firms in Kenya?
- iii. What is the effect of participatory budgeting on the operational performance of freight forwarding firms in Kenya?
- iv. What is the moderating effect of firm characteristics on the relationship between budgeting process and operational performance of freight forwarding firms in Kenya?

1.5 Scope of the Study

The geographical scope of the study was focused on the freight forwarding firms operating within Nairobi County. The scope of this research was limited to the effect of the budgeting process on the Operational Performance of Freight Forwarding Firms in Kenya. The study focused on the budget planning, participatory budgeting, budget control and the budget monitoring and evaluation effect on the operational performance of the firms. This study investigated the budgeting processes employed in these firms. The study was limited to examining the freight forwarders in Kenya. The study's unit of observation were the managers in the forwarding firms. The research was carried out from January 2022 until August 2022.

1.6 Significance of the Study

1.6.1 To policy Makers

In Kenya SMEs will play a critical role in the achievement of the vision 2030 and the big 4 agenda and thus it was critical for the government to ensure that they thrive and achieve financial stability. This study will highlight the importance of a highly neglected aspect of effective financial management and may have a significant impact on policy development in the future as it will highlight the policy deficiencies that have led to the stagnation of growth of freight forwarders.

1.6.2 To Management

This study was useful to the managements of freight forwarding firms in Kenya. This study will provide the managements with the necessary and lacking knowledge the essential components of the budgeting process and the significance of each of the steps involved in the budgeting process. This will help managers who had little knowledge to understand the potential impact of the budgeting process.

1.6.3 To investors

The budgeting process promises to increase accountability and adherence to predetermined financial limits. By advocating for freight forwarders to consistently develop and adhere to budgets, this study aims to provide assurance to potential investors that their investments are secure as any deviations can be identified in a timely fashion and available opportunities exploited. Since budgets provide a future forecast of the financial position of the company, the financial providers will understand if the business model is sound and the level of risk for any finances provided to the SMEs.

1.6.4 To academia

The research will also be useful to researchers and academicians since the findings will contribute to both theoretical and practical knowledge on the effects of the budgeting process on the performance of SMEs. Additionally, the findings of this study will also serve as a platform for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The second chapter of the study focused on presentation of the literature review that was utilized in the investigation. The section focused on the theoretical review, the empirical review and various research gaps that inform the study. Further, the conceptual framework and operationalization of research variables was presented in the chapter.

2.2 Theoretical Review

This section presents the theoretical underpinnings of the current research. The study sought to address the effect of the budgetary process on operational performance. Researchers have used different theories when examining the budgeting process and its impacts on organizational performance. Kamau, Rotich and Anyango (2017) used the Theory of Accounting, the Theory of Control and the Agency theory while (Korir, 2022) used the public budget theory, the theory of financial control and the stakeholder theory. (Samira, 2018) opines that the theory of budgeting encompasses all aspects of budgetary execution as well as control. This study employed the Theory of budgeting and the stakeholder theory to anchor the study variables.

2.2.1 The Theory of Budgeting

The theory of budgeting was advanced by Hirst in 1987 and it affirms that effective budgetary control solves a firm's need to plan and assess potential risks and opportunities (Hirst, 1987). The theory avers that budget, which are a collection of future plans and forecasts, are the principal components of an efficient control system. Hirst (1987) asserts that budgeting enables organizations to project future financial performance of an organization and enables the evaluation of a strategy's financial viability. This theory assumes that the budgeting process pushes managers towards making efforts to make targets and objectives before an operating period, and that the managers will encourage regular budgeting, and act on the variances identified upon evaluation (Osebo, Debebe, & Eshetu, 2019). The budget procedure empowers supervisors to evaluate the current financial position and helps in anticipating and actualizing required changes to realign finances with the projected budgets.

Accordingly, Zemrani (2019) avers that the theory of budgeting is an academic study of political and social motivations behind government and civil society budgeting. Hirst (1987) explains that an effective budgeting process has to solve an organization's need to plan and consider how to confront future potential risks and opportunities by establishing a system to detect variances between the organization's objectives and its actual performance. Budgets express the financial implication of business plans, and helps in identification of the amount, quantity and timing of resources. Samira (2018) asserts that budgets provide estimates of future sales revenues and expenses and can influence the behavior and decisions of employees by providing a benchmark against which to assess performance. Further, Korir (2022) asserts that an effective budget preparation procedure is the backbone of management. It makes managements more active and forward looking by making organizational goals explicit and clarifying performance measures for individual employees.

The theory of budgeting has been criticized for contributing towards inactivity and absence of flexibility and innovation since a budget records spending plans that have to be adhered to (Asiimwe, 2019). However, according to Eshetu (2020), budgets can also set aside finances for investment, addressing these issues. Samira (2018) argues that the budgeting process ensures that an institution's activities are factored in the budget, guiding employees in executing their duties and comparing actual results against pre-determined. Indeed, budgeting is a core management function that can address variations in firm performance. The Budgeting theory has received recognition in research on budgeting effectiveness. (Kamau, Rotich, & Anyango, 2017) used the theory in examining the effect of the budgeting process on the performance of state corporations while Kimani (2014) used the theory when assessing the effect of budgetary control on non-governmental firms' effectiveness. (Murei, Kidombo, & Gakuu, 2017) used the theory in anchoring Monitoring and Evaluation Budgeting processes.

The theory of budgeting avers that budget are control mechanisms that can be used to plan, prepare and allocate resources towards meeting organizational goals. The theory anchored the independent variable, the budgeting process which involves preparation of budgets, monitoring and evaluation to detect and act upon variations and budget control to guide the budgeting process.

2.2.2 Stakeholder Theory

The stakeholder theory stresses the interconnectedness of relationships between businesses and their customers, suppliers, employees, investors, nearby communities, among others. The theory was stipulated by Freeman (1984), who affirms that an organization has to effectively manage relationships with various constituent groups and balance their relevant interests. According to the stakeholder theory, stakeholders should be involved in making business decisions and that their insights can have a significant positive impact on organizational goals. As noted by Nasri, Nurman, Azwirman, Zainal, & Riauan (2022), budgeting is a complex process that cannot be performed by one individual, and collaborations among staff is essential to effective budget preparation, monitoring and control. A good budgeting process incorporates a long-term perspective, establishes linkages to organizational goals, focuses budget decision on results and outcomes and promotes effective communication with stakeholders (Sardjono & Wijaya, 2018).

Empirical research suggests that stakeholder participation in setting organizational goals and objectives has a positive impact on interorganizational harmony, and that stakeholders' participation in the budgeting process improves transparency, accountability and enhances service delivery (Kipyego & Wanjare, 2017). Stakeholder theory advocates for a more cooperative, caring type of management. This theory has previously been used to explain participation of teachers in budgeting for instructional materials (Oyier & Odundo, 2017), public participation in the budgeting process for public finances (Nyagah & Njoka, 2022) and to understand the effect of the budgeting process on the performance of listed manufacturers in Ghana (Agbenyo, Danquah, & Shuangshuang, 2018). Cheruiyot, Oketch, Namusonge and Sakwa (2017) opine that the stakeholder theory promotes participatory budgeting and used the theory in examining the effect of public financial management on county government performance. (Amadi, 2017) utilized the theory in assessing the role of participatory planning on performance of community projects.

This theory is applicable in this study as it calls for participation of stakeholders in organizational management in terms of planning, execution, monitoring and control. In this study, the theory anchored the participatory budgeting aspect of the budgeting process. The theory calls for the involvement of different stakeholders in different stages of the budgeting process and asserts that participatory elements improve success of organizational goals

(Cheruiyot, et al., 2017). It is important for organizations to identify the main stakeholders and implement some of their opinions in the actual budget to encourage sustainable organizational citizenship behavior. This theory anchored the participatory budgeting aspect in the budgetary process.

2.3 Empirical Review

The empirical literature begins with an examination of studies on budget planning and formulation and operational performance. In this section, a review of studies examining the application of budgets for planning and formulation of operational performance was performed. Next, an examination of studies linking budgetary control, evaluation, monitoring, and operational performance was performed. Here, the focus was primarily on how budgets as a control and performance evaluation tool influences operational performance, which is directly linked to the purpose of budgets. The next section reviews literature linking participatory budgeting and operational performance. Finally, the empirical review concludes a review of studies examining those firm characteristics linked to the budgeting process and operational performance.

2.3.1 Budget Planning and Formulation and Operational Performance

Planning is the process through which organizations align available resources and costs with its long-term strategy, to achieve the organization's goals and raise the level of financial performance (Mahroqi & Matriano, 2021). Planning involves the identification and categorization of goals to the allocation of resources towards achieving organizational goals (Bedford, 2015). Budget planning involves the forecasting of the costs that an organization would incur in their strategic plans and expressing them in a budget. Budget planning enables financial officers to assess an institution's stability through its ability to fund strategies and transforming them into goals and objectives. Budgets that are well prepared inform how, what and when something is to be done and according to Kimani (2014), poor budget planning will result in the failure to stick to projected expenditures. Formal budgeting can be indicated by the presence of written budgets, the specification of operating budget, a budgeting committee and the frequency of calculating budget variances and taking corrective actions (Mukah, 2018). This

study studied budget planning and formulation through an assessment of firms' objectives selection, forecasting, preparation of budgets and resource allocation.

Le and Nguyen (2020) researched on the relationship between budgetary planning on sales revenue and profitability of Vietnamese SMEs. The study focused on the goal setting phase of budget planning and sought to determine whether the goal setting characteristics have any impact on the firms' performance. The study collected data from 80 SME managers responsible for the budgeting process and utilized Exploratory Factor Analysis. The results of the regression analysis determined that clear, achievable, but hard goals have a positive impact on growth of sales revenue, profit growth and managerial performance. These findings are in relation to the Vietnamese context while the current will address the Kenyan situation.

Agbenyo, Danquah and Shuangshuang (2018) carried out a cross-sectional research design that sought to access the impact of the budgeting process on the financial outcomes of listed manufacturers in Ghana. Multiple regressions were applied on the data collected, asserting that there exists a strong positive and significant relationship between budget planning, budget monitoring and control, budget coordination, and evaluation and the financial performance of Ghanaian manufacturers. Budgeting helps in the integration of an organization's strategic plans with budgets and processes of cost control, helps in the identification of financial skills that would improve decision making, and the key financial indicators for businesses and how to manage these indicators. Budgeting success was also determined to be a useful benchmark against which auditors can judge whether an organization's management is successful in meeting its financial objectives and institutes timely corrective measures. This study investigated manufacturers while the current examined freight forwarders.

Mulani, Chi and Yang (2015) sought to find out the effect of budgeting on the performance of Indian SMEs with specific focus on the effect of budgetary planning, budgetary sophistication and control. The study collected data from managers from two hundred and sixty-eight firms with established businesses in Mumbai, Pune and Solapur. Regression analysis revealed that larger companies with more formal budgeting processes are more profitable. The analysis determined that budget goal setting is one of the essential budget processes that can determine employees' motivation and organizational commitment towards meeting organizational goals. Clearer goals that are difficult but achievable were determined to improve organizational

performance in terms of sales growth. The study showed that budget planning has more significant impacts on organizational performance than other budgeting processes and determinants such as the degree of budgetary control which also increase firm performance. The study asserted that sophisticated budgets have a negative impact on profit generation due to high cost of training and acquisition of financial modeling software. This study categorized the firms according to size and focused on SMEs while this study focused on Kenyan freight forwarders.

Scott and Enu-Kwesi (2018) investigated budgeting practices in Ghanaian district assemblies and their influence on service delivery. The study used a mixed-methods study which used descriptive, correlational and thematic methods in analysis. Findings were that the budgeting process adopted by their various offices has significantly improved service delivery. The study determined that managements have to involve employees in the budget formulation and evaluation processes to institute sustainable budgeting policies and procedures that communicate organizational goals and how to address these goals. Improved budgeting practices improved service delivery. Participatory budgeting was associated with renewed employee vigor and empowerment which improved relations between staff and managements. This study investigated the relationship between budgeting and service delivery in the public sector while the current examined its relationship in regards to operational performance.

Kamau, Rotich and Anyango (2017) adopted a descriptive design in an investigation into the effect of the budgeting process on the performance of state firms in Kenya. The study specified on Kenyatta National Hospital and applied descriptive and correlational analysis on data collected from staff members involved in the hospital's budget making procedure. The analysis revealed that the budgeting process has had significant impact in the hospital's overall performance. Budgetary participation had the greatest effect on organizational performance followed by budgetary control, then budget feedback. The study reported that the degree of budget sophistication did not significantly impact the organization. This case study provided evidence from the lens of one firm while the current explored data from multiple organizations to complement the findings.

2.3.2 Budgetary Control, Evaluation, Monitoring and Operational Performance

Budgetary control refers to the system through which an organization controls its costs by setting budgets, and it involves comparison of the actual performance of the prepared budget to ensure

identify any deviations (Koech, 2015). Budget control helps in the identification of procedures to and recommendations to capture deviances from planned budgets as it involves monitoring and evaluation of the actual against the planned budget (Ayakaka, 2019). Poor budgetary control leads to dysfunctional behavior among employees that can result in budgetary slack and for any organization to improve performance outcomes, managements have to develop and utilize budgetary control systems within time (Theletsane, 2014). Budgetary evaluation serves as a deterrent to workplace vices and can be indicated by the degree of independence of the internal audit committee, an operational monitoring and evaluation unit that ensures timely and accurate budget monitoring and reporting and the presence of corrective actions undertaken upon the identification of errors and fraud in financial reports (Bergmann, et al., 2020). Hertati (2015) affirms that budgetary control is indicated by the presence of budgetary committees that periodically meet to review budget performance, budget policies that guide monitoring of the budget spending limits, actual comparison and tabulation of variances in the budget and presence of documented corrective actions.

Schubert and Kirsten (2021) examined German SMEs with the aim of determining the effect of budgeting control on the firms' financial performance. The quantitative study applied descriptive and correlational analysis revealing the existence of a significant positive relationship between budgetary control practices and firm performance through improved strategic planning, cost control, identification of resource and material requirements, and the identification of an organization's financial indicators and how and when to monitor them. The budgetary control was also associated with improved ability to interpret budgets and performance measurements and time management, leading to improved financial performance. This study presented a contextual gap having failed to assess the effect of the budget planning phase of the budgeting process and focusing on SMEs.

Gupta and Deena (2021) examined the budgeting process of manufacturers, focusing on budget planning and controlling. The study used a systematic design and involved respondents from fifty firms which were selected randomly. Descriptive and correlational methods revealed that an efficient budgeting process facilitates sustainable competitive advantage and improves managerial decision making. Proper budget control can be enhanced by coordination, planning, role and goal clarification, motivation and establishing executive control. The study adds that

the budgeting process should be improved by integrating IT capabilities to complement existing control systems and reduce human-related errors during performance evaluation. This study did not investigate how the participatory aspect of budgeting impacts the budgeting process; this study studied the same in relation to freight firms.

Boama-Secu (2019) investigated the effect of budgetary control on transport SMEs financial performance. Using an explanatory research design, 15 firms were selected using multi-stage sampling. The study used data reported in the companies' financial statements and collected primary data from staff members. Analysis involving multiple regressions revealed that budgetary control processes of budget planning, budget monitoring and control systems do improve transport firms' performance outcomes, contributing to reduced business failures and job losses. The study recommends increased training on budgetary control techniques such as participatory budgeting, to enhance the quality of the budgeting process and decisions that result from budget monitoring. This study investigated small firms while the current focused on a mix of large and small firms.

Mahroqi and Matriano (2021) investigated Omani telecommunications firms with the aim of determining the effect of budgetary control on the firms' financial performance, focusing on the role of an oversight committee and top management support. Correlation analysis reveals that an organization's budgetary control procedures have significant positive effects on the company's performance. Findings were that budgetary committees' oversight role of selecting the analysis technique has an impact on accountability, while emphasizing the importance of periodic budget analysis and participatory budgeting as a means of detecting and eliminating budgetary slack behavior. The thematic analysis uncovered master budgeting and flexible budgeting as the most effective type of budgeting systems but these findings are from telecommunication firms which operate with different budgets to freight forwarders.

Nwanyanwu and Ogbonnaya (2018) examined the relationship between budgetary control and financial performance of SMEs in Rivers State, Nigeria. The study used a descriptive design and collected primary data from 74 firms and utilized parametric and non-parametric techniques in the data analysis. The correlation analysis revealed that budget control has a significant impact on the financial performance of SMEs and is a tool that can be used to drive growth and sustainability of SMEs. However, the managers/owners' inaptitude in managerial accounting

application and limited resources have reduced the impact of budgetary control on the firms' performance. The study concluded regular reviews of the budget by a dedicated budget committee and with staff involvement would result in significant improvement in goal realization. The methodology used varies as the current study did not use interviews and thematic analyses.

Omosidi et, al. (2019) investigated the relationship between budget implementation strategies and organizational effectiveness among Nigerian institutions of higher learning. Data was sourced through questionnaires which were distributed to 432 respondents who were selected through stratified random sampling. The study adopted hypothesis testing and used Pearson's Product Moment Correlation and stepwise multiple regression methodologies in data analysis revealing that the effectiveness of budget implementation has significant effects on strategic goal realization. Findings showed that use of call circular and budgetary control mechanisms, budget committees and centralized control over the budgeting process significantly improves organizational effectiveness. This study investigated colleges whose performance goals vary significantly from freight forwarders.

Harelimana (2017) researched on the effect of budgetary control systems on profitability within the Serena hotel in Kigali, Rwanda. The case study used a descriptive design and targeted employees at the hotel. The study also collected the hotel's financial statements. Regression analyses were applied on the collected data revealing the hotel has been able to achieve high profitability since the implementation of the budgetary control system. The study determined that the institution of a budgetary control system had improved the managements' ability to detect over spills within departments and enact corrective measures to minimize wasteful spending. This case study investigated the effect on budget planning and budgetary control systems but did not investigate the aspect of budget participation.

Otieno (2019) investigated budgetary control practices and their impact on the financial performance of Kenyan public universities. The study targeted five institutions and collected primary data from staff in financial-related positions and secondary data from the universities' audited financial statements reported across a three-year period ending in 2017. Analysis involved descriptive and correlation methods. The regression analysis conducted revealed that there exists a significant positive relationship between budget planning, budget coordination,

budget control and the universities' financial performance. This study investigated public universities providing a gap to examine how these factors impact freight forwarders.

Mutungi (2017) targeted the county governments in Kenya in an examination into the effects on budgeting and budget control on the counties' performance. The descriptive study sourced secondary data from the annual budget implementation review report for a four-year period ending 2017. The analysis revealed that despite budgeting being instrumental in helping counties forecast revenues, project recurrent and development demands and promote stakeholder involvement in the public financial management process, county managements are unable to strictly adhere to the budget allocations and this has significantly impacted the counties' ability to meet their development agenda. The study reports that participatory budgeting, proper budget planning, and budget evaluation can only improve goal realization if proper control and adherence to the budgets is ensured. This study explored budgeting in the public sector while the current study sought to address the same within privately-owned firms where the managements are bound by less restrictive procedures.

Murei, Kidombo and Gakuu (2017) researched on the influence of budget monitoring and evaluation on the performance of Kenyan horticultural projects. The study utilized a cross-sectional survey design and utilized correlation methods of analysis. The study collected primary data using focus group discussions and Pearson's Product Moment Correlation used in analysis of secondary audited data. The findings revealed that monitoring and evaluation of budgets has a significant positive correlation with high performance among horticultural firms. This study investigated farming firms whose cash conversion period is longer than that of freight firms.

2.3.3 Participatory Budgeting and Operational Performance

Budget participation refers to lower-level managers and employees' involvement in the budget preparation process (Rutto & Olouch, 2017). The involvement of employees in setting and developing an institution's budgets is a good budgeting practice that influence how subordinates understand their organization's goals and financial capability. Participatory budgeting considers employees as a resource of the budgeting process that have the responsibility of preparing and implementing budgets in organizations. Rutto and Oluoch (2017) established that involving employees in the budgeting process motivates them to achieve the set objectives which improves SME's performance. According to Eton, Murezi, Fabian and Benard (2019), stakeholders'

participation in the budgeting process sets the tone for internal controls and improves transparency, accountability and service delivery. Kamau, Rotich, and Anyango, (2017) argued that budget participation has the highest effect on acceptance and commitment to the budget provision which in turn improves performance.

Yuliansyah, et al., (2018) sought after the influence of participatory budgeting on employee performance using pride in membership and job satisfaction as the mediating variables. The study targeted 200 hotel employees from 3-, 4-, and 5-star hotels in Kota Lombok using purposive sampling. The study then employed Structural Equation Modelling (SEM) using SmartPLS software in hypothesis testing. The regression analyses revealed that participatory budgeting has both direct and indirect positive influences on employee performance, and that pride in membership and job satisfaction moderate this effect. Involving staff in budget preparation and evaluation was reported to increase their pride in the organisation and create a sense of belonging resulting in increased job satisfaction. This study focused on hotels in the city of Lombok and its findings may describe the real condition in other industries.

Prihantari and Astika (2019) investigated the effect of budget participation, role overload, environmental uncertainty, organizational culture, employee competence, and compensation on employee performance at PT. Tatamulia Nusantara Indah, a construction firm in India. The study used multiple regression analysis on the collected data showed that while role overload has a significant, negative effect on employee performance, allowing employees to participate in the budgeting process, environmental uncertainty, compensation, and organizational culture all improve employee performances. The case study specified variables that do not involve the budgeting process such as role overload which varies depending on the individual's responsibility within the organization.

Pakpahan and Augustine (2019) research sought after the effect of budget participation on the performance of staff at the Indonesian National Police Bhayangkara Hospital. The study considered whether job performance is mediated by job satisfaction and whether organizational culture moderates the effect of budget participation and job performance. The quantitative study used purposive sampling in selection of 157 managers. The data collected was analyzed using Structural Equation Modeling-Partial Least Square (SEM-PLS). The findings revealed that budget participation has a positive and significant effect on employees' performance, satisfaction

and commitment. Organizational culture was also determined to moderate the effect of budget participation on job performance. This study examined the moderating effect organizational culture limiting the ability to generalize these findings since organizational culture is unique and organization specific.

Arazy and Sukoharsono (2018) assessed Regional Device Organizations (RDO) in Indonesia with the aim of investigating the effect of budget participation on employee performance, using Performance Measurement Systems and Personality Traits as moderator variables. The study sourced data from 80 employees directly involved in the budgeting practices. SEM PLS methodology was utilized in analysis of the study data, with the results indicating a significant effect of budget participation on employee performance. The personality traits of the management and employees was also determined to have a moderating influence on the relationship between budget participation and employee performance, with conscientiousness and extraversion reinforce the influence of the relationship between budgetary participation on employee performance in each OPD. Openness to experience and neuroticism had no influence. This study investigated government organizations whose organizational decision-making varies from privately-owned firms. Further, the employee characteristics explored are not explored in the current study making its findings different from the scope of the current research.

Fauzan, Prajanti and Wahyudin (2019) researched on the effect on budgeting quality and human resource competence on financial performance of vocational high school in Pematang Regency, Indonesia. The study collected quantitative data and used multiple linear regression methods in analysis. The findings revealed that quality budgeting involving participatory budgeting, budgeting target clarification, budget feedback, budget evaluation and sophistication improve schools' financial management. The study also determined that successful budgeting has to be supported by competent human resources and technological investment, factors which were determined to increase the efficiency of the budgetary process in improving managerial decisions. This study was restricted to schools which have a different set of decision makers and goals in comparison to freight forwarders.

Kaijage (2019) specified research into the effect of budget planning on organizational performance of Mwanza Urban Water Supply and Sewerage Authority (MWAUWASA). The research utilized a descriptive survey design that targeted staff members at the institution using

purposive sampling. Interviews were conducted with financial managers to get an indepth picture. The analysis determined that departmental involvement in projecting future needs and expectations has a significant effect on the realization of organizational goals. The study also reviewed that budget evaluation and control as another essential component of the budgeting process that provides a means to establish variances between actual verses expected performance and sustainable decision making. This was a case study and its findings were expounded upon through an analysis of multiple firms.

2.3.4 Firm Characteristics, Budgeting Process and Operational Performance

Lakasse, et al., (2021) sought after the cognitive effect of Islamic religiosity and budget control on budgetary slack behavior. The study source data from 176 managers from various companies spread across 14 provinces in Indonesia. Findings determined that the Islamic religion contains beliefs that promote sustainable budget control resulting in a reduction in budgetary slack behavior within an organization, asserting that managers can also be motivated by religious goals. Further, religiosity encourages budget monitoring, which fully mediate the relationship between participatory budgeting and budget-based compensation schemes which have a significant negative effect on budgetary slack behavior. This study investigated drivers of effective budget monitoring on budgetary slack behavior while the current study explored religiosity and focused on operational performance.

Ararsa (2021) carried out a case study which assessed managers' budget utilization, monitoring and evaluation in Ethio Agri CEFT PIC using quantitative and qualitative methods of analysis. Using multiple regressions, it was revealed that budget utilization and control within the firm is inefficient, and that the budget monitoring and evaluation process was not conducted on a regular basis, impacting the efficiency of the budgeting process. Lack of budget review was reported to have a negative and significant impact on the company's performance. The study called for the organization to improve its budget planning/preparation processes to enhance the quality of budgeting participation, increase identification of roles and forecasting of operational units, capital investment and running costs to increase the managements' ability to compare planned against actual results and detect variances on the budgets. This was a case study, meaning that it has unique budgetary process and its findings may not be generalized to non-agricultural firms.

Muslih and Marbun (2020) considered budget as control variable on a study on the effect of risk management, firm age, and size on the performance of banks registered in Indonesia. The study utilized quantitative methods and applied multiple regression analyses on secondary data reported on a six-year period between 2013 and 2018. The regressions applied revealed that budgets are an effective risk management tool that has a significant and positive effect on banks' risk management, but an insignificant effect on the firm's performance due to poor implementation. The study recommends that banks should provide for audit committees independence to encourage good budgeting practices. The study ascertained that the manager's risk perception and the boards sensitivity towards transparency all have an impact on audit committees' ability to execute their roles. The study focused on banks which are regulated under different financial rules to logistics firms.

Mpakaniye and Paul (2017) investigated the budgeting process in Rwandan local governments, assessing how the internal audit system affects the budgeting process and budget execution outcomes. The study focused on Musanze District as a case study and collected financials reported for five years ending 2018. The study used multiple regressions revealing that asset management, management control and staffing are some of the methodologies utilized to enhance good budgeting and execution practices for local governments. The analysis revealed that internal audit significantly impacts the budgeting process and budget execution at the Musanze district office. It was revealed that establishing an independent audit system, a county monitoring and evaluation unit, and timely and accurate financial reporting timelines enhance the counties' ability to align budget plans to projected cash flows. This study mentioned that the manager's staffing capabilities and risk aversiveness nature all have an impact on organizational budgeting outcomes.

Kibunja (2017) carries out similar research on the effect of budgetary process on the financial performance of the county government of Murang'a, Kenya. The study collected primary and secondary data and applied an explanatory non experimental descriptive research design. Applying regressions on data over a three-year period reveals that although the financial management process was decentralized into the various departments, there exist significant inefficiencies regarding technology adoption, controls, oversight and timely supplementary budgeting which impacts the counties' budgetary performance. Poor budget monitoring resulted

from weaknesses in the internal controls, low stakeholder oversight and poorly developed and implemented regulatory frameworks. The study linked budgetary performance to the organization's internal culture and asserts that the effectiveness of the budgeting process is heavily reliant on capacity building programs as well as information availability. This study was on public whose managements' degree of freedom varies significantly from private businesses.

Ombaba (2020) adopted a cross sectional research design to determine the effect of budgeting process on the performance of manufacturers in Uasin Gishu County. The study was based on the goal setting theory and targeted senior accountants and senior finance officers. Multiple regressions were used in data analysis revealing that the budgeting process has a significant positive effect on cost efficiency, timely delivery of goods and profitability growth. Budget monitoring and control enhances organizational spending patterns, budget planning ensures provision of clearly defined organizational goals, budget evaluation minimizes cost control and enhances waste management, and that incremental budgeting helps in the identification of deviations in the budget, thus providing organizational stability. The study linked budgetary performance with the senior managers' ability to determine and work towards organizational goals, calling on firms to ensure they have managers with a high degree of financial literacy.

2.4 Summary of Literature and Research Gaps

These studies reviewed above provide evidence on the effect of different aspects of the budgeting process from different companies around the world. Through the review, several gaps were identified. The gaps are further articulated in the table below.

Table 2.1 Research gaps

Author	Topic	Findings	Gap	The focus of the current study
Boama-Secu (2019)	Effect of budgetary control on financial performance of selected small and medium-sized	Budgetary control processes comprising budget planning, budget monitoring and control systems have a significant positive and significant relationship with performance of transport firms	This study adopted an explanatory research design	The current study was descriptive in nature

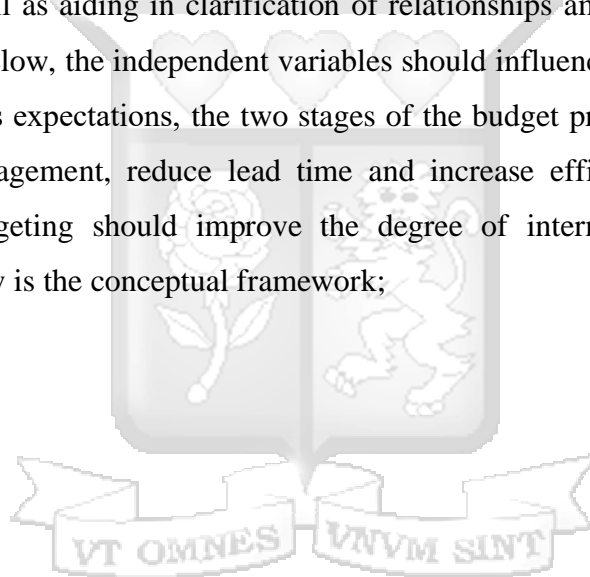
	enterprises in the transport industry.			
Kaijage (2019)	Exploring the Effect of Budget Preparation on the Achievement of Organizational Goals	Departmental involvement in projecting future needs and expectations has a significant effect on the realization of organizational goals.	This was a case study and its findings are not indicative of multiple firms	The current study studied budget processes from different firms to get a clearer view of the budgeting process
Mpakaniye and Paul (2017)	The effect of internal audit on budget process and execution of local government of Rwanda	The internal audit system specific to an organization has significant effects on county government performance	This study was carried out in the public sector where budget forecasting is highly reliant on national allocations	These findings was extended to private firms which have to make profits to remain operational and fund their operations
Pakpahan and Augustine (2019)	Budget Participation, Organizational Commitment and Job Performance on an Indonesian National Police Hospital.	Budget participation has a positive and significant effect on employees' performance, satisfaction and commitment.	The study only investigated budget participation and used on Structural Equation Modeling-Partial Least Square (SEM-PLS) to investigate employee performance.	This study employed regression analyses and explore operational rather than employee performance.
Prihantari and Astika (2019)	Effect of role overload, budget participation, environmental uncertainty, organizational culture,	The study determined that allowing employees to participate in the budgeting process, and organizational culture all improve employee performance.	This study investigated a construction firm in India and explored variables not included in the currents	The current study strictly investigated the budgeting process components and their effect on operational

	competence, and compensation on employee performance.		tudy such as role overload and uncertainty.	performance.
Scott and Enu-Kwesi (2018)	Role of budgeting practices in service delivery in the public sector: A study of district assemblies in Ghana.	Participatory budgeting was associated with renewed employee vigor and empowerment which improved relations between staff and managements, thus improving organizational performance.	This study adopted mixed-methods in data collection and analysis	This study employed a descriptive methodology
Mulani, Chi and Yang (2015)	Effects of the budgetary process on SME's performance: An Exploratory study based on Selected SME's in India.	The study showed that budget planning has more significant impacts on organizational performance than other budgeting processes and budget control enhances performance.	The study was based on SMES	This study extend its findings to Kenyan freight forwarders which are specific segments of SMEs to provide solutions tailored to the institutions
Le and Nguyen (2020)	An impact of budgetary goal characteristics on performance	The study determined that clear, achievable, but hard goals have a positive impact on growth of sales revenue, profit growth and managerial performance.	Budget planning involves goal setting which has a positive impact on sales revenue and profitability of Vietnamese SMEs.	This study did not explore the other components of budget planning such as monitoring and evaluation
Harelimana (2017)	The effect of budgetary control on financial performance of Kigali Serena Hotel in	A budgetary control system improves the managements' ability to detect over spills within departments and enact corrective measures to minimize wasteful spending.	The case study investigated the effect on budget planning and budgetary	This study involved multiple firms and explore all aspects of the budgetary process. This improved the generalization of

	Rwanda.		control systems but did not investigate the aspect of budget participation.	the study's findings
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2.6 Conceptual Framework

Kothari (2008) defines conceptual framework as a guiding tool to researchers in their inquiry. It consists of concepts placed within a sequential and logical design. It helps in identifying the research variables as well as aiding in clarification of relationships among the variables. In the conceptual framework below, the independent variables should influence the dependent variable. According to this study's expectations, the two stages of the budget process are associated with improved financial management, reduce lead time and increase efficiency and effectiveness while participatory budgeting should improve the degree of internal satisfaction with the budgeting process. Below is the conceptual framework;



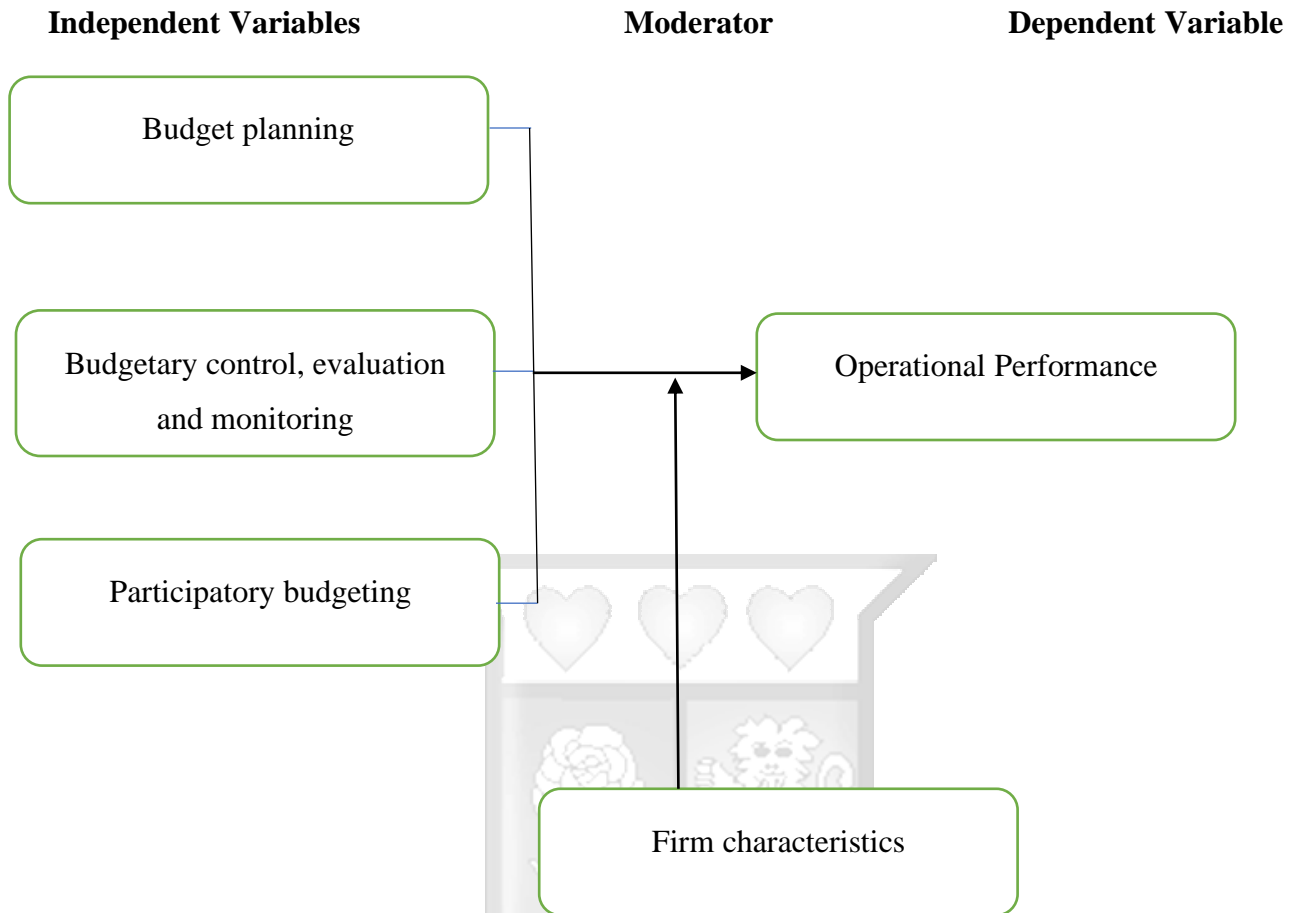


Figure 2.1 Conceptual Framework

The framework above in detail presented the constructs that were applied in measuring the variables of the study. The conceptualized research variables were operationalized on Table 2.2.

Table 2.2 Operationalization of the Study Variables

Variable	Indicators	Data collection tool	Data analysis
Budget planning	Formulation of spending plans Preparation of cash and sales budgets Selecting objectives Allocation of resources Financial forecasting	Structured questionnaire; 5-point Likert scale Open-ended questions	Descriptive and inferential analysis Content analysis
Budgeting	Involvement of employees	Structured questionnaire; 5-	Descriptive and inferential

Variable	Indicators	Data collection tool	Data analysis
participation	Review of budget conflicts Clarifying budget priorities Review of compensation	point Likert scale Open-ended questions	analysis Content analysis
Budgetary Control, Evaluation and Monitoring	Develop control procedures Evaluation and monitoring of budgetary performance Undertaking corrective actions and budgetary adjustments	Structured questionnaire; 5-point Likert scale Open-ended questions	Descriptive and inferential analysis Content analysis
Firm Characteristics:	Manager's financial literacy Internal Controls Information and communication	Structured questionnaire; 5-point Likert scale Open-ended questions	Descriptive and inferential analysis Content analysis
Operational performance	Profitability Lead time Employee satisfaction Efficiency & Effectiveness Inventory performance	Structured questionnaire; 5-point Likert scale Open-ended questions	Descriptive and inferential analysis Content analysis

2.6 Chapter summary

This was the second chapter of the study, and it was presented the study's theoretical and literature review. First, it highlights the theories that underpin the study then reviews previous researchers' findings on the relationships between the study variables. It concludes with a

summary of the research gaps, the conceptual framework and the operationalization of the study variables.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The third chapter of the research outlines the methodological procedures that was utilized in selecting appropriate research philosophy and design, the population of interest and the sampling design. The chapter plays a role in presenting the instruments that was developed to meet the research goals, the research procedures, data analysis techniques and ethical considerations.

3.2 Research Philosophy

The positivism school of thought indicates that the paradigm is founded on the premise that only one reality exists and focuses on all aspects of being and connections between existents and their mode of being (Patil, 2016). The positivism philosophy approach in researcher does vouch for the application of experimental methods of data collection which can be modified as it is challenging to subject human to conditions (Ochmana, 2015). Further, the approach supports the application of various statistical techniques in testing hypotheses and analysis of research data collected using quantitative research techniques (Cohen & Wartofsky, 2013). As such this philosophy becomes ideal for the current study due to the above core tenets of the philosophy. Thus, the paradigm was applied in this research to establish the effect of budgeting practices on the operational performance of freight forwarding firms in Kenya. This was key to establishing whether there is any identifiable relationship between the selected independent variables and the study dependent variable. The adoption of the philosophy supports the utilization of a quantitative approach in the selection of appropriate research design that was applied in the course of the survey.

3.3 Research Design

The research design is a representation of the methodological approach or blueprint that guides the selection of study participants, data collection instruments, analytical approach that would be ideal in answering the research questions as clearly and as unambiguously as possible to ultimately fulfil the research objectives (Pandey & Pandey, 2021). The selection of the research

design is mainly guided by whether the aims of the study can be answered precisely using either quantitative or qualitative approach (Ochrana, 2015). Based on the philosophical direction of this study, a quantitative research design was more suitable in answering the objectives of the study. To this end the research adopted descriptive research design which is used to describe the characteristics of the population of interest, make specific predictions and test associational relationships (Kumar, 2018). Further, the descriptive research design supported quantitative statistical techniques thus facilitated the study in determining the direction and magnitude of relationship between the variables adopted in the study.

3.4 Target Population

A research population is a well-defined collection of individuals or objects known to have similar characteristics and usually have a common, binding characteristic or traits (Kumar, 2018). The research ought to ensure that the population selected is accessible and have extensive knowledge on the phenomena of interest to the research (Igwenagu, 2016). In this study the population of interest are the various firms registered and operating under the Freight Forwarding Firms in Kenya. The firms are registered and operate under the umbrella organization Kenya International Freight and Warehousing Association (KIFWA). Based on KIFWA directory (2022) there are atleast 1676 firms operating within Nairobi County in the FWA service provision. These firms informed the unit of analysis with the managing directors or finance manager acting as the unit of observation for this survey. As such the projected population for the survey was 1676 managing directors/finance managers drawn from each of the firm.

3.5 Sampling Design and Sample Size

A sample design is the architecture, or the strategy used to select study participants or respondents (Kumar, 2018). The sampling design informs the sample frame, the sampling technique and the sample size determination. A sampling frame is a list used to define the population of interest. It defines a set of elements from which a sample of the target population can be selected (Kumar, 2018). The sample frame for this study was the MD/Finance Managers drawn from the 1676 freight and warehousing firms in Nairobi County. The sampling techniques represents the various processes utilized in selecting the elements of the population that was sampled in the research. This study adopted a simple random sampling as the participants of

interest have similar traits and removed any bias with the research work. Further, simple random sampling is ideal as it ensures that all participants have equal chance of being considered in the survey thus making the study results as approximate as possible.

Igwenagu (2016) posited that, the sample must be warily selected to be representative of the population and the researcher also desires to certify that the subdivisions involved in the analysis are correctly catered for. The research obtained the sample size by adopting the Yamane formula in order to get a representative sample that can be conveniently accessed during the data collection process. The sample size for the research was as shown below;

$$n = \frac{N}{1 + N(e)^2}$$

Where, n is the sample size, N is the total population, and e is the level of precision.

Thus; $n = \frac{1676}{1 + 1676(.05 \times .05)}$ = 399 firms from which a managing director/finance manager was considered as the respondent for the current research.

3.6 Data Collection Instruments

Data collection represents the systematic process that is adopted by the researcher to collect the necessary information to meeting the objectives of the survey (Igwenagu, 2016). The data collection process is premised on whether the study used a primary research or secondary research data. The current study dominantly relied on primary research data that was collected from the representatives of the firms included in the population of interest (Ochrana, 2015). Owing to the large population and to ensure uniformity the research used structured research questionnaires to support the data collection (Kumar, 2018). The research questionnaires development was informed by the reviewed studies in the literature and the conceptualization of the variables. The instrument used a Likert scale approach in formulating statements that was arranged in line with the research objectives. The preferred Likert scale was a 5-point. The questionnaire contained three main sections; section 1 obtained information on the characteristics of the participating firms; the second section contained statements on all the independent

variables and the third section will have statements on the dependent variable of the research. Further, open-ended questions were provided to the respondents to enhance the quality of data collected from the structured questionnaires.

3.7 Research Procedures

The research procedures are a set of the steps and activities that need to be conducted in order to finally achieve the stated goals of the study during the data collection process (Kumar, 2018). Since the research involved human participants, the study ensuring that ethical approval and institutional permits are obtained. Further, the research instrument was reviewed for completeness to ensure it achieved the underlying objectives of the survey. The study ensured that research assistants who was contracted to collect research data are briefed on the aims of the study and how to approach the firms. The study used physical data collection through drop and pick methods. Where this may not be possible Google forms was provided to the respondents upon requesting for this alternate method of data collection.

To assess the weakness of the study, instrument the research conducted a pretest of the instrument with 10% (n = 40) of the sample respondents who were not involved in the final survey. The purposes of the pretest were to check the validity and reliability of the instrument. The validity check was quantitatively using the sampling adequacy and sphericity tests on the pilot data responses. Further, the responses of the pilot study supported the reliability tests using Cronbach alpha scores which determine the internal consistency of the research instrument. A standard Alpha Score of 0.7 and above was considered in the survey as the main criterion for the determination of internal consistency within the research instrument.

Table 3.1 Reliability Results

Variable	Cronbach's Alpha	N of Items	of Verdict
Budget planning	.782	6	Adopted for use in the main data collection
Participatory budgeting	.751	6	Adopted for use in the main data collection
Budgetary control, evaluation and monitoring	.866	12	Adopted for use in the main data collection
Firm characteristics	.743	5	Adopted for use in the main data collection
Operational performance	.733	5	Adopted for use in the main data collection
Overall score	.914	34	Adopted for use in the main data collection

Source: Research Data (2023)

3.8 Data Analysis and Presentation

The collected study data was cleaned, edited and sorted prior coding into Statistical Package for Social Sciences which is the preferred tool for conducting the analysis. Upon entering the data into the programme quantitative analysis commenced focusing on two main approaches; descriptive and inferential analysis. The descriptive part of the analysis will support summarizing of the responses into frequencies, percentages, means and standard deviation. The inferential analysis considered both correlation and regression analysis. The study employed the Spearman rank correlation to determine the strength and direction of association between variables and thus indicate the nature of their relationship. The study then adopted the following diagnostic checks before conducting regression analysis; normality, heteroscedasticity and collinearity tests to ensure the observations meet the standard requirements for this type of analysis. The research then estimated the following multiple regression with findings being presented using figures and tables as deemed appropriate.

$$OP = B_0 + B_1X_1+ B_2X_3+ B_3X_3+ \varepsilon \dots\dots\dots(i)$$

The terms are interpreted as follows;

OP is the operational performance of the firms

ε is the estimated error of the overall model

B0 is the constant of the estimated model

B1-B4 are the coefficients for the individual predictor variables

X1 represents the variable budget planning

X2 represents the variable participatory budgeting

X3 represents the variable budget control and evaluation

The study further adopted the below model to undertake the moderator analysis;

$$Y = \alpha + bX + cZ + dX*Z + \varepsilon$$

Where;

Y= Audit expectation Gaps within state corporations

X= Aggregate effect of budgeting process on operational performance

Z= Hypothesized moderation effect of Firm Characteristics on the Budgeting Process and operational performance

dX*Z = The composite effect of Firm Characteristics, Budgeting Process on the operational performance

ε = Error term

b,c,d = Coefficients of the predictor variables

3.9 Ethical Considerations

One the study presented all the participants with a debriefing form indicating the main goals of the research and the risks/benefits of their participation in the survey. The researcher also informed the respondents of their rights and free will in engaging in filling the questionnaire provided as well as the anonymity guidelines. The study provided participants with an informed participation consent form. The research obtained all the necessary approvals from the Strathmore University- Institutional Review Board and the National Commission for Science

Technology and Innovation. The research took necessary steps to ensure the collected study data is treated confidentially and only authorized personnel was able to access the provided data.



CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents the various findings emanating from the analysis of the collected field data from the registered freight and forwarding firms within Nairobi County. The main sections in the chapter presents results based on the following key areas; response rate, background profile, descriptive results, factor analysis and the diagnostic checks. Lastly, the research presented the inferential analysis using correlation and regression analysis.

4.2 Response Rate

The sample participants of interest in this survey were the firms registered and operate under the umbrella organization Kenya International Freight and Warehousing Association (KIFWA). There are 1,676 firms within the association and from this a sample of 399 firms within Nairobi County. Out of the sample firms the research obtained 77% responses ($n = 307$) which was considered sufficient and representative for quantitative analysis for this study as shown in figure 4.1 below.

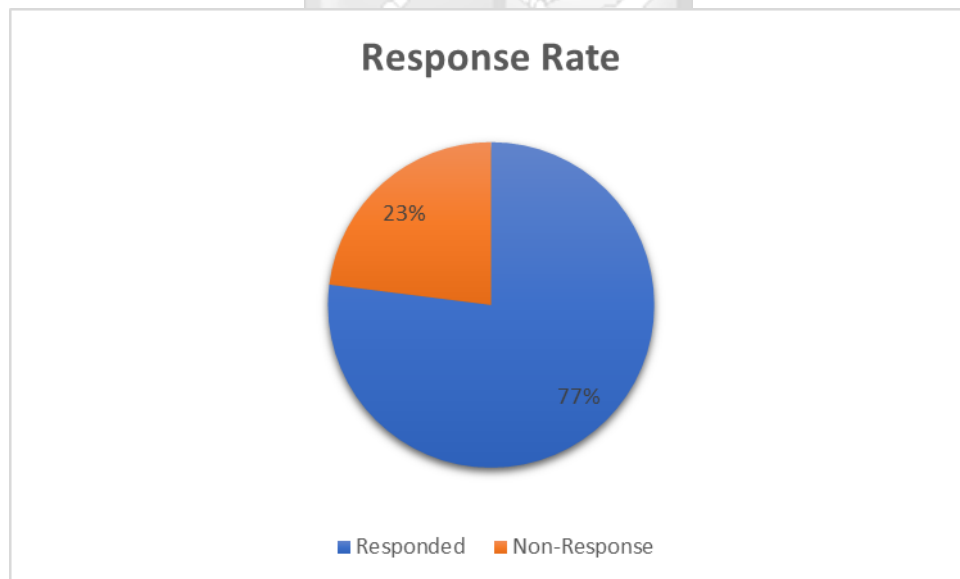


Figure 4.1 Study Response Rate

Source: Research Data (2023)

4.3 Background of the Firms

The survey analysed various characteristics of the participating firms and their personnel and the results are provided in this section.

Table 4.1 Summary of Background Information

		Frequency	Percent
Position in the firm	Finance managers	224	73.0
	Managing directors	113	27.0
	Total	307	100.0
		Frequency	Percent
Length of time Operating in the Industry	Less than 3 years	26	8.5
	4-6 years	75	24.4
	7-10 years	78	25.4
	Over 11 years	128	41.7
	Total	307	100.0
		Frequency	Percent
Employees in the firm	0-10 employees	129	42.0
	11-50 employees	140	45.6
	51-100 employees	29	9.4
	Over 101 employees	9	2.9
	Total	307	100.0
		Frequency	Percent
Annual revenue	Less than 1 million	70	22.8
	1m – 5 million	163	53.1
	5m – 10 million	51	16.6
	Over 10,000,001m	23	7.5
	Total	307	100.0

Source: Research Data (2023)

The results on the position held in the firm indicated that 73% (n = 224) were finance managers in the firms with 27% of the responses obtained from the managing directors. These participants

were deemed key to providing reliable information on the questions presented owing to the senior position they hold within the freight and forwarding firms. Out of the surveyed firms, 42% (n = 128) have operated for over 11 years, 25% have been in existence for atleast 7-10 years with only 8% operating for less than 3 years. The results showed there is varying levels of experience which is integral to providing divergent information on how budgeting process has affected operational performance over the years in the firms.

Analysis demonstrated that most of the firm's 45% (n = 140) have an employee base of 11-50 employees, 42% (n = 129) had 0-10 employees with just 3% of the firms showing they have over 101 personnel members. The results are an indication that majority of the firms are small to medium in size owing to a considerable number of firms having less than 50 employees. The analysis showed that majority of the firm's 53% generate atleast 1m-5m Kshs. Annually, 23% have less than 1m shillings in revenue and just 7% had revenue above 10m shillings. The findings revealed that generally the firms are doing financially as the business environment revamps from the pandemic which exposed the freight and forwarding firms to negative shocks in their value chain.

4.4 Descriptive Analysis

The summary of the Likert scale questions was presented using descriptive statistics such as mean, standard deviation and the frequency of the responses. The analysis was presented in the section based on the variables selected in this survey.

4.4.1 Budget Planning and Formulation

The research analyzed the budget planning and formulation among the participating firms and the findings are shown in the table below.

Table 4.2 Budget Planning and Formulation

	N	Mean	Std. Deviation
The firm maintains a clear policy that guides the preparation of cash and sales budgets	307	4.0098	.86880
The firm has put in place budgeting procedures that guide the planning practices to ensure there is alignment with available resources	307	4.2410	.77156
The firm conducts a robust review of the various options before selecting key objectives during budget planning	307	4.1173	.73604
The firm ensures there is adequate allocation and utilization of resources through prioritization of spending of the financial resources available	307	4.2085	.82577
Through robust budget planning the firm is able to maintain financial sustainability in the operations	307	4.1759	.80542
The firm conducts regular financial forecasting to ensure there is optimal allocation of financial resources during the budget planning phase.	307	4.0065	.77119

Source: Research Data (2023)

The general review of the responses indicated strong agreement (mean = 4.208, dev = .826) the firm ensures there is adequate allocation and utilization of resources through prioritization of spending of the financial resources available. Participants strongly agreed the firm has put in place budgeting procedures that guide the planning practices to ensure there is alignment with available resources (mean = 4.241, dev = .772). The respondents agreed the firm conducts regular financial forecasting to ensure there is optimal allocation of financial resources during the budget planning phase (mean = 4.001, dev = .771).

4.4.2 Participatory Budgeting

The second variable reviewed was the level of participatory budgeting in the freight and forwarding firms and results are shown in Table below.

Table 4.3 Participatory Budgeting

	N	Mean	Std. Deviation
The firm conducts routine participatory meetings with departmental heads during the budgeting process	306	3.7320	.94786
The firm fosters participation of the staff in the budgeting process to improve the accountability in the utilization of budgeted resources	307	3.7883	.84644
The firm routinely conducts a review of the adopted budget to ensure there are no conflicts in the budgeted items	307	3.7459	.84052
The firm regularly conducts formal meetings to clarify budgetary priorities to ensure there is optimal spending of the available resources	307	3.7427	1.91543
The firm adopts budgetary compensation which is instrumental in reducing the dysfunctional budgeting effects such as bloated managerial compensation behaviors	307	3.7948	.77979
Budget participation is key to providing an element of financial control which reduces financial misappropriation within the firm	307	4.0912	.94185

Source: Research Data (2023)

Findings presented above noted agreement among official that budget participation is key to providing an element of financial control which reduces financial misappropriation within the firm (mean = 4.091, dev = .942). The results showed agreement the firm routinely conducts a review of the adopted budget to ensure there are no conflicts in the budgeted items (mean = 3.746, dev = .841). Further, agreement was revealed that firm adopts budgetary compensation which is instrumental in reducing the dysfunctional budgeting effects such as bloated managerial compensation behaviors (mean = 3.795, dev = .779).

4.4.3 Budgetary Control, Evaluation and Monitoring

The respondents provided responses on the statements on budgetary control, evaluation and monitoring and summary is shown in the table below.

Table 4.4 Budgetary Control, Evaluation and Monitoring

	N	Mean	Std. Deviation
The firm has a monitoring and evaluation unit which is responsible for reviewing the proposed budget for consistency with the actual budget	307	3.8502	.93429
The firm has developed clear control procedures which guide the review of the budgets	307	3.9479	.80270
Through adopting budgetary controls, the firm is able to avoid revenue leakages which may impact attainment of the budgeted priorities	307	4.2443	.91943
The firm routinely produces spending plans which are matched with utilized funds to ensure there is minimal wastage of resources	307	3.9251	.94155
The firm reviews the budgetary control reports to check on deficits and track root cause of any losses	307	3.8111	.80651
The available financial control reports are used as basis of making budgetary adjustments on need basis to ensure smooth operations of the firm	307	3.7622	.75330
The firm involves employees in the monitoring and evaluation to help ensure financial control and identify where change is required.	307	3.5635	.88840
The firm conducts quarterly review of the budgetary expenses to ensure there is no loss of firm resources	307	3.6743	.82729
The adoption of strict monitoring and evaluation protocols supports the firms' activities focused on corrective actions to minimize loss of resources	307	3.8143	.74627
The monitoring and evaluation activities adopted within the firm provide reliable information that is used as the basis of gauging the budgetary performance of the firm	307	3.8143	.77632
The firm provides clear and consistent feedback on the monitoring and evaluation to be adopted as the basis for budgetary adjustments for each department	307	3.5635	.75734
Through the regular monitoring and evaluation of the budget the firm is able to identify changes in budgetary patterns and corrective actions needed.	307	3.7362	.81174

Source: Research Data (2023)

There was strong agreement (mean = 4.244) through adoption of budgetary controls, the firm is able to avoid revenue leakages which may impact attainment of the budgeted priorities. The study noted agreement the firm has a monitoring and evaluation unit which is responsible for reviewing the proposed budget for consistency with the actual budget (mean = 3.850, dev =

.934). The participants were in agreement (mean = 3.925, dev = .942) the firm routinely produces spending plans which are matched with utilized funds to ensure there is minimal wastage of resources. The survey indicated agreement that adoption strict monitoring and evaluation protocols supports the firms' activities focused on corrective actions to minimize loss of resources (mean = 3.814). Further analysis revealed agreement the provides clear and consistent feedback on the monitoring and evaluation to be adopted as the basis for budgetary adjustments for each department (mean = 3.564, dev = .757).

4.4.4 Firm Characteristics

The moderator variable for the research focused on the firm characteristics and the summary results are presented in Table 4.7

Table 4.5 Firm Characteristics

	N	Mean	Std. Deviation
The management team have competent and requisite financial knowledge on budgeting practices	307	4.1336	.83534
The management team involves the employees in decision making to enhance compliance to budgetary processes and improve operational performance	307	3.6938	.88417
The firm has invested heavily in internal control systems to ensure there is strict adherence to the instituted budgetary practices	307	3.7134	.77707
The firm has made significant investments in emerging information technologies to enhance operational efficiency	307	3.9870	.83617
The firm has deployed integrated information communication systems to improve information sharing and decision making which is pivotal to the performance	307	3.8860	.76911

Source: Research Data (2023)

The respondents agreed the management team have competent and requisite financial knowledge on budgeting practices (mean = 4.134, dev = .835). The study noted agreement among respondents (mean = 3.987, dev = .836) the firm has made significant investments in emerging information technologies to enhance operational efficiency. Results revealed agreement the firm

has deployed integrated information communication systems to improve information sharing and decision making which is pivotal to the performance (mean = 3.886, dev = .769).

4.4.5 Operational Performance

Dependent variable for this research evaluated the operational performance of the freight forwarding firms and the results are shown below.

Table 4.6 Operational Performance

	N	Mean	Std. Deviation
The firm has consistently seen an improvement in the profitability margins over the last year	307	3.9381	.85525
There has been a reduction in the lead time in the operations of the firm	307	3.7166	.81318
The employees within the firm have exhibited increased commitment and satisfaction with the organization operations	307	3.8893	.70995
The firm has witnessed an improvement in the efficiency and effectiveness in service provision	307	4.0651	.87578
Through continuous review of our operations the firm is able to foster there inventory performance	307	3.9414	.76471

Source: Research Data (2023)

Results showed agreement the firm has witnessed an improvement in the efficiency and effectiveness in service provision (mean = 4.065, dev = .876). The participants agreed (mean = 3.938, dev = .855) the firm has consistently seen an improvement in the profitability margins over the last year. The analysis indicated agreement through continuous review of our operations the firm is able to foster there inventory performance (mean = 3.941, dev = .765).

4.5 Diagnostic Analysis

The research employed diagnostic checks to assess the suitability of the survey data for application of inferential analysis. The following tests were considered; collinearity, normality and heteroscedasticity analysis.

Table 4.7 Collinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Budget Planning	.583	1.714
	Participatory Budgeting	.621	1.611
	Budget Evaluation	.513	1.948
2	(Constant)		
	Budget Planningx	.583	1.715
	Participatory Budgeting	.620	1.614
	Budget Evaluation	.421	2.376
	Firm Characteristics	.691	1.447

a. Dependent Variable: Operational Performance

Source: Research Data (2023)

Collinearity tests recommends that the $VIF \leq 10$, or a tolerance ≥ 0.1 as a threshold to simplify absence of multicollinearity. From the results above the VIF value ranged between 2.041 and 1.407 indicating no collinearity problems in the model adopted. The tolerance values were also above 0.1 thus affirming absence of multicollinearity.

The research further utilized normality tests to determine if the data utilized in the survey was from a normal distribution. The findings on figure 4.3 indicated the study observations fitted within the normality p-p plot thus showing the research data was from a normal distribution.

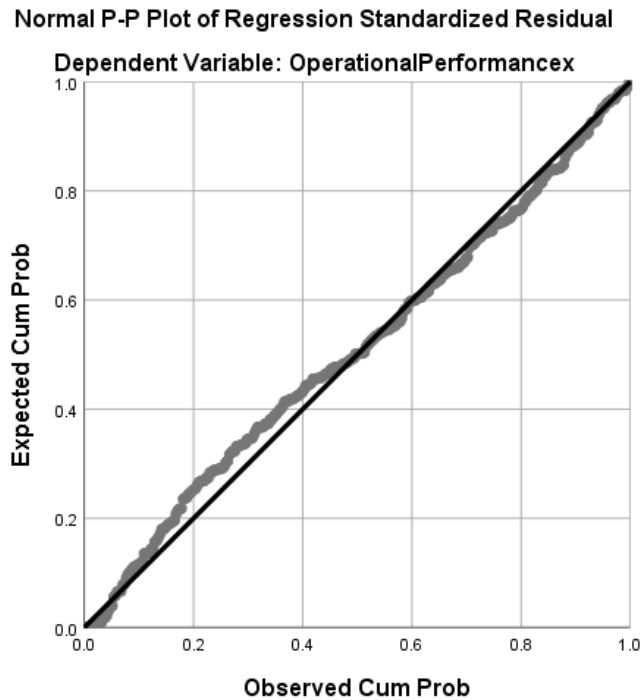


Figure 4.2 Normal P-P Plot

Source: Research Data (2023)

Heteroscedasticity test was conducted using the Scatter plot of the residuals of the regression model applied. Figure 4.4 indicated that most of the data points lie along the reference line which is indicative of constant variance (homoscedasticity) of the residuals, which implies that the condition of constant variance of the residuals was met in the research.

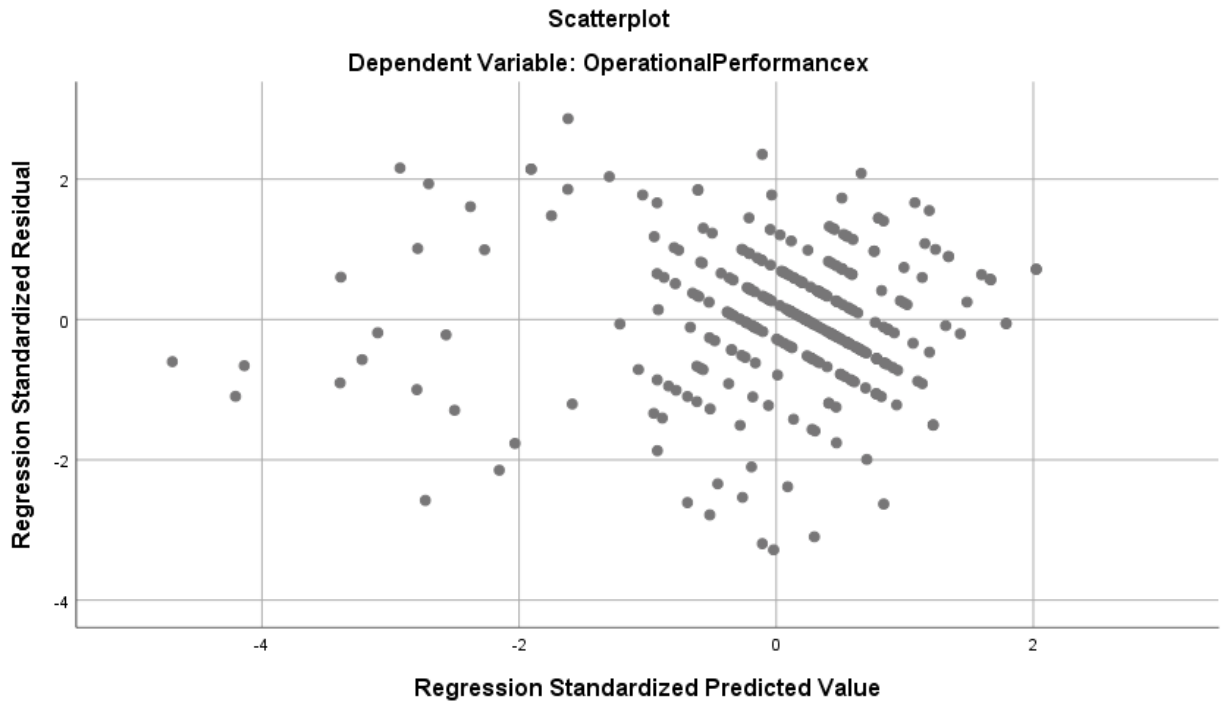


Figure 4.3 Scatter Plot Test for Heteroscedasticity

Source: Research Data (2023)

4.7 Correlation Analysis

Correlation test was implemented in the research to estimate the association between the research variables. The factors saved in the factor analysis were applied in the correlation tests and the findings are presented below.

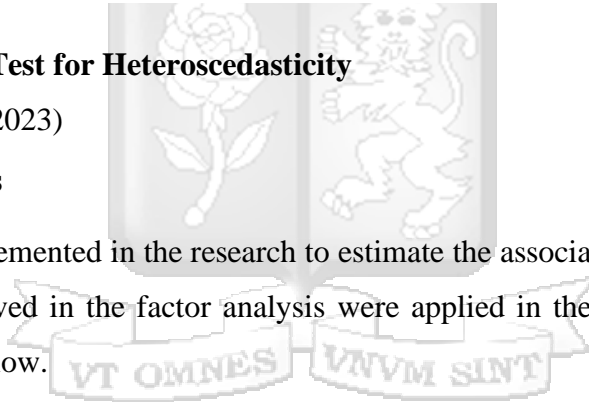


Table 4.8 Correlation Analysis

			Operational Performance	Budget Planning	Participatory Budgeting	Budget Evaluation	Firm Characteristics
Spearman 's rho	Operational Performance	Correlation Coefficient	1.000				
		Sig. (2- tailed)	.				
		N	307				
Budget Planning	Budget Planning	Correlation Coefficient	.271**	1.000			
		Sig. (2- tailed)	.000	.			
		N	307	307			
Participatory Budgeting	Participatory Budgeting	Correlation Coefficient	.320**	.417**	1.000		
		Sig. (2- tailed)	.000	.000	.		
		N	307	307	307		
Budget Evaluation	Budget Evaluation	Correlation Coefficient	.500**	.429**	.503**	1.000	
		Sig. (2- tailed)	.000	.000	.000	.	
		N	307	307	307	307	
Firm Characteristics	Firm Characteristics	Correlation Coefficient	.522**	.166**	.280**	.422**	1.000
		Sig. (2- tailed)	.000	.004	.000	.000	.
		N	307	307	307	307	307

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

Source: Research Data (2023)

The findings of the first objective on effect of budget planning revealed there was a weak positive and significant association between budget planning and formulation with the operational performance of freight and forwarding firms in Kenya ($r = .271^{**}$, $\text{Sig} = .000 < .05$). Findings revealed that budgetary control, evaluation and monitoring had a positive moderate relation with the operational performance of freight and forwarding firms in Kenya ($r = .500^{**}$, $\text{Sig} = .000 < .05$). The study results demonstrated that both components of participatory budgeting had a weak and positive significant association with operational performance of freight and forwarding firms in Kenya ($r_1 = .320^{**}$, $\text{Sig} = .000 < .05$). The analysis of the moderator variable reviewed that firm characteristic have a positive moderate and significant relation with the operational performance of freight and forwarding firms in Kenya ($r = .522^{**}$, $\text{Sig} = .000 < .05$).



4.8 Regression Analysis

The research adopted multiple linear regression analysis in order to establish the strength of the relationship between budgeting process and operational performance of freight forwarding firms. The study also utilized hierarchical regression to estimate the effect of the moderator variable and summary results are shown in this section.

Table 4.9 Regression Model Summary

Model Summary ^c					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.613 ^a	.376	.370	2.22401	
2	.711 ^b	.506	.499	1.98282	2.039

a. Predictors: (Constant), Budget Control Evaluation and Monitoring, Participatory Budgeting, Budget Planning

b. Predictors: (Constant), Budget Control Evaluation and Monitoring, Participatory Budgeting, Budget Planning, Firm Characteristics

c. Dependent Variable: Operational Performance

Source: Research Data (2023)

From the findings presented in Table 4.19, the value of R^2 was 0.376 which implies that 37.6% of variation in operational performance of freight forwarding firms were determined by the budgeting process (budget planning and formulation, participatory budgeting, budgetary control, evaluation and control).

The hierarchical regression was focused on estimating the joint effect of the independent variables and the moderator on the operational performance. The resulting R^2 was 0.512 which implies that 50.6% of variation in operational performance of freight forwarding firms were determined by the joint effect of budgeting process (budget planning and formulation, participatory budgeting, budgetary control, evaluation and control) and firm characteristics. This showed that inclusion of firm characteristics improved the magnitude of effect of budgeting process on operational performance of the firms.

Table 4.10 ANOVA Summary

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	903.266	3	301.089	60.873	.000 ^b
	Residual	1498.702	303	4.946		
	Total	2401.967	306			
2	Regression	1214.630	4	303.658	77.235	.000 ^c
	Residual	1187.337	302	3.932		
	Total	2401.967	306			

a. Dependent Variable: Operational Performance

b. Predictors: (Constant), Budget Control Evaluation and Monitoring, Participatory Budgeting, Budget Planning

c. Predictors: (Constant), Budget Control Evaluation and Monitoring, Participatory Budgeting, Budget Planning, Firm Characteristics

Source: Research Data (2023)

The first ANOVA test was conducted to determine if there was a significant relation between budgeting process and operational performance of the firms. The model yielded a F-value = 60.873, Sig = .000 < .05 which signified there was a positive and statistically significant relationship between budgeting process and operational performance of freight forwarding firms in Kenya.

The second model focused on determining the moderating effect of firm characteristics on the relationship between budgeting process and operational performance. The results revealed a F-value = 77.235, Sig = .000 < .05 which confirmed that firm characteristics had a positive and significant moderating effect on the relationship between budgeting process and operational performance of freight forwarding firms in Kenya.

Table 4.11 Regression Coefficient Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.619	1.059		6.250	.000
	Budget Planning	.070	.030	.083	2.333	.005
	Participatory Budgeting	-.009	.042	-.013	-.225	.822
	Budget Control Evaluation	.250	.028	.566	8.939	.000
2	(Constant)	3.299	1.015		3.250	.001
	Budget Planning	.079	.045	.094	1.766	.078
	Participatory Budgeting	-.024	.038	-.032	-.630	.529
	Budget Control Evaluation	.146	.028	.331	5.303	.000
	Firm Characteristics	.421	.047	.433	8.899	.000

a. Dependent Variable: Operational Performance

Source: Research Data (2023)

Based on the results above the findings of the study can be interpreted per the research objectives as follows;

To establish the effect of Budget Planning and Formulation on the operational performance of Freight Forwarding Firms in Kenya.

The coefficient for budget planning $B_1 = .070$, $t\text{-value} = 2.333$, $sig = .005 < .05$. The findings revealed that budget planning and formulation have a positive effect on the operational performance of Freight Forwarding Firms in Kenya. Changing the budget planning and formulation by a unit will contribute a positive effect on performance by a factor of 0.70.

To examine the effect of Participatory Budgeting on the Operational Performance of Freight Forwarding Firms in Kenya.

The factor analysis had two components of participatory budgeting. The first component had a coefficient **B = -.009, t-value = -.225, sig = .822 < .05** showing no significant effect. The results implied that participatory departmental budget meetings, participation of the staff and routine review of budget items, regular formal meetings, budgetary compensation and financial control have no significant effect on operational performance.

To examine the effect of Budgetary Control, Monitoring and Evaluation on the Operational Performance of Freight Forwarding Firms in Kenya.

The results of the factor analysis had two main components for budgetary control, monitoring and evaluation. The findings revealed component 1 had a coefficient **B₃ = .250, t-value = 8.939, sig = .000 < .05**. This confirmed that introducing control measures, spending plans, employee involvement in M&E, utilization of financial controls, quarterly reviews of budgets, monitoring and evaluation activities, review of consistent feedback from M&E and regular M&E corrective measures would significantly lead to improvement in operational performance by a factor of .250.

To examine the moderating effect of Firm Characteristics on the relationship between Budgeting Process and Operational Performance of Freight Forwarding Firms in Kenya.

The coefficient for firm characteristics **B₄ = .421, t-value = 8.899, sig = .000 < .05**. The findings revealed that firm characteristics have a positive effect on the operational performance of Freight Forwarding Firms in Kenya. Changing firm characteristics by a unit will yield a positive effect on performance by a factor of 0.421

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The last chapter of the survey focuses on the presentation of the summary of the research and discussion of the results. The chapter further presented the conclusions drawn from the study based on the results as well as the policy and practical recommendations. Lastly suggestions for further research were outlined in the chapter.

5.2 Summary of Research

The freight forwarding industry has been a vital contributor to the GDP within the country however in recent years even prior to the pandemic the contribution of the industry has been erratic. Various reports have shown that local firms in the sector have been struggling as more multinational firms enter the market. This research focused on understanding if the budgeting process has influenced the operational performance the freight and forwarding firms in Kenya. The survey was grounded on the theory of budgeting and the stakeholder theory. The study adopted a quantitative descriptive research design with population of interest drawn from KIFWA registered firms. Structured questionnaires were adopted in the data collection with descriptive and inferential approaches used in the analysis. The research obtained 77% responses (n = 307) which was considered sufficient and representative for quantitative analysis. The majority of the respondents 73% (n = 224) were finance managers in the firms with 27% of the responses obtained from the managing directors.

The Bartlette's test of sphericity and Kaiser-Meyer-Olkin confirmed that factor analysis was feasible to be conducted in the study. Spearman rank correlation pointed to positive relation between budgeting planning and formulation, participatory budgeting, budgetary control, monitoring and evaluation within the operational performance of the firms. The first regression model revealed that 37.6% of variation in operational performance of freight forwarding firms were determined by the budgeting process (budget planning and formulation, participatory budgeting, budgetary control, evaluation and control). Jointly, budgeting process and firm characteristics contributed to 50.6% of variation in operational performance of freight forwarding firms. The regression coefficients showed that budget planning and formulation,

budgetary control, evaluation and control had a significant effect while participatory budgeting did not significantly influence operational performance of the firms.

5.3 Discussion of Results

5.3.1 Budget Planning, Formulation and Operational Performance

The study first examined the impact of budget planning and formulation on operational performance and from the questions presented, the respondents indeed confirmed that the budget planning and formulation practices instituted in their organizations have positive and significant effects on firms' operational performance in terms of increased efficiency, effectiveness and inventory performance. The respondents were in agreement that the firm's budgeting procedures ensure the firms are able to align goals and objectives to resources. This finding was also made by Mulani, Chi and Yang (2015) in their study which investigated the influence of budgetary planning and sophistication on Indian SME's performance outcomes.

The study showed a positive impact of budget planning, and singled out budget goal setting as one of the essential budget processes that influence employees' motivation as well as the firm's commitment towards meeting organizational goals. Similarly, Le and Nguyen (2020) ascertained that the goal setting phase of budgetary planning has significant impacts on firm's strategic direction. Furthermore, both researchers called on firms to ensure they set clear and achievable goals. Ombaba (2020) also showed how budgeting process improves cost efficiency, timely delivery of goods and profitability growth.

The analysis also revealed that the firms' budgeting process have a robust review process whereby various options are considered prior to the selection of key objectives. These observations align with those of Kamau, Rotich and Anyango (2017) who assessed the budgeting process of state firms. According to the researchers, budget planning improved the hospital's spending patterns and improved resource allocation as well as acquisition of key medicines, equipment and hospital products. In the same fashion, Scott and Enu-Kwesi (2018) observed that involvement of employees in budget formulation, planning and evaluation all improved service delivery of local government offices.

The study also showed how involvement of professionals as well as employees in budget formulation and evaluation improved budget execution as well as the relationships within the

organization between managements and their juniors. The respondents also showed a high degree of agreement that the firm conducts regular financial forecasting to ensure there is optimal allocation of financial resources during the budget planning phase. Kimani (2014) showed how effective managers use previous budgets to improve forecasting and identifying potential problems. The researcher opined that having active budget oversight committees and instituting policies and budget planners that expressly prepare written budgets are important indicators of healthy organizations.

5.3.2 Participatory Budgeting and Operational Performance

The second objective was on the influence of participatory budgeting on freight forwarders operational performance and the study focused on factors such as involvement of employees in review of budget conflicts, clarification of budget priorities and review of compensation and from the analysis, participatory budgeting processes had insignificant impacts on the firms' operational performance. This shows that there is room for improvement for the firms with regards to fostering stakeholder participation in the budgeting process as asserted in India by Prihantari and Astika (2019). These researchers found that involving employees in the budgeting process reduces the likelihood of role overload, role uncertainty and competence. Further, the researchers showed that employee involvement improved financial compensation as budgets included forecasted expenses.

The research findings pointed to Budget participation as a control element that enhances financial control. According to the empirical evidence from Agbenyo, Danquah and Shuangshuang (2018), budgeting helps in the integration of an organization's strategic plans with budgets and processes of cost control, helps in the identification of financial skills that would improve decision making, and the key financial indicators for businesses and how to manage these indicators. The respondents agreed that budgetary compensation is instrumental in reducing dysfunctional budgeting effects such as bloated managerial compensation behaviors. Agbenyo et al. (2018) were of a similar opinion in their study which asserted that budget success can be a useful benchmark against which auditors can judge an organization's management success in meeting its financial objectives and institute timely corrective measures. Furthermore, according to Fauzan, Prajanti and Wahyudin (2019), quality budgeting

whereby teachers are involved in budgeting increase the efficiency of the budgetary process and improve managerial decisions.

There was also agreement from the respondents that budget participation is key to providing an element of financial control which reduces financial misappropriation within the firm, Kaijage (2019) also asserts that departmental involvement in projecting future needs and expectations has a significant effect on the realization of organizational goals and accountability as it provides a means to establish variances between actual versus expected performance and improve decision making capability. Similar observations had been made by Yuliansyah, Adha Inapty, Dahlan and Oktri Agtia (2018) in their study on participatory budgeting on employee performance. According to the researchers, including employees in the budgeting process increases pride and membership which in turn increase employee commitment.

5.3.3 Budgetary Control, Monitoring, Evaluation and Operational Performance

The third objective of the study was on the effect of budgetary control, monitoring, evaluation and operational performance and the analysis revealed that budgetary control, monitoring and evaluation has a positive and significant contribution to the operational performance of freight and forwarding firms. These observations had been made by Schubert and Kirsten (2021) in their analysis of budgetary control practices on SME's financial performance. The study showed improved strategic planning, cost control, identification of resource and material requirements. Furthermore, according to Gupta and Deena (2021), that an efficient budgeting process facilitates sustainable competitive advantage and improves managerial decision making through improved executive control.

The study respondents agreed that their respective firms have developed clear control procedures which guide the review of the budgets. Boama-Secu (2019) also revealed that budget planning, budget monitoring and control systems do improve transport firms' performance outcomes, contributing to reduced business failures and job losses. There was also agreement that the firm routinely produces spending plans which are matched with utilized funds to ensure there is minimal wastage of resources. They also showed agreement that monitoring and evaluation of the budget the firm is able to identify changes in budgetary patterns and corrective actions needed. Mahroqi and Matriano (2021) affirmed these findings in their investigation on Omani telecommunication firms. The researchers showed the budgetary committees' oversight role of selecting the analysis technique significantly impacts accountability and called for firms to

prepare periodic budgets with junior employees to increase the firm's ability to detect and eliminate budgetary slack behavior.

The respondents also agreed that the firm has a monitoring and evaluation unit which is responsible for reviewing the proposed budget for consistency with the actual budget and has adopted reliable information that is used as the basis of gauging the budgetary performance of the firm supports the firms' activities focused on corrective actions to minimize loss of resources. Omosidi et, al. (2019) also revealed that budget committees and centralized control over the budgeting process significantly improves organizational effectiveness and resource planning and utilization while at the same time enhancing goal realization. Furthermore, according to Harelimana (2017), a budgetary control system improves managements' ability to detect overspills within departments and enact corrective measures to minimize wasteful spending.

The respondents revealed that the firms have budgetary controls whereby reports are made to check on deficits and track root cause of any losses. In similar fashion, Mutungi (2017) revealed that budget controls improve budget allocations and this has significantly impacted the counties' ability to meet their development agenda. The study determined budget control to be the most influential factor in successful budgeting processes. Murei, Kidombo and Gakuu (2017) also showed how monitoring and evaluation of budgets has a significant positive correlation with high performance among horticultural firms.

5.3.4 Firm Characteristics and Operational Performance

The findings of the research indicated there was a positive and significant contribution of firm characteristics on the operational performance of the firms. The respondents acknowledged that they have retained a competency management team with financial literacy, there is involvement of employees in decision making, improved investment in internal control systems and deployment of IT to enhance information sharing and decision making which all lead to better performance. Consistent with this Ararsa (2021) confirmed that enhancing the management ability to understand the intricacies of the budgeting process is key to significant improvement in company performance. Muslih and Marbun (2020) survey showed that the size of the firms and the managers risk awareness were critical to performance of entities.

In another research Mpakaniye and Paul (2017) pointed out that the management staff capabilities and risk aversiveness in the budgeting process are critical to enhancing the performance of a company and improving budgetary outcome. Locally, Kibunja (2017) confirmed that organization's internal culture, adoption technologies, improving the control system were all linked to better budgetary performance within devolved units. Ombaba (2020) found similar results to this study by demonstrating that budgetary performance is significantly associated with senior managers' ability to determine and work towards organizational goals, calling on firms to ensure they have managers with a high degree of financial literacy.

5.4 Conclusions

The research overall findings led to the conclusion that budgeting process has a positive and significant relationship with the operational performance of the firms. This showed that through reliance on better budget planning and formulation, participatory budgeting and implementing budgetary control, monitoring and evaluation will lead to better performance of the freight and forwarding firms. The results supported the conclusion that firm characteristics significantly contributed to improved operational performance of the freight and forwarding firms. Further, the research concluded that there was a significant moderating effect of firm characteristics on the relationship between budgeting process and operational performance.

5.4.1 Budget Planning, Formulation and Operational Performance

The results of the regression supported the conclusion that within the freight and forwarding firms budget planning and formulation is a significant predictor of operational firms. The implication of the results is that maintaining clear policy on budget planning, aligning the firm objectives to the available budget and adequate allocation of resources supported by effective prioritization of spending will improve the performance. Further, allowing for data-backed financial forecasting during planning phase will be key to enhancing the operational performance of the firms.

5.4.2 Participatory Budgeting and Operational Performance

The study analysis led to the conclusion that participatory budgeting does not have a significant effect on the operational performance of freight and forwarding firms. These findings showed that within the firms the level and quality of participatory meeting, involvement of staff

members, utilizing formal departmental meetings and involving employees in financial control has not been effective in improving the operational performance of the firms.

5.4.3 Budgetary Control, Monitoring, Evaluation and Operational Performance

The research concluded that budgetary control, monitoring and evaluation has a positive and significant contribution to the operational performance of freight and forwarding firms in Kenya. The results showed that consistent review of the budgets, implementation of control procedures as well as relying on budgets to make informed on decision making are vital to better operational performance of the firms. The findings further revealed that clear M&E feedback as implementation of corrective actions on the budgeting process can significantly lead to better operational performance.

5.4.4 Firm Characteristics and Operational Performance

Lastly, the survey results confirmed that firm characteristics have both a significant moderating and explanatory effect on the operational performance of the firms. This showed that relying on the firm characteristics can lead to better operational performance of freight and forwarding firms in Kenya. The findings noted that adequate knowledge and competencies on financial management, involvement of employees in decision making, better investment in control systems and utilizing digitalized systems can significantly lead to better operational performance.

5.5 Recommendations

Based on the study findings the research recommends that freight and forwarding firms should embark on alliances with professional consulting firms that will help in shaping their budgeting process. This can take the form of adopting new standards, formulating new policies that are aligned to the firm's goals and ensuring there is an overall understanding of the budgeting process within the firm. The study recommends that firms should adopt a more structurally budget that is focused on both the financial and operational sustainability of the company. This achievable through identifying key items and ensuring the budgeting process is aligned to the capacity of the firm. Lastly, the study recommends that firms should ensure there is continuous engagement of key personnel and the management team in professional development training to be cognizant of the changing practices in the budgeting process. This will improve the

competencies and knowledge within the team which would be vital to attainment of improved firm performance.

Further analysis pointed out a significant contribution of budget planning and formulation on the firm performance. It's recommended that the firms should improve the professional competency of their personnel which will aid in easing the budget preparation process and ensure there is enhanced understanding of the roles staff play in implementing the firm's budget which can improve achievement of better performance. Further, the study recommends that through detailed analysis of the firm's objectives and allocative procedures the company can improve efficiency in the utilization of funds which would essentially improve the operational performance. Lastly, the study recommends that the companies should leverage on the prior annual budgetary planning reports to make sensible forecasting on the capacity of the firm which is key to attainment of firm goals.

The findings showed that budget participation was not a significant contributor to the operational performance of the firms. This research recommends that the executive of the various firms should to some extent decentralize the budgeting making process through developing a framework that guides how different departments and personnel can be involved in the budgeting process. Through meaningful engagement the firm can get the support of personnel in effectively identifying and executing key priority areas in the budgeting process. Further, allowing personnel in the decision-making process can help address bottleneck within the organization which would foster the overall performance of the firm. The study also recommends that firms should look at setting up budgeting committee at functional levels as a way of ensuring the various departments have a harmonious participatory role in the budgeting process as this can significantly improve firm performance.

The findings also revealed that budgetary control, evaluation and monitoring do significantly lead to better operational performance. To further enhance this the study recommends that firms should invest in more audit systems which will help in controlling spending, checking on wastage and instituting an approval process which aids in the overall control and monitoring of the budgeting process. The research recommends that the finance managers within the firm should consider investing in new information systems that will aid in continuous M&E activities that can significantly improve decision making and executing of corrective actions when there

are failures in the budgeting process. This would be integral in sustaining the operational performance of the firms. Lastly, the companies should strive to routinely provide M&E feedback at all functional units of the firm to ensure that departmental heads are aware of the failures and successes of the departments in adhering to the budgetary provisions which can improve future operational awareness within the team.

5.6 Suggestions for Further Research

The research was limited contextually to examining the operational performance of the freight forwarding firms; hence it would be prudent for future research work to consider utilizing secondary data to assess impact of budgetary processes on the financial performance of the firms. Secondly, the study showed that other unaccounted factors in the model have an effect on operational performance of the freight forwarding firms; thus, future research work should consider an analysis of environmental factors influencing the performance of the selected firms. Further research work should also explore how other financial management practices influence the performance of the firms thus enhancing the available knowledge for practical and policy improvement in the industry.

5.7 Limitations of the Study

The study scope was limited to freight and forwarding firms operating around the inland depot container and did not consider other firms within the industry operating within the port regions thus limiting the number of responses obtained. Further, the research was not able to extend and cover other performance dimensions such as operational performance and other statistical data on the logistics industry performance which limited the available data utilized in the survey. The study data collection was also limited by unavailability of senior management to respond to the survey which led to extensive time limitations in finalizing the survey. Lastly, the study only considered three components of the budgeting process further research can be conducted considering more metrics in the analysis.

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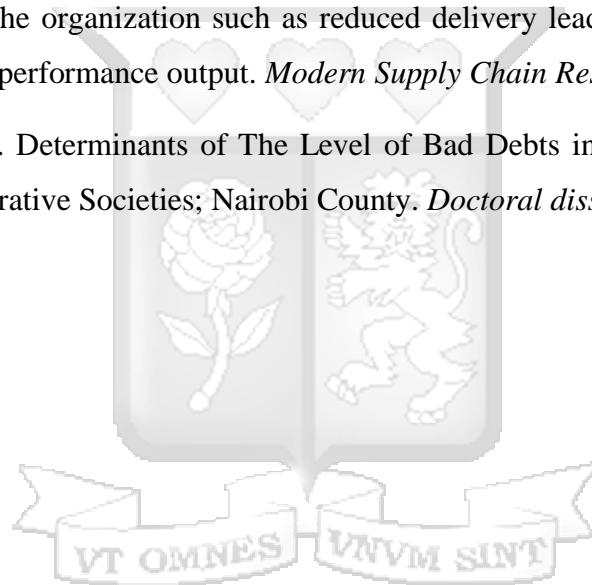
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APPENDICES

Appendix I: Participant Consent Form

Participant Information and Consent Form

Title of the Proposed Study:

EFFECT OF BUDGETING PROCESS ON THE OPERATIONAL PERFORMANCE OF FREIGHT FORWARDING FIRMS IN KENYA.

Section I:

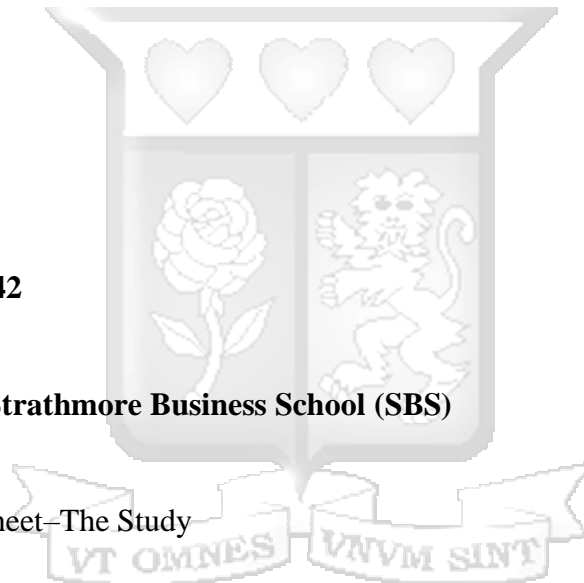
Investigator:

FIDELIS WAMBUI

ADMISSION NO. 037042

Institutional Affiliation: **Strathmore Business School (SBS)**

Section II: Information Sheet—The Study



2.1: Why is this study being carried out?

The research is being undertaken as a partial requirement for the academic award of Masters of Business Administration Degree. The intent of the research was purely for the academic purposes and no research data sought was utilized beyond that parameter.

2.2: Do I have to take part?

No, your participation in the study was upon your own willingness. Even upon consent to take part in the study, the respondent can decline to take part in the study at any point within the course of the exercise. The study will ensure that all participants are aware of their rights to cease their participation at any point of the research.

2.3: Who is eligible to take part in this study?

The study will only be open to the freight forwarding firms that are fully subscribed members. The firms are registered and operate under the umbrella organization Kenya International Freight and Warehousing Association (KIFWA). Based on KIFWA directory (2022) there are at least 1676 firms operating within the FWA service provision.

2.4: Who is not eligible to take part in this study?

The research will not consider firms that are not categorized within the above unit of observation.

2.5: What will taking part in this study involve for me?

The researcher will only seek your opinion in filling up selected items on the the effect of Budgeting Practices on the Operational Performance of Freight Forwarding Firms in Kenya. The researcher will require you to go through the items in the questionnaire and respond to them to the best of your knowledge and without bias. The responses obtained was for the previously mentioned purposes only.

2.6: Are there any risks or dangers in taking part in this study?

The study poses no risk whatsoever to the respondents. The participation in this study was beneficial to all the freight forwarding firms as it will provide relevant information that can help address the gaps in their operational performance.

2.7: Are there any benefits of taking part in this study?

The findings of this study was beneficial to freight forwarding firms in Kenya as it will help the management in identifying the various budgetary factors the firm can take into consideration to drive their operational performance. Further, the results will help the management of the firm in formulating better decisions pertaining to their company when it comes to the issues of budgeting practices. The study results will provide the government and relevant policymakers with information that will enable the establishment of legislation and systems that support the better budgetary management and foster the operational performance of the freight forwarding firms.

2.8: What will happen to me if I refuse to take part in this study?

There is no risk to non-participants whatsoever. Participation in the study is entirely voluntary.

2.9: Who will have access to my information during this research?

All the accessed research data was treated with utmost confidentiality and will not be disclosed to any person who is not party to the research process. If required the findings of the research can be communicated to your office through a formal request to the institution or me. The study will also provide the participating institutions with a copy of the findings of this research upon request to support any practical implications they may harness from the results.

2.10: Who can I contact in case I have further questions?

Any query can be directed to me Fideli Wambui (+254 722 842132). Any further information can be sought from my Research Supervisor **David Mathuva, PhD** through **Strathmore Business School**

If you want to ask someone independent anything about this research please contact:

The Secretary–Strathmore University Institutional Ethics Review Board, P. O. BOX 59857, 00200, Nairobi, email ethicsreview@strathmore.edu Tel number: +254 703 034 375

I, _____, have had the study explained to me. I have understood all that I have read and have had explained to me and had my questions answered satisfactorily. I understand that I can change my mind at any stage.

Please tick the boxes that apply to you;

Participation in the research study

I AGREE to be part of the research ()

I DO NOT AGREE to be part of the research ()

Storage of information on the completed questionnaire

I AGREE to have my completed questionnaire stored for future data analysis ()

I DON'T AGREE to have my completed questionnaire stored for future data analysis ()

Participants Name:

Participants Signature: Date:

I, _____ (Name of person taking consent) certify that I have followed the SOP for this study and have explained the study information to the study participant named above, and that s/he has understood the nature and the purpose of the study and consents to the participation in the study.

Signature:

Date:

Name: Fidelis Wambui

+254 722 842132

Appendix II: Questionnaire for Freight Forwarding Firms

Hello respondent,

I am Fidelis Njomo, a MBA student at Strathmore University. As part of the institutional requirements for the award of the degree, I'm expected to undertake research within my area of expertise. To meet this goal, I'm conducting research on the; ***EFFECT OF BUDGETING PROCESS ON THE OPERATIONAL PERFORMANCE OF FREIGHT FORWARDING FIRMS IN KENYA.***

Your reputable firm that is recognized by the **Kenya International Freight and Warehousing Association** meets the requirement for inclusion in this survey. I'm kindly requesting for your help in filling the attached questionnaire. The responses you will provide was treated with utmost confidentiality and will not be shared with any unauthorized people. Your anonymity was guaranteed in the course of the study. I sincerely appreciate your willingness to be a part of this study and should you require the findings kindly let me know and I can share upon completion of the survey.

Regards.

PART A: FIRM PROFILE

1. What is your position within the firm?

Managing Director ()

Finance Manager ()

2. How long has your firm been operating in the Freight and Warehousing industry?

Less than 3 years ()

4-6 years ()

7-10 years ()

Over 11 years ()

3. How many employees does your firm currently have?

0-10 employees ()

11-50 employees ()

51-100 employees ()

Over 101 employees ()

4. What was your annual revenue in the last 12 months?

Less than 1 million ()

1m – 5 million ()

5m – 10 million ()

Over 10,000,001m ()

PART B: EFFECT OF BUDGETING PROCESS ON THE OPERATIONAL PERFORMANCE OF FREIGHT FORWARDING FIRMS IN KENYA

The following questionnaire sought to obtain information on the various statements touching on budgeting practices and operational performance within your firm. The statements are developed using a 5-point Likert scale; kindly use the following key to indicate your level of agreement with the statements;

1 = not at all, 2 = strongly disagree, 3 = disagree, 4 = agree, 5 = strongly agree

	Budget Planning and formulation	1	2	3	4	5
1.	The firm maintains a clear policy that guides the preparation of cash and sales budgets					
2.	The firm has put in place budgeting procedures that guide the planning practices to ensure there is alignment with available resources					
3.	The firm conducts a robust review of the various options before selecting key objectives during budget planning					
4.	The firm ensures there is adequate allocation and utilization of resources through prioritization of spending of the financial resources available					
5.	Through robust budget planning the firm is able to maintain financial sustainability in the operations					
6.	The firm conducts regular financial forecasting to ensure there is optimal allocation of financial resources during the budget planning phase.					

	Participatory Budgeting	1	2	3	4	5
1.	The firm conducts routine participatory meetings with departmental heads during the budgeting process					
2.	The firm fosters participation of the staff in the budgeting process to improve the accountability in the utilization of budgeted resources					
3.	The firm routinely conducts a review of the adopted budget to ensure there are no conflicts in the budgeted items					
4.	The firm regularly conducts formal meetings to clarify budgetary priorities to ensure there is optimal spending of the available resources					
5.	The firm adopts budgetary compensation which is instrumental in reducing the dysfunctional budgeting effects such as bloated managerial compensation behaviors					
6.	Budget participation is key to providing an element of financial control which reduces financial misappropriation within the firm					

	Budgetary Control and Evaluation and Monitoring	1	2	3	4	5
1.	The firm has a monitoring and evaluation unit which is responsible for reviewing the proposed budget for consistency with the actual budget					
2.	The firm has developed clear control procedures which guide the review of the budgets					
3.	Through adopting budgetary controls, the firm is able to avoid revenue leakages which may impact attainment of the budgeted priorities					
4.	The firm routinely produces spending plans which are matched with utilized funds to ensure there is minimal wastage of resources					
5.	The firm reviews the budgetary control reports to check on deficits and track root cause of any losses					
6.	The available financial control reports are used as basis of making budgetary adjustments on need basis to ensure smooth operations of the firm					
7.	The firm involves employees in the monitoring and evaluation to help ensure financial control and identify where change is required.					

8.	The firm conducts quarterly review of the budgetary expenses to ensure there is no loss of firm resources					
9.	The adoption of strict monitoring and evaluation protocols supports the firms' activities focused on corrective actions to minimize loss of resources					
10	The monitoring and evaluation activities adopted within the firm provide reliable information that is used as the basis of gauging the budgetary performance of the firm					
11	The firm provides clear and consistent feedback on the monitoring and evaluation to be adopted as the basis for budgetary adjustments for each department					
12	Through the regular monitoring and evaluation of the budget the firm is able to identify changes in budgetary patterns and corrective actions needed.					

	Firm Characteristics	1	2	3	4	5
1.	The management team within the organization have competent and requisite financial knowledge on the various budgeting processes					
2.	The management team involves the employees in decision making to enhance compliance to the budgetary process and improve operational performance					
3.	The firm has invested in internal control systems to ensure there is strict adherence to the instituted budgetary practices					
4.	The firm has made significant investments in emerging information technologies to enhance the operational efficiency of the firm					
5.	The firm has deployed integrated communication systems to improve information sharing and decision making which is pivotal to the performance					

	Operational Performance	1	2	3	4	5
6.	The firm has consistently seen an improvement in the profitability margins over the last year					
7.	There has been a reduction in the lead time in the operations of the firm					
8.	The employees within the firm have exhibited increased commitment and satisfaction with the organization operations					

9.	The firm has witnessed an improvement in the efficiency and effectiveness in service provision					
10	Through continuous review of our operations the firm is able to foster there inventory performance					

Thank you for participating in the survey.



Appendix III: Ethical Review Committee Approval



22nd March 2023

Mrs Njomo Fidelis Wambui,
fidelis.njomo@strathmore.edu

Dear Mrs Njomo,

RE: Effect of Budgeting Process on the Operational Performance of Freight Forwarding Firms in Kenya

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC1631/23**. The approval period is from **22nd March 2023 to 21st March 2024**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 48 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 48 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to SU-ISERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

for: **Dr Ben Ngoye,**
Secretary; SU-ISERC

Cc: Mr Ambrose Rachier,
Chairperson; SU-ISERC



Appendix IV: NACOSTI Research License


REPUBLIC OF KENYA


**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: **854881** Date of Issue: **05/April/2023**

RESEARCH LICENSE



This is to Certify that Ms.. Fidelis Wambui Njomo of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: EFFECT OF BUDGETING PROCESS ON THE OPERATIONAL PERFORMANCE OF FREIGHT FORWARDING FIRMS IN KENYA for the period ending : 05/April/2024.

License No: **NACOSTI/P/23/24846**

854881
Applicant Identification Number


Director General
**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
INNOVATION**

Verification QR Code



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