

Assessing Budgeting and Budgetary Control Effectiveness of Credit Unions in the Upper West Region of Ghana

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Abstract

Despite the significant role played by Budgeting and Budgetary Control in aiding organizational success, many Credit Unions (CUs) within the upper west region of Ghana have neglected this important performance management mechanism. Considering the significant role played by Credit Unions in Ghana in supporting micro and small scale enterprises and agriculture against the backdrop of high mortality rate of Credit Unions in the Upper West Region (where the first Credit Union in Africa was formed) it is important to consider if budgeting and budgetary control functions are being efficiently discharged. The main objective of the study was to identify whether any relationship exist between budgeting and budgetary control on one hand and financial performance on the other hand, of Credit Unions in the upper west region of Ghana. The study used the descriptive and correlational research methods targeting the entire population of eight (8) Credit Unions registered with the Department of Co-operatives and affiliated to Ghana Co-operative Credit Unions Association Limited (CUA). The census survey method was employed due to the small population size and purposive sampling was used to select the study respondents due to the technical nature of the subject and a regression model adopted to determine the association between dependent and independent variables. The study found that financial performance is significantly influenced by the budgeting and budgetary control practices of Credit Unions in the Upper West Region. It was also revealed by the study that the extent of use of good budgeting and budgetary control practices including formal budget planning, use of excel/software, punishments/reward, budget participation, flexibility, zero-base budgeting and budget comprehensiveness was very low among Credit Unions. Those directly responsible for the proper preparing and execution of the budget should be properly trained to equip them with the knowledge and skills to do and better job including the adoption of better budgeting and budgetary control practices to help improve financial performance of Credit Unions.

Keywords: Budget, Budgetary Control, Return on Assets, Permanent Income Hypothesis, Effectiveness, Organisational Performance

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1. Introduction

The Judicious management of the resources of every organization by the people entrusted with leadership is one function without which no entity can survive. Since no organization wields all the resources it may need, it is imperative that the planning and control of especially financial resources take center stage in every business entity. Failing to plan and control the financial resources can affect the very survival of an enterprise as this will create a mismatch or absence of inputs at the time they are needed. Without first fashioning out the activities that an entity would undertake to generate and use funds and translating these into monetary values or quantities it will be impossible for an organization to attain its goals.

Budget and Budgetary control constitute important management and internal control systems and are central to the process of planning and control which are major activities of management in all organizations (Beatrice and Thuo, 2013). Without budgeting, the stakeholders of any business will be chasing nothing. Leaders and employees will work at cross purposes and there would be no yardstick for determining what has been achieved and whether results are satisfactory or not and disaster will be the ultimate end.

The model Credit Unions Financial Management Manual issued by CUA Limited (2009, P.5) states that “The planning process enables the Credit Union Board of Directors to establish the amount of cash that will be needed in any given period of time”. Planning enables the Board of Directors to ask questions regarding the value of cash and other resources available, how much will be needed in the future and what the gaps are together with identifying where the gaps will be filled from. The Upper West Chapter Annual work plan for 2015 reveals that most of the targets set by credit unions over the past three years have not been achieved.

Despite the significant role played by Budgeting and Budgetary Control in aiding organizational performance, many Credit Unions within the upper west Region (chapter) of Ghana are operating without formal or documented budgets (Chapter Data Analysis Sheet, UW Chapter, 2015). The rate at which Credit Unions are getting into distress and eventual liquidation is on the increase. As posited by Kyei et al (2015), studies on budgets and budgetary control have been a neglected research domain in developing countries. Budgetary ineffectiveness has long been identified as a serious problem in the Credit Union movement as a whole but not many studies have been conducted on this particularly on investigating the influence of budgeting on financial performance. This

research, therefore, seeks to fill this void by investigating the factors contributing to budgetary ineffectiveness and the relationship between budgeting and budgetary control and financial performance of Credit Unions in the upper west region of Ghana.

Therefore, the study will achieve the following objectives:

- a) The main objective of the study is to assess the relationship between budgeting and budgetary control and financial performance of Credit Unions in the upper west region with the aim of making recommendations to improve financial performance.
- b) This study will further seek to explore and investigate the following sub-objectives:
 - i. To identify and describe the present budgeting and budgetary control practices of Credit Unions in the Upper West Chapter.
 - ii. To determine the extent to which good budgeting and budgetary control procedures such as participation, formal budgeting planning, flexibility, comprehensiveness and variance reporting are being applied by Credit Unions in the Upper West Chapter.
 - iii. To identify the various challenges faced by Credit Unions in the Upper West Chapter, in the budgeting and budgetary control processes.

Emanating from the objectives of the study, the main research question is:

- a) how does the existence and use of budgets and budgetary control impact on the financial performance of Credit Unions?
- b) Research questions in respect of the sub-objectives outlined above are:
 - i. What are the present budgeting and budgetary control procedures and practices being used by Credit Unions in the Upper West Chapter?
 - ii. To what extent do Credit Unions in the Upper West Chapter embrace good budgeting and budgetary control practices such as participation, formal budgeting planning and variance use in corrective action?
 - iii. What are the practical challenges faced by Credit Unions in the preparation of budgets and the adoption of budgetary control procedures?

2. Conceptual Framework

2.1 The Concept of Budget

A budget is a statement that quantifies the periodic plan of an entity showing what the desired outcomes are and how they will be achieved. At its early stage of development, budgeting was concerned with preparing and presenting credible information to legitimize accountability and to permit correct performance evaluation and consequently, rewards. However, over the years, the function and focus of budgeting has shifted considerably as business organization become more complex and their environment become dynamic. Planning and control have long been identified as critical functions of management, but these cannot be properly exercised without the use of budgets (Okpanachi and Muhammed, 2013). Neely et al (2003) discussed that to be effective, budgets must, firstly, be aligned with the organization's strategies and appropriate strategic planning and performance management processes introduced. A budget is viewed as a tool for establishing standards for the management to adhere to. By itemizing all the key activities involved in running an organization, budgets predict the activity levels for each key area such as revenues, expenditures and the overall bottom line within a defined period of time, say a year (Kpedor, 2012)

Dickson (2013) noted that fundamental to the success of any organization, is drawing a budget plan and putting it in operation. He further noted that, creating a budget is important as it enforces an organization to carefully consider the expected demand for its products, services and the resources required to meet that demand.

2.2 The concept of Budgetary Control

To ensure that performance standards are achieved, the use of budgetary control mechanism stands tall in every organization (Kpedor, 2012). It entails a repetitive circle of planning and control which is usually followed by appropriate information about actual results to the management for comparing them against the budgeted and initiating a control action if necessary (Defranco, 1997). According to Okpanachi and Muhammed (2013), the absence of effective budgetary control breeds disregard for laid down procedures, loss of focus and shoddy coordination of activities and these are capable of crippling an organization. To sum up, one can say that a budget properly prepared, implemented and efficiently controlled will improve organizational performance. "According to the needs of the organization, budgets should be broken down into quarterly or monthly budgets to enable management to monitor the budget performance by evaluating actual against budgeted amounts and taking corrective measures when discrepancies are noted" (Herrera, 2013)

Notwithstanding the strong position taken on budgeting as an indispensable management and control instrument, a study by Segun et al (2012) did not find strong evidence that budgeting is an effective tool for control in a developing economy. Possible causes for the position taken above (in the view of Segun et al) include policy inconsistency of government, inflation, poor database, poor infrastructural facilities, and corruption. These issues

that resulted in strong failure in budgeting as a control tool are the very reasons why budgeting and budgetary control systems evolved and so a budget in itself is not a panacea for the inherent control lapses in an organization. It is the steps followed and the discipline exhibited in preparing and implementing budgets together with the budgeting approach that makes it a strong control tower in business (Abdullahi et al, 2015). Several other commentators (Okpanachi and Muhammed, 2013; Beatrice and Thuo, 2013; and Kyei et al, 2015) agree that Budget and Budgetary control constitute important management and internal control systems and cannot be dispensed with in planning and control which are the core management functions in all organizations.

Chand (2015), reports of thirteen essentials of effective budgetary control which include sound forecasting, budget orientation, proper recording system, participation, support from top management, flexibility, enforcement of timeliness, efficient organization, proper coordination, sound administration, constant review, reward and punishment, and understanding that results take time to show. Tiina (2016), stated that planning and control conflicts will occur if actual performance is compared with the rough original budget without regard being paid to changes in circumstances. Lambe (2015) in further explaining the key objectives to be achieved by the budgetary control system in general opined that strategic management and budgeting are distinct but intertwined activities. When properly applied, both processes improve an organization's ability to create and sustain superior performance.

The objective of budgetary control transcends the taking of corrective action through the instrumentality of variance analysis into highlighting training, coaching and resource gaps that may exist either before or after the completion of the budget, and plays a significant role in harnessing the human resources in a more coherent way among the key players in an organization.

2.3 The Concept of organizational Performance

Organizational performance deals with the analysis of a firm's performance as compared to its goals and objectives. According to Upadhaya et al (2014), organizational outcomes can be judged from three specific areas, which are Financial performance (profits, return on assets, return on investment, etc.); Market performance (sales, market share, etc.); and Shareholder's return (total shareholder return, economic value added, etc.). It is argued that ROA determines whether a firm is able to generate an adequate return on its assets rather than simply showing robust return on sales (Hagel et al, 2010). It is commented by Sharima (2013), that budget can act as a good instrument for pursuing the efficient discharge of organizational decisions and this depicts the link between these two variables.

Wijewardena and De Zoysa (2001) argue that the impact of budget planning and budgetary control on performance may vary from firm to firm depending on the extent of its use. They assert that the greater extent of the formal budgeting process should have a positive impact on the performance of SMEs as far as budget achievement is concerned. When the budgetary control is successfully implemented, the organization's objectives will be realized and once this has been done the organization is said to have achieved its performance level.

The Return on Assets (ROA) is the performance index employed by this research work, and it divides a firm's annual net income by its total assets to show how much income per cedi has been earned in relation to the firm's asset. The choice for ROA by this research work is premised on the argument of McClure (2005) that it is a better metric of financial performance and it gives a clear picture of corporate health. It is also argued that ROA determines whether a firm is able to generate an adequate return on its assets rather than simply showing robust return on sales (Hagel et al, 2010).

2.4 The Budget Theory

Bartle and Shields developed the budget theory in 2008. Budget theory is the academic study of political and social motivations behind government and civil society budgeting. In the progressive era, Budget Theory was predominantly discussed by Municipal bureaus and in academic and other quasi-academic facilities of that time such as the Nascent Brookings Institution. The fulcrum of the discussions was that the executive budget was a financial innovation designed to empower city mayors and city managers with the capacity to implement needed policy reforms in the Progressive Era. Since that time, the executive budget has become a tool by which the president of the United States has been able to substantively shape policy and draw power to the president from Congress, which was originally charged with "holding the purse" (and still is constitutionally, as there is no federal-legislative authority to change the constitution outside the amendment process or for congress to legislate away their authority). Budget theory has provided the basis for the ever increasing role and power base for what is now called the Office of Management and Budget (Bartle and Shield, 2008). In many respects, the budget process has in many ways translated itself into ceremonial process and remains highly politicized.

Budgets are, in addition to implementing incentive systems, a common way of handling the principal-agency challenge and the threat of moral hazard. Budgets allow the principal to control the agents' use of resources. The Board represents the investors and therefore must ensure that their capital is invested in the right projects. The CEO, who is the agent in-charge of the projects, often has more information about the potential projects and their productivities, and his incentives to invest are not always the same as those of the shareholders. Jensen (1993)

provides evidence that supports the Managerial tendency to over-invest. Thus, based on this theoretical literature, it seems plausible that the Board should establish capital budgeting procedures to overcome this conflict. By using both an economic and a sociological perspective of the Budget theory, the study makes it possible to create more complete and valid explanations of the role of budgeting in financial performance of private firms.

2.5 Budgetary Control Theory

According to Robinson and Last (2009), budgeting system is a tool used by the firm to allocate revenue and regulate their spending. An effective budgetary control system must be established to ensure the firm's resources are not wasted. This is important as it ensures that the outputs produced, and services delivered achieve the objectives set out on the strategic and business planning process. According to this theory, a good budgeting system must ensure that the organization's expenditure is managed in an effective and efficient manner. A good budget is determined by the level of income of the organization (Robinson and Last, 2009). In this regard the budget is often referred to and considered as the control mechanism over expenditure of the firm since it prevents the organization from exceeding the allocated level of expenditure over a given period of time.

Sawhil and Williamson (2001) view the budget as a statement of whether the managers are competent in administering the organization and the national resources. One of the models of budgeting system is Performance Based Budgeting System. According to Robinson and Last (2009), performance-based budgeting system (PBBS) aims to improve the efficiency and effectiveness of public expenditure. Unlike other budgeting system, PBBS links the available resources to the expected outcome and thereby eliciting the efforts of managers in achieving the expected results and outcome based on the targeted area or plan. In simple words, the PBBS is seen as managing for results (Robinson and Last, 2009).

2.6 Permanent Income Hypothesis (PIH)

PIH was developed by Milton Friedman in 1957. PIH posits that consumer's permanent income is determined by their assets; both physical (shares, bonds, property) and human (education and experience). These influence the consumer's ability to earn income. A worker saves only if they expect that their long-term average income, i.e. their permanent income, will be less than their current income (Robert, 1978). PIH theory, asserts that firms also spend their revenues depending on the level of permanency of the streams of income (Christopher, 1997). The perceived permanent level of revenue is what businesses will use in their budgetary purposes with the objective of reducing risk (Beatrice and Thuo, 2013). The sharply fluctuating portions of the streams of income do not count much in budgeting. The link between this theory and this study lies in the similarities in expenditure patterns identified between both firms and individuals as organizations also spend their income according to the level of expected permanency.

It is therefore expected that the budget practices in the Credit Union movement depends on their permanent income and if this is not taken into consideration it may lead to failure or poor organizational performance (Nicholas, 1999). This theory was also adopted by Robert (1978), Christopher (1997), Nicholas (1999) among others as cited in Beatrice and Thuo (2013).

2.7 The Formal Budgeting Theory

The Wijewardena & De Zoysa's model (2001) in terms of the formal budgeting process is also adopted in this study. Wijewardena and De Zoysa define the formal budgeting process as the formal financial planning process and the formal financial control process. Both of these aspects of the formal budgeting process are important contributors to enterprise performance and Credit Unions cannot be left out of this. Specifically, firms using detailed budgets (or "comprehensive budgets") for planning recorded significantly higher sales growth than those having "no written budgets". Firms using more comprehensive budget variances also achieved better performance in sales growth, compared to firms using less comprehensive budget variances.

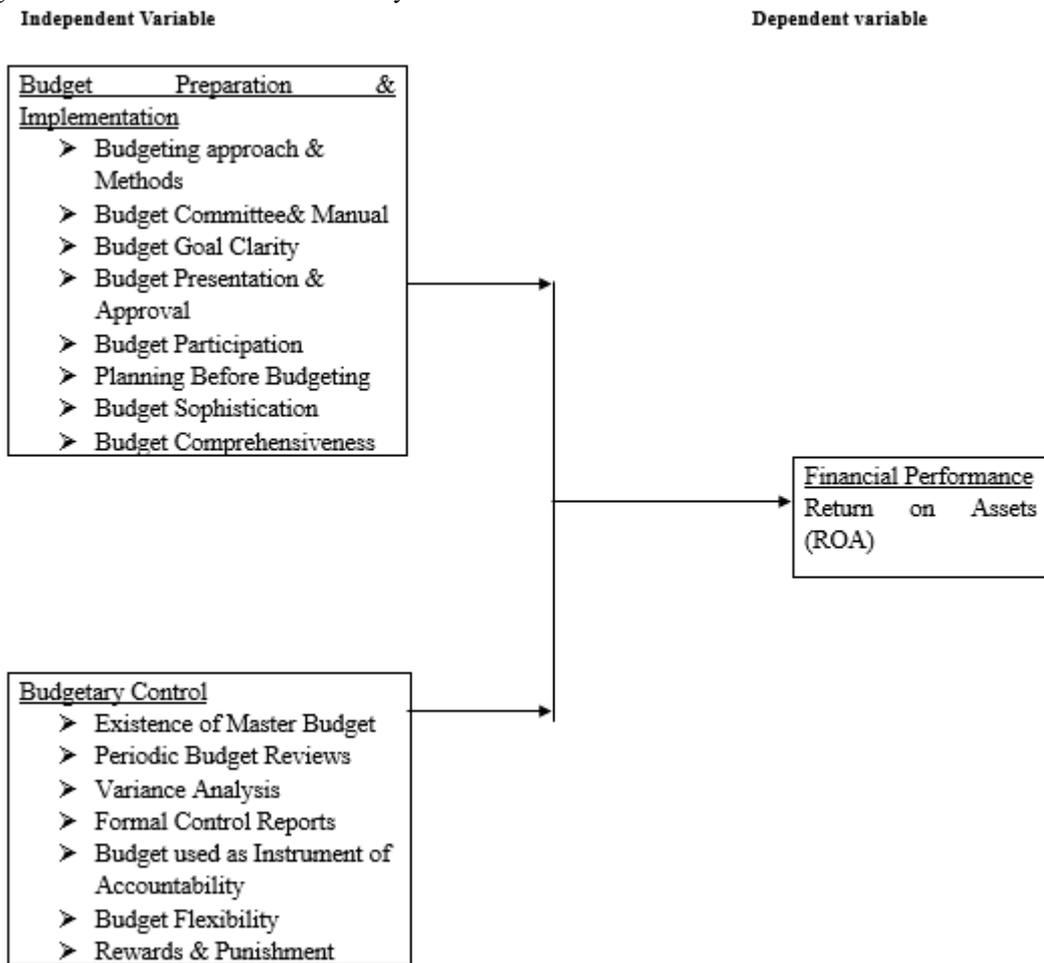
Other scholars have since adopted this model with minor variations as to the independent variables to be tested (Yuen, 2004). The formal planning model is applicable in terms of its significance in the light of permanency of budgets, the provision of trail for learning and constant improvement and the provision of continuity in case the one keeping the informal budget is no more. In essence, a budget kept in somebody's mind is difficult to know and work towards and to check what has changed, when it changed and why.

As pointed out by Arnold and Hope (1990), in order to better aid the pursuit of organizational goals, explicit formal plans should be drawn up. If this is not done, then Managers can use only crude, intuitive measures to judge whether their operations are successful, and their targets achieved.

The theoretical framework in this study is therefore derived from the combined perspectives of several studies, including, the budget theory, the permanent income hypothesis and the formal budgeting process theory (Milton and Friedman, 1957; Wijewardena and De Zoysa, 2001; Bartle and Shields 2008). This idea is supported by Covaleski et al, 2003 who argues that budget research will benefit from using several perspectives in order to increase understanding of budget work.

2.8 Conceptual model and hypothesis

Figure 1: Theoretical Model of the study



Source: Researcher's own construct, 2016

Source:

Researcher's own construct, 2016

2.9 Hypothesis Formulation

Hypothesis 1: The more efficient the budget preparation and implementation process, the lower the Credit Union's performance.

Hypothesis 2: The more efficient the budgetary Control process, the lower the Credit Union's performance.

2.10 Lessons Learnt from Reviewing Literature and Gaps Identified

Not much has been done on budgeting and budgetary control and its impact on performance in the co-operative sector generally and in Ghanaian Credit Unions in particular. This is corroborated by Baka (2013) who established that there is limited literature available on the Credit Union sector despite the cry of the members on the performance of the institutions. While writing an MBA thesis at the KNUST on the topic "Budget and Budgetary control practices of some selected Credit Unions in the Ashanti Chapter", Owusu (2015) acknowledged that empirical literature on budgeting and budgetary control of Non-Bank Financial Institutions (NBFIs) and their associated problems were hard to come by. He therefore relied on studies done in other sectors like hotels, logs and lumber, pharmaceuticals as well as public sector. The researcher has not found any study on the topic of budgeting and budgetary control in Credit Unions in the Upper West Chapter. Again, the study by Owusu (2015) was not modeled.

While Gweyi (2013) identified budgeting and budgetary control as an area of weak management by Credit Unions, Megali (2014) insists that most scholars with interest in Credit Union development have empirically studied the outreach and sustainability of Credit Unions compared with other topics.

According to Horngren et al (2008), few businesses plan to fail, but many of those who flop fail to plan. Kiringai (2002) accepts but elucidates that very little attention has been given to budgetary control as a tool for achieving planned targets. In the opinion of Adongo (2013), critics on factors affecting financial performance

reveal that gaps remain on the influence of budgetary control on financial performance.

Yang Qi (2010) pointed out that almost all studies on budgetary participation and performance are based on large enterprises. He therefore concluded that the characteristics of budgetary participation in Small and Medium Enterprises are unclear.

Some studies probing challenges of Credit Unions found that lack of effective Corporate Governance and Management of which budgeting and budgetary control constitute a major part, are responsible for the unsustainability of most micro-finance institutions including Credit Unions (Mudibo, 2005; Ondieki et al , 2011; Waweru, 2011). Regarding Ghana, little research has been done on the Credit Union movement as a whole and not much research has been sited on budgeting in particular. Having identified Financial Management (including budgeting) as one of three (3) key challenges of Co-operatives, Baka (2013) encouraged further research into the area. Most researches on Credit Unions in the African continent have been conducted in the Eastern African Countries where the Credit Union model is said to be the largest especially in Kenya (WOCCU, 2015) and others such as Tanzania, Uganda and Rwanda.

This research has therefore been designed to make a contribution to the existing literature on the topic.

3. Research methodology

3.1 Research design

The study adopted the descriptive research (Qualitative approach) and correlational survey design (Quantitative approach) in conducting the study. A descriptive survey is usually concerned with describing a population with respect to important variables with the major emphasis being establishing the relationship between the variables. Such a design is also used whenever the use of descriptive statistics in data analysis is established (Waters, 2016). Descriptive survey design has thus been used for the purpose of describing the state of affairs as it exists in particular Credit Unions with the support of results obtained from descriptive statistical techniques in analyzing the data. The advantage of this type of research design is that it is easy to understand as recommended by (Kothari, 2005). With the use of this design data was collected from members of the population and the phenomenon described with reference to budgeting and budgetary control. The descriptive research design was preferred for the study as it provided a quick, efficient and accurate means of accessing information about the population. However, limited secondary data was obtained from both the Upper West Chapter Office and from the individual Credit Unions for the sole purpose of validating and checking for inconsistencies of the primary sources.

Waters (2016) explains correlational research design to represent a general research approach that has its focus on assessing the covariation among naturally occurring variables. This type of research design is usually aimed at identification of the predictive relationships among variables by using correlations or more sophisticated statistical techniques. They further conclude that correlational research is a quantitative method of research in which there are two or more quantitative variables whose relationship in terms of nature and intensity the researcher intends to establish. To her the method of collecting the data does not really matter in the choice of this design as the key issue has to do with whether the variables can be quantified or not.

3.2 Target Population

Population is the total collection of elements about which we wish to make inferences. The target population of Credit Unions in the Upper West Chapter which are registered with the Department of Cooperatives and affiliated to the Credit Unions Association of Ghana was used. The total number of registered and affiliated Credit Unions in the Upper West Chapter of CUA is currently 8.

3.3 Sampling and Sample size

The Census method of sampling was adopted in selecting the study population. This method involves using the entire population as the study sample and is suitable for populations of 200 and below. Kothari (2009) also asserts that virtually the whole population would have to be sampled in small populations to achieve a desirable level of precision.

The specific respondents in the study are the Managers of the eight (8) Credit Unions used in this study in accordance with purposive sampling method. The formulation of the sampling frame has deliberately used the specified actors within the Credit Union system due to their rich knowledge in the technical subject of budgeting and budgetary control. The selected respondents possess specialized and vast knowledge and expertise in the topic as a result of their deep and constant involvement in the annual budgeting and budgetary control processes of the various Credit Unions.

3.4 Data Collection Instrument

The research instrument used in data collection was a set of open and close - ended questionnaires. This approach was useful for delving deep into the responses provided as the researcher had the opportunity to ask probing questions for clarifications. Additional answers not contained in the set of questions were recorded in a jotter and

analysed together in order to provide a more balanced and comprehensive position on the study area. The questionnaires were divided into four parts, part A for the general information of respondents, part B for the Budgeting and Budgetary Control Practices, part C for performance of selected Credit Unions and part D for the Budgetary and Budgetary Control challenges of selected Credit Unions.

3.5 Validity and Reliability

Cronbach's alpha statistic, composite reliability and Average variance methods were employed to test the reliability and validity of the research tool used. This was applied on the outcome of a pilot testing of the questionnaires carried out on selected Credit Union Managers not included in the study sample so as to provide the relevant data for the scientific testing of reliability via the instrumentality of the Cronbach's alpha statistic, composite reliability and average variance. The selection of the Credit Union Managers for pilot testing followed the same criteria used in selecting the study sample as this ensured that the sample bears close semblance with the actual study population. According to Olando et al (2012) a Cronbach's alpha co-efficient of at least 0.5 is high. A high coefficient implies high consistence within which a questionnaire answered remains relatively the same and this can be determined through test methods at two different times. For validity and reliability to be established, it is statistically agreed that the composite reliability and average variance coefficients must all be greater than 0.5. The test results which indicate that validity and reliability are attained and that the model is fit for its purpose has been presented in tables 23, 24 and 25 below. The discriminant analysis performed and presented under the same section also reveals that the various constructs have attained independence and hence are testing what they are intended to test.

3.6 Data Processing and Analysis

Descriptive statistics including frequency distribution tables, means, standard deviations, pictographs and percentages have been used to present raw data in a form easy to understand and interpret as contended by Saunders et al (2009) that where data are likely to have similar size gaps between data values, they can be analyzed as if they were numerical interval data. Inferential statistics have been used and Pearson correlation coefficient applied to ascertain the degree of association between Budgeting and Budgetary Control practices and financial performance. The regression model below was used to establish the relationship between study variables:

$$y = a + b_1x_1 + b_2x_2 + b_3x_3 \dots \dots + e \text{ where,}$$

y = estimated dependent variable,

e = error term,

b₁, b₂, b₃... = regression coefficients and

x₁, x₂, x₃ ... = independent variables.

4.0 Results and Discussion

4.1 The Quality of Budget Preparation among Credit Unions

- Most of the Credit Unions were found to prepare documented budgets, with majority of the budgets spanning 1-3 years as against over 5 years which is recommended by the Legislative Instrument (L.I.2225) in December 2015.
- The majority of Credit Unions use the bottom-up budgeting model in preparing their annual budgets (37.5%), with the use of zero-base budgeting technique being very low. This is contrary to the findings of Ong'onge (2009) who carried out a study in Kenya and concluded that the majority of CUs used the negotiated approach in budgeting. The investigation of the reasons for such a divergence may well provide compelling answers why CUs in Kenya are said to be doing much better on the African continent (Ademba, 2015)
- An overwhelming majority of the Credit Unions prepare and approve their budgets at least one month clear to the start of their financial year and this is very good (Owusu,2015)
- The use of both budget committee and budget manual in budget preparation was found to be just average. While Siyanbola (2013) advocates that the budget manual is a central part of ensuring that a quality and achievable budget is crafted, the CUA Model Financial Management Manual (2009) enjoins CUs to ensure that Budget Committees exist to see to the preparation, implementation and control of the budget. Kyei et al (2015) recommended that for budgets to be effective, the budget committee members and heads of department must understand the rationale for budgeting and should appreciate the basic principles in budget preparation and implementation.
- An overwhelming majority of them use previous year figures as the basis for preparing their budgets (akin to incremental budgeting) and very few using a combination of variables.
- Budget comprehensiveness which is a recommended good practice by Darke et al, 2010, was found to be very low as only 50% of the Credit Unions prepare budgets to the master budget level with the most neglected areas being marketing and human resources

4.2 The Quality of Budgetary Control Activities among Credit Unions

- There were mixed revelations among Credit Unions who prepare formal budgets, regarding budget review intervals, with 12.5% doing reviews quarterly and 37.5% carrying out half-yearly reviews. Segun et al (2012) pointed out the significance of frequent budget reviews in aiding performance which must be done timely and performance reports issued to highlight variances for quick redress.
- From the findings it is evident that CUs calculate variances very often as depicted in table 11 below with 62.5% of respondents saying so. Variance computations also cover most areas of operation. Herrera (2013), recommend that budgets are broken down into quarterly and monthly components and actual performance compared with budgeted in order to take corrective action on revealed variances.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Never	2	25.0	25.0
	Few times	1	12.5	37.5
	Quite often	5	62.5	100.0
	Total	8	100.0	100.0

- A good budgetary control process should identify and either reward people for positive variances or punish for negative variances (Ackah et al, 2014). It was revealed that most Credit Unions give punishments for negative variances but fail to reward for positive variances.

4.3 Regression Analysis and Hypothesis Testing

As the overall budgeting process can be broken down into Budget Preparation and Administration; Budget Target Setting and Budgetary Control, it is imperative to test these against performance in determining budget effectiveness (Abdullahi et al, 2015).

4.4 Reliability and validity Test

Table 23: Validity and Reliability Test Results

Constructs/Measures	Loadings (t-values)
Budgetary Preparation & Implementation (CA = .796; CR = .912; AVE = .722)	
How often in a year does your Credit Union use budgeting to determine its future?	.817 (fixed)
Does your Union have a Budgeting Committee and a budget manual?	.735 (11.08)
My credit union budget covers all operational areas of the union	.657 (11.96)
How much motivation do you get from involvement in budgetary process?	.622 (10.06)
To what extent does your organisation use zero-base budgeting?	.813 (13.02)
Extent of software support in budget preparation	.889 (14.88)
Use of financial modeling (advance excel tools) in budget process	.906 (15.27)
Budgetary Control (CA = .725; CR = .845; AVE = .524)	
To what extent does your organization use zero-base budgeting?	.831 (15.77)
How frequently are budgets reviewed by Credit Union?	.718 (14.99)
Does your Union prepare budgeted income statement and statement of financial position?	.701 (14.40)
Who approves the budget of your Credit Union	.633 (10.90)
How often are variances calculated?	.829 (fixed)
Extent of use of variance for corrective action	.752 (13.08)
Use of financial modeling (advance excel tools) in budget process	.662 (11.09)

Notes: CA = Cronbach's Alpha; CR = Composite Reliability; AVE = Average Variance Extracted
 Field study (2016)

To measure budgetary preparation & implementation, and budgetary control among the various Credit Unions sampled, 7 items were used in both cases. The respective items for each construct are illustrated on Table 23 above together with the Cronbach's Alpha, Average Variance Extract, Composite Reliability and Factor Loadings. As observed, the values of the Cronbach's Alpha and the Composite Reliability are always above the threshold of 0.7 and the Average Variance is also shown to be always above 0.5. This further confirms that the information is reliable.

The model fitness statistics obtained are presented in Table 24 for each construct after the confirmatory factor analysis was performed. Overall, the construct fits for the items each shows positive results; as all the fits statistics were strong with their X2 and CFI being greater than 0.5 (Hair et al., 2014). Thus, the reports of Table 21 and Table 22 therefore suggests that construct validity has been achieved.

Table 24: Model Fit Indices

CFA model	χ^2	DF	RMSEA	NNFI	CFI	SRMR
Financial performance (FP)	1.262	2	.00	1.0	1.0	.01
Budgetary preparation & implementation (BPI)	6.215	2	.00	1.0	1.0	.01
Budgetary Control (BC)	7.375	5	.05	.98	.99	.03

Note: χ^2 =Chi-square; DF= degree of freedom; RMSEA = root mean square error of approximation; NNFI=Bentler non-normed fit index; CFI = comparative fit index; SRMR=standardized root mean.

Source: Field Study (2016)

Therefore, it is concluded that each item measures exactly what it was supposed to have measured.

Similarly, the study attempted to investigate if the key constructs are the independent and not liable to other phenomena. To check this, discriminant validity was performed. Discriminant validity was tested by comparing the AVE coefficients with the shared variance (S.V) of each pair of constructs. Table 25 presents that AVE of each constructs in the principal diagonal whiles the S.V's are reported below the principal diagonal. According to literature, the AVE for each construct should be significantly higher than the shared variance of each pair of constructs. As shown on Table 25 the AVE for financial performance, 0.655, is higher than the shared variance of financial performance with any other construct. This is shown by shared variance scores in the FP column under the AVE. Again, for budgetary preparation & implementation, the average variance extracted was 0.722 which is significantly higher than the shared variance between budgetary preparation & implementation and any other construct. This is evident by the S.V. scores on both the row and column of budgetary preparation & implementation before and below the associated AVE coefficient (0.722). The same results are achieved for the rest of the variables thus indicating that discriminant validity has been achieved. Similarly, for budgetary control the average variance extracted was 0.524 which is significantly higher than the shared variance between budgetary control and any other construct.

Table 25: Discriminant Analysis

	FP	BPI	BC
Financial performance (FP)	(.655)		
Budgetary preparation & implementation (BPI)	.026	(.722)	
Budgetary Control (BC)	.053	.116	(.524)

AVE values in the principal diagonal

Source: Field Study (2016)

4.5 Regression of Budget Preparation & Implementation Against Financial performance of CUs

To test the relationship between budget preparation and implementation and financial performance, respondents' opinions on the various factors involved in preparing a good budget and having it well implemented were regressed against financial performance on the basis of their mean scores and the aggregate mean score of financial performance. The level of influence and relative importance of the various factors on financial performance were indicated by the beta coefficients with the highest beta coefficients expected to have the highest influence with the second highest having the next and so on. The model significance was established as indicated by R2 of 0.48 with p<.001. The adjusted R square value of 0.82 reveals that 82% of the variability in the dependent variable has been accounted for by the set of factors used. Below are the regression results

Table 28: Summary of regression model – Budget Preparation & Implementation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.693 ^a	.481	-.818	4.12428

a. Predictors: (Constant), Budgetary participation, Budget sophistication, Budget goal difficulty, Formal budgeting planning, Budget goal clarity

Source: Field Work, 2016

Table 29: Regression Coefficients – Budget Preparation & Implementation

Model	Unstandardized Coefficients		Standardized Coefficients	t
	B	Std. Error	Beta	
(Constant)	.888	3.954		.224
1 Formal budgeting planning	-1.556	2.055	-.977	-.757
Budget goal clarity	2.204	3.234	1.204	.681
Budget goal difficulty	-.879	2.422	-.604	-.363
Budget sophistication	.684	1.280	.504	.535
Budgetary participation	.563	1.718	.398	.328

Source: Field Work, 2016

$$Y (\text{Financial performance}) = 0.888 - 1.556 (\text{Formal Budgeting planning}) + 2.204 (\text{Budget goal clarity}) - 0.879 (\text{Budget goal difficulty}) + 0.684 (\text{Budget Sophistication}) + 0.563 (\text{Budgetary Participation}) + \epsilon$$

The regression equation formulated above using our model definition indicates that the factor with the highest positive influence on performance was budget goal clarity with a beta coefficient of 2.204 followed by budget sophistication with a beta of 0.684 and then budgetary participation having and beta coefficient of 0.563. This confirms the position taken by Yan Qi (2010). The remaining variables all have negative influences on financial performance with formal budgeting planning having the highest negative influence (beta of -1.556) and followed by budget goal difficulty (beta of -0.879), in order of influence.

The multiple linear equation above indicates that three of the independent variables (budget goal clarity, budgetary sophistication and budgetary participation) have positive coefficients. The implication is that budget goal clarity plays the most significant positive role in influencing financial performance as a unit increase in budget goal clarity will increase financial performance by 2.204 times, a unit change in budgetary sophistication will result in a 0.684 times increase in financial performance while a unit change in budgetary participation generates a 0.563 time rise in financial performance. From the findings, one unit change in formal budgeting Planning results in 1.556 units decrease in financial performance while one unit change in budget goal difficulty results in 0.879 units decrease in financial performance. These revelations partly contradict the conclusions drawn by Yan Qi (2010) who found out that budgetary sophistication yielded a negative effect on profit. In his view, this development was attributed to the huge cost in acquisition, installation and training of staff to use the software but it thus appear that Credit Unions are supplied by an internally developed software provided by CUA (the regulator) which come with comparatively low role out costs. Yan Qi (2010) also concluded that formal budgeting planning, budget goal clarity and budgetary sophistication all had positive and significant relationship with financial performance while the effect of budgetary participation was unclear due to mixed research findings (Bartle and Shields, 2008).

4.6 Regression of Budgetary Control Against Financial Performance of CUs

A regression analysis was carried out to determine how budgetary control affected financial performance. The respondent's overall mean score on financial performance as measured by the ROA was considered the dependent variable while the average means of five selected budgetary control parameters (Frequency of budget variance computation, Comprehensiveness of calculated variances, use of variances for corrective action, punishments for negative variances and rewards for positive variances) were used as the independent variables. Thus, mean aggregate scores for respondents' opinion on components of budgetary control were regressed on the overall score for financial performance. The beta coefficients provided the relative importance of the selected budgetary control variables in influencing financial performance. The highest beta coefficient value of the various components was expected to have highest influence on financial performance, while the second highest beta coefficient stands second in terms of relative significance and so on. The overall model was also statistically significant, where ($R^2 = .832$, $p < .001$), the adjusted R Square value was 0.412, which shows that this model has accounted for 41.0% of the variability in the dependent variable. The Regression results are shown in tables below:

Table 30: Summary of regression model – Budgetary Control

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.912 ^a	.832	.412	2.34521

a. Predictors: (Constant), Frequency of Variance Calculation, Reward for Positive Variance, Punishment for Negative Variance, Use of Variances for Corrective Action, Comprehensiveness of Budget Variances

Table 31: Regression Coefficients – Budgetary Control

Model	Unstandardized Coefficients		Standardized Coefficients	t
	B	Std. Error	Beta	
(Constant)	1.278	1.978		.646
Use of Variances for Corrective Action	-.167	1.034	-.109	-.161
Comprehensiveness Budget Variances	1.056	.869	.958	1.214
Punishment for Negative Variance	-1.083	.517	-1.100	-2.095
Reward for Positive Variance	.333	.553	.338	.603
Frequency of Variance Calculation	.583	1.449	.408	.402

Source: Field Work, 2016

Y (Financial performance) = 1.278 – 0.167 (Use of variance for corrective action) + 1.056 (Comprehensiveness of budget variances) – 1.083 (Punishments for negative variances) + 0.333 (Reward for positive variances) + 0.583 (Frequency of variance calculation) + ϵ

As is evident from the regression equation above based on the model definition, Use of budget variance for corrective action and punishment for negative variances were negatively related to financial performance (- 0.167 and -1.083 coefficients respectively) with the variable with highest negative influence being punishment for negative variances. The remaining three variables were found to positively influence financial performance in the order of comprehensiveness of variances (beta of 1.056), frequency of variance calculation (beta of 0.583) and rewards for positive variances (beta of 0.333). Therefore a unit change in frequency of variance calculation, comprehensiveness of budget variances, use of variances for corrections action, punishments for negative variances and rewards for positive variances will generate an increase of 0.583 units, increase of 1.056 units, decrease of 0.167 units, decrease of 1.083 units and increase of 0.333 units of financial performance respectively. These findings also to some extent contradict the findings of Yan Qi (2010) in his study of the influence of these variables on the financial performance of SMEs in China.

4.7 Hypothesis Testing

Table 32: Summary of results of tests of Hypothesis and related objectives

Objective	Hypothesis	Results	Remarks on Hypothesis
Main Objective: To establish the relationship between budget preparation and implementation and financial performance of CUs	H0: There is no relationship between budget preparation & implementation and financial performance of CUs	P=0.951 which is higher than 0.05	Reject the null hypothesis
Main Objective: To establish the relationship between budgetary control and financial performance of CUs	H0: There is no relationship between budgetary control and financial performance of CUs	P=0.472 which is higher than 0.05	Reject the null hypothesis

Source: Field Work, 2016

4.8 Some Theoretical Implications of the findings

The study has revealed interesting findings. It has shown that budgeting and budgetary control has a mixed but significant effect on credit union performance. This assertion is supported by various authorities and findings (Baka, 2013; Ong’onge, 2009; Onduso, 2013). Both budgeting and budgeting control processes are found to have a significant positive impact on ROA. Several earlier studies have confirmed this finding that budgetary control has a positive and significant effect on both financial and budgetary performance.

Second, the findings confirm the existence of exchange relationship between budgeting and budgetary control, and the overall performance of credit unions. Clearly, the study has shown that when credit unions appropriately and efficiently reward and punish staff based on the budgetary performance, they reciprocate it by ensuring better credit unions performance. This norm of reciprocity is a core pillar of exchange social exchange theory (Gouldner, 1960; Blau, 1967). Social exchange theory posits that, employees will always want to give back any good that is offered to them by their employer (Arefin et al, 2015).

5. Conclusion

The test of hypothesis convincingly proved that there is a strong and positively correlated relationship between both budget preparation and implementation and budgetary control on financial performance of Credit Unions. It therefore behoves on the management and Boards to ensure that this process is accorded all the attention it deserves. On determining the association among variables, regression method was used whereby the results showed financial

performance as measured by ROA is influenced by budget preparation and implementation ($R = 0.69$, $R^2 = .481$, $Ra2 = 0.82$, $p < .001$), and budgetary control ($R = 0.91$, $R^2 = .83$, $Ra2 = 0.41$). The independent variables in the regression model with positive coefficient revealed that there was a direct relationship with the dependent variable. Therefore, financial performance as measured by ROA increased proportionately with more inclusive use of budget, and influences of budgetary control.

The researcher enquired on the types of budget prepared. From the findings of the study it was concluded that fixed/static budget with the bottom up approach being dominant was being used by most CUs who prepare these budgets on annual basis.

The study findings also conclude that budgetary sophistication was low given the low level of use of technical staff expertise, software and financial modeling to prepare budgets.

Further, the findings of the study concluded that budgets prepared in CUs are moderately effective as formal variance calculations were mostly done but not used for control purposes. Most participants strongly agreed that indeed budget was moderately used in decision making. It was also revealed that very important good budgeting principles were not being applied such as low adoption of ZBB, lack of budget comprehensiveness, punishments for poor performance not matched with rewards for good delivery and budget variances not being used to instill control.

With regards to practice, the study recommends that Credit Unions should establish formal performance measurement and reward individuals for their performance which will encourage them to maximize their contribution towards the organization's objectives.

The findings recommend the concurrent adoption of the bottom-up and the zero-based budgeting models to improve budget efficiency by making budget estimates more realistic as well as help solve the problem of identifying who to reward or punish.

Effective budget preparation, implementation and control should be facilitated through capacity building, robust systems and processes, prioritization, close monitoring and evaluation. This should come alongside the adoption and use of good budgeting practices including flexing of the budgets, putting in place budget committees and the formulation of budget manuals to guide the entire budgeting process together with the preparation of master budgets out of the sub-budgets. Budgets must also cover all the operational areas of the business especially marketing and human resources which have been found to be neglected areas of concentration by majority of Credit Unions.

All stakeholders particularly the other staff should get involved in budget execution in enhancing the overall budget implementation. Lower level staff should be equipped and encouraged to fully participate as these are at the action level and their lack of understanding of expectations and budget priorities can cost the Credit Union a great deal.

Credit Unions need to establish a strong link between the planning process and the budget process. This can be achieved by adopting a medium-term plan that incorporates definition of goal clarity and goal priority into the daily tasks by further breaking budgets down into quarterly, monthly, weekly and daily components.

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