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The effects of budget and budgetary control on the performances Federal Government organizations in case of EFDRE Construction Works Regulatory Authority

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This to certify that the thesis prepared by Yalemblay Teklay entitled: The effects of Budget and Budgetary control on the performance FDRE Construction Works Regulatory Authority, which is submitted in partial fulfillment of the requirement of the Degree of Master in Public Management and Policy (MPMP), complies with the regulation of the university and meets the accepted standards with respect to originality and quality.

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ABSTRACT

Budgetary control is the planning in advance of the different purposes of an organization there for an organization can be controlled simply. In the process of budget, the attention is not only on preparation of budget, but more highly to have a follow-up operation for the process of the budget and performance according to known data. The main objective of this study is to assess the effects of budgetary control on the performance of EFDRE Construction Works Regulatory Authority. A descriptive research design was used in this study. Stratified sampling technique was used. In this study, there are 254 employees under four (4) programs of the organization were selected. Hence the sample size is 155 respondents. Both primary and secondary data would be used. Questionnaires were used for primary data collection. Collected data were analyzed and presented through descriptive statistics such as mean, median, standard deviation, minimum and maximum, and inferential statistics such as Pearson's correlation analysis by using Statistical Package for Social Science (SPSS) software version 26. The findings of the study indicated that budget and budgetary control a positive effect on the performances of the organization. The correlation analysis also showed that budget and budgetary control have a positive relationship with organizational performance. Hence the study suggests that the organization should give attention to budgetary control components in order to improve performances of the organization.

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Acronyms

CIMA……...Chartered Institute of Management Accountants

FDREP…….Federal Democratic Republic of Ethiopia Proclamation

ZBB……Zero Based Budgeting

SPSS……...Statistical Package for Social Science

EFDRE …….Federal Democratic Republic of Ethiopia

MoFED……..Ministry of Finance and Economic Development

CHAPTER ONE

INTRODUCTION

The first chapter of this thesis introduces the area of study, providing a background for the paper. This chapter is organized under different section in which background of the study, statement of the problem, objective of the study, research question, significance of the study, limitation and scope of the study, and finally structure of the paper was presented.

1.1 Background of the Study

"Budget is defined as the formal expression of plans, goals, and objectives of management that covers all aspects of operations for a designated time period. The budget is a tool providing targets and direction. Budgets provide control over the immediate environment, help to master the financial aspects of the job and department, and solve problems before they occur. Budgets focus on the importance of evaluating alternative actions before decisions actually are implemented" (Jae K. Joel G. 2005).

According to CIMA (2005), a budget is "A plan quantified in monetary terms prepared and approved prior to a defined period of time, usually showing planned income to be generated and, expenditure to be incurred during the period and the capital to be employed to attain a given objective."

According to Jae and Joel (2005) budgeting allocates funds to achieve desired outcomes. "A budget may span any period of time. It may be short term (one year or less, which is usually the case), intermediate term (two to three years), or long term (three years or more). Short term budgets provide greater detail and specifics. Intermediate budgets examine the projects the company currently is undertaking and start the programs necessary to achieve long-term objectives. Long-term plans are very broad and may be translated into short-term plans. The budget period varies according to its objectives, use, and the dependability of the data used to prepare it. The budget period is contingent on business risk, sales and operating stability, production methods, and length of the processing cycle".

According to Sue Nugus (2009), “Budgetary control is not limited to commercial and industrial firms attempting to produce a profit. The procedures involved are equally applicable to not-for-profit organizations such as government departments, universities and charities”.

For many years,” budgets are used throughout private and public organizations to set objectives and to control and align manager’s behavior. Depending on whether the organization is operating in the private or public sector, the budget is established to fulfill certain requirements. Considering the performance requirement for the budget, the private sector is profit orientated, whereas the public sectors budget achievements are evaluated based on services provided by the organization” (Fadi, 2013).

Budgeting in an organization delivers a complete proposal of what an organization should be done on definite period of time. By planning, problems are anticipated and solutions thought. This helps to reduce on costs and achievement of goals is enhanced (Mathis, 2006). Administrators coordinate their efforts through budgeting, thus objectives of the organization simply harmonize with the objectives of its parts. Control confirms that objectives as placed down in the budgets are achieved, Management can know about this through information availed to it by subordinates (Millichamp, 2000; Middlemist, 2006).

An effective control system helps accomplish the purpose for which it is designed. Effective control systems rely on good information, are well communicated, well-coordinated, timely and economical to the organization” (Arora, 2005; Mathis, 2006). Budgets reflect estimates of future events, and what is considered acceptable performance. Comparing actual with budgeted results provides meaningful information and indicates the need to analyze and investigate over and under spending. The action taken on over and under spending is one of the most important aspects of a budgetary control system. Budgetary Control aims to achieve four things. Performance of any institutions is often evaluated by measuring success in meeting the budget. When the budgetary control is successfully implemented, the organizations objectives will be realized and once this has been done the organization is said to have achieved at performance level (Turyakira, 2004). Resbery and Lormorie (2006) stated that in practice, “many organizations compare actual performance with the original budget, but if the circumstances expected when the original budget was set differ, there will be a planning and control conflict.

Seldin (2001) argues that "for the smooth implementation of an organizations budget, budgetary planning and control must be properly done. Under budgetary control, evaluation which is a process by which an appraisal of performance is systematically conducted to measure individual, department and organizational contribution should be done. It is conducted to take appropriate action". In particular, evaluation of budgetary control is a process of assessing performance against budget standards and performance targets with intent to take corrective action (Emmanuel and Otley, 2005). Budgetary standards and targets tend to be the criteria upon which the performance of organizational member, the superiors in particular are evaluated. These standards and targets 40 provide a basis for identifying and appraising selected aspects of organizational performance, since they are the criteria used to guide and motivate it.

According to Miju and Girma (2014) government budget in Ethiopia taking place at the regime of Hailesilase I. Yet, at the beginning, it was not organized in such a way as to permit effective financial administration, but through period uninterrupted amendment of the budget system was made before it got its present status.

Ethiopia has a dual budgeting system in which recurrent and capital expenditure are considered separately. Until recently these two budgets were prepared separately by the Ministry of Finance and the Ministry of Economic Development and Cooperation respectively. In October 2001 these two ministries were merged to form the Ministry of Finance and Economic Development. The new ministry determines budget ceilings for federal ministries and agencies and the regions. (FDREP, 2001).

The public sector in Ethiopia has been growing over time. With the current reforms, budgeting has become important aspect in any public organization particularly the ministry of finance and economic cooperation. To reduce over expenditure, cash budget has been an important instrument for controlling budget deficit. Further improvement is also needed to be more aware with the market forces and to come up with better strategies to deal with budgetary control like planning, monitoring, evaluation, implementation and some other budgetary control method without being highly affected by it thus, all the above necessitate the need for this study (MoFED 2009).

1.2 Statement of the Problem

According to Dickson (2013) in recent times, companies have performed poorly because they are lacking of effective and competent budgets and budgetary control systems to precisely and rationally distribute resources to bring together organizational aims and enhance performance

A study carried out by Boquist (1997) viewed that "companies' kept on unconcerned and failing because they have defective budgetary planning and control systems, which they failed to identify. Some firm's intellect flaws of their budgetary analysis but observed them as individual problems rather than methodical deficiencies. As a result, corporate scheme and capital allocation become kinked and remained so despite condemning financial performance".

"Some organizations do not even acknowledge the link between budgetary control and performance and this influences their functions negatively. Different organizations varying from small scale businesses to large scale businesses fall short to identify the power of budgets and budgetary control over functioning results. These organizations move without concentrating more attention to enhancing their performances via their budgets" (Dickson 2013).

According to Mohammed (2013) managing public expenditure allocation in developing countries is becoming difficult task as the roles of the government have been expanded and financial resources are in scarce supply to meet this ever-increasing social needs and population growth. Due to inadequate financial resources as opposed to an increasing demand for public service, there is a need to improve resource allocation through proper economic policy and expenditure planning.

Similarly, Yesuf (2015) studied the practice of budgeting and budget monitoring as a management tool for managing variances in non-governmental organizations operating in Ethiopia. According to the result, the overall budgeting system in the sample organizations misses the important participation of concerned staffs.

Tilahun (2010) in his study on budget management and control in Ethiopia ministry of defense found that there were inefficiencies in budget implementation due to problems of experienced man power, application of policy and procedures, lack of monitoring budget timely.

As stated above, many researchers conducted their studies on budgeting and budgetary control in the last decade. Those researchers were focusing on budgeting on its tool, process, practice and control. These make the studies lacks the effect of budgeting on other factors. Further, most of

the literature is from the developed countries whose company's strategy approach is different from that of Ethiopia. Hence, to the best of the researcher's knowledge, it appears system that no researches have been studied on impacts of budgetary control on the performance of federal government organizations in Ethiopia, particularly in EFDRE construction works regulatory authority. Because of this, therefore, the researcher is interested to undertake a study on the subject of the effect of budget and budgetary control system on the performance of federal government organizations, with special reference to EFDRE construction works regulatory authority.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of this study was to evaluate the effect of budget and budgetary control system on performance of federal government organizations in the case EFDRE construction works regulatory authority.

1.3.2 Specific Objectives

Precisely, the study assumes the following specific objectives:

1. Evaluate the effectiveness of budget and budgetary control process in EFDRE construction works regulatory authority.
2. Appraise the relationship between budget and budgetary control components with organizational performance
3. Evaluate the effects of budget and budgetary control on the performances of the organization.

1.4. Research Questions

In line with the broad purpose statement and statement of the problem, the following research questions are formulated based on the objectives and stand on the studies that are related to measurement of budgetary control in the organization.

1. What is the effect of budgeting and control system on performance of federal government organizations in EFDRE construction works regulatory authority?
2. Are there strong links between budget & budgetary control system and performance of the organization?

3. What can be recommended to management that enhances effectiveness of budget & budgetary control which will improve performance?

1.5. Significance of the Study

First this paper will show the weaknesses of the organization in budgetary control system and they will get an important recommendation about budget and budgetary control and its effect on performances of the organization. The study will help other federal government organization to have a good understanding about the importance budget and budgetary control and its impact on performances of the organization. The study will also important for other researchers who want to engage in this type of study as a reference.

The study will also benefit senior leadership teams of EFDRE construction works regulatory authority to discover a means to fix the problem of poor organizational performance.

1.6. Scope of the Study

The paper only attention on what is the impact of Budgetary Control system on the performance of the federal government organizations by focusing on EFDRE construction works regulatory authority.

1.7. Limitation of the study

The major problem encountered was that of delay to fill questioner, which arose due to the pandemic (covid-19) in our country, workers were out of work for a long time.

1.8 Organization of the study

The paper consists of five chapters;

Chapter one consists of background of the study, statement of the problem, research objective, scope of the research, significance of the research limitation of the research and organization of the organization of the study an introductory overview of the full study comprising the statement of the problem, objectives of the study, question of the study, significance of the study, scope and limitation of the study.

Chapter three is about research methodology, these are design of the research, total populations of the study, sample sizes of the study data collection tools and data sources of the study. Data analysis and presentation also included in this chapter. Chapter four also contains data analysis and presentation of the study. The last chapter of this study is chapter five also about research findings, recommendations and further recommendations for study.

CHAPTER TWO
REVIEW OF RELATED LITERATTURE

Introduction

2.1. Theoretical literature

2.1.1 The Theory of Budgeting

Drury (2006) defines budget as "a plan expressed in quantitative, usually monetary term covering a specific period usually one year in other words a budget is a systematic plan for the utilization of manpower and materials resources".

Lucey (1996) defines budget" as a plan articulated in terms of. It is organized and accepted before the budget and may show income, expenditure and the capital to be employed. It may be drawn up showing incremental effects of former budgeted or actual figure, or be compiled by zero -based budgeting".

Horngren Forster and Datan (1997) describe a budget as "a quantitative expression for period designed for plan of action by management. A budget can cover both financial and non-financial aspect of these plans and act as a blue – print for the institution to follow in the upcoming period. Thus a budget is also an itemized estimate of operating result of an organization for a future period."

According to Brook Palmer (1984), and it is organizations financial control system budgeting is about making plans for the future, implementing those plans and monitoring activities to see to it that they conform to plan.

"A budget is where all the financial components of an organization (individual units, divisions and departments) are assembled into a coherent master picture that expresses the organization's overall operational objectives and strategic goals. Therefore, co-ordination is necessary to avoid sub-optimality. A well-coordinated budgeting system enhances the skills of operating managers not only by educating them about how the company functions but also by allowing them to

manage their subordinates more professionally. This is because budgets delegate responsibility to the manager who assumes authority for a specified set of resources and activities. In this way budget emphasize even more the existing organizational structure within the company" (Matthew A., 2014)

Nma Mohammed (2013) Concluded that sound budget formulation and implementation must be part of organizational culture and cooperate strategies because it is when organization goals and as a privation are achieve that is the only time societal need can be met. Budget target setting is an effective management tool for performance evaluation on individuals and units.

The budgets put the plan in a concrete from and follow up action to see that plan is adhering to complete the system of control. In other words, while budgeting is the art of planning, budgetary control is the act of adhering to the plan. Budgetary control involves continuous comparison of actual results with the budgets and taking appropriate remedial action promptly.

According to Darge (2018), a budget is:

1. The quantitative expression of a proposed plan of action by management for a specified period and
2. An aid to coordinate what needs to be done to implement that plan.
3. A budget generally includes both financial and nonfinancial aspects of the plan, and it helps as a starting point for an organization to monitor for the next year.

2.1.2. Types of Budget

Larry M. (2010) described the types of budgets as follows:

Operating budgets are "plans that define the anticipated revenues and expenses of an organization and more. These operating budgets can become fairly detailed, to the level of mapping specific inventory purchases, staffing plans, and so forth. The budgets often delineate allowable levels of expenditures for various departments".

Capital budgets are budgets "that reveal the need for capital expenditure relating to new facilities and equipment. These longer term expenditure decisions must be evaluated logically to determine whether an investment can be justified and what rate and duration of payback is likely to occur".

Financial budgets are a company must assess financing needs, including an evaluation of potential cash shortages these tools enable companies to meet with lenders and demonstrate why and when additional support may be needed.

2.1.3. Purpose of Budget

"Budget is an economic plan which sets revenue and a price objective for the responsibility centers in a business unit, but besides it indicates about managing, speaking, matching, efficiency evaluation motivation. Knowledge of the budgeted objectives is in addition to information regarding the amount to which these objectives have now been accomplished which offers managers a ground for measuring influence, identified problems and checking" (Dickson, 2013).

Helps as Channel for Communication and Coordination:

"Because a budget is agreed by the business, all the relevant managers and staff will be working towards the same end. When the budget is being set, any anticipated problems should be resolved and any areas of potential confusion clarified. All departments should be in a position to play their part in achieving the overall goals" (Drury, 2001).

The budget used to monitor and control:

"An important reason for producing a budget is that management is able to use budgetary control to monitor and compare the actual results (see diagram below). This is so that action can be taken to modify the operation of the business as time passes, or possibly to change the budget if it becomes unachievable" (Drury, 2001).

Cost Awareness:

Accountants and financial managers are concerned daily about the cost implications of decisions and activities, but many other managers are not. Production supervisors focus on output, marketing managers on sales, and so forth. It is easy for people to overlook costs and cost-benefit relationships. At budgeting time, however, all managers with budget responsibility must convert their plans for projects and activities to costs and benefits. This cost awareness provides a common ground for communication among the various functional areas of the organization (John Leslie and Theodore, 2002).

The budget helps with decision-making

"By planning ahead through budgets, a business can make decisions on how much output – in the form of goods or services – can be achieved. At the same time, the cost of the output can be planned and changes can be made where appropriate".

Motivational Device:

"The budget provides a standard which managers will evaluate their performance with. If they meet their targets regularly, they may be motivated to go for a higher target. If budget are dictated from above and imposed on those who are to implement the plan, it will rather not motivate worker and may be resisted" (Brook Son, 2000).

Means of Performance Evaluation and Control:

"Budgets serve as estimates of acceptable performance. Managerial effectiveness in each budgeting entity is appraised by comparing actual performance with budgeted projections. Most managers want to know what is expected of them so that they can monitor their performance. Budgets help to provide that information. Of course, managers can also be evaluated on other criteria, but it is valuable to have some quantifiable measure of performance" (John Leslie and Theodore, 2002).

Planned activities can be compared to the actual so that effort will be concentrated on ascertaining the reason behind the differences. By investigating the reasons for the differences, managers may be able to identify inefficiencies such as the purchases of inferior quality materials. Appropriate control action will then be taken when reasons for inefficiencies have been found (Brook Son, 2000).

2.1.4 Stages in the Preparation of a Budget

Cherrington, Hubbard and Luthy (1988) and Izar (1990) share the same opinion on the process of preparing a budget. Several stages can be identified in the preparation of a budget:

Stage one. Involve identification of the key aims for the coming year and any major external changes likely to affect the organization and communicating these to the budgeters so that they know what overriding factors to keep in mind when preparing their budgets. These will be largely gauged from the long-term corporate plan.

Stage two. Determine the key factors or limiting factors. Every organization has some factors which eventually limits its performance and growth. In most cases, it is sales demand/service provision. An error in the key factor budget would throw out all the subsidiary budgets. When using the factor in context of budgeting, it is sometimes called principal budget factor.

Stage three. Assume sales in the limiting factor, preparation of the sales budget. Unfortunately, this is the most difficult budget to prepare, because of many external influences which governs.

Stage four is the initiation preparation of the subsidiary budget. This include the preparation of the production budget, direct labor budget, production overhead budget, selling and distribution budget, administration budget, capital expenditure budget and the cash budget.

Stage five involves review and co-ordination of the subsidiary budget by the budget officer or budget committee. This function is to check whether there are inconsistencies or conflict between the many subsidiary budgets.

Stage six. The individual subsidiary budget is consolidated in a single master budget presented in a form of a budgeted income statement and balance sheet.

2.1.5 Approaches to Budgeting

2.1.5.1 Zero- Base Budgeting (ZBB)

Lucey (1994) argued that, "zero-base budgeting is a cost benefit approach whereby it is assumed that the cost allowance for an item is zero and will remain until the manager responsible justifies the existence of the cost item and the benefit the expenditure brings".

Appiah-Mensah (1993) also argued that "ZBB are prepared without reference to the budget of the preceding period. A fresh look is made at the activities of the organization and based on the new circumstances and entirely new budget is prepared".

2.1.5.2 Incremental Budgeting

According to Appiah-Mensah (1993), incremental budgets are like ordinary budgets, except that in the case of incremental budget, in the next budget period a fresh budget is not prepared only a percentage increase or decrease is made to either the previous budgetary estimates or the actual results. Thus with the previous budget as the base, adjust for inflation and other changes in the economy, market conditions and the desire of management to attain some objectives are incorporated as adjustments.

2.1.5.3 Flexible Budgeting

"Flexible budget is a technique that used to adjust the budget for various level of business activity. In developing the flexible budget, expected or budget costs relationships are quantified so that the budget can be easily adjusted to any level of business activity" (Cherrington, Hubbard and Luthy, 1988).

2.1.6. Budgetary Control

"Budgetary Control is a method of managing costs through preparation of budgets. Budgeting is thus only a part of the budgetary control". According to CIMA (2005), "Budgetary control is the establishment of budgets relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action, the objective of the policy or to provide a basis for its revision." It is also a system of controlling costs and resources which includes comparing actual performance with the budgeted performance and subsequently acting upon the actual results to minimize variance and achieve maximum returns. In essence, budgetary control is purported to ensure that the activities carried out are providing the desired results. Budgetary control: refers to any management approach that involves setting some kind of targets, regularly measuring variances between the original targets and actual outcomes, and motivating people to reduce those variances.

According to Rufus, (2008) Managers and business operators (not only in the manufacturing industry) to pay more attention to their budgetary control systems, while those without any should endeavor to ensure the set-up of a result-oriented system as it goes a long way in repositioning businesses and organizations from their creeping performance level to an improved and high capacity utilization point.

Ahmed (2015) in the study recommends that in order to enhance the effectiveness of Budgetary control techniques in the Organizations, the management should put in place measures to solve the budgetary control system problems such as enhancing better understanding of budgetary control techniques, their behavior and institutional dynamics among the staff, developing strong financial integration with performance management, quarterly revision of financial plan to redirect resources at frequent intervals, better engagement between organizational leaders, managers, finance staff with timing of the financial plan.

2.1.6.1 Budget Planning

Sizer (1989) states that "planning as part of the budgeting system which involves a long term planning, strategic planning and short term planning .Further, he emphasizes that short term budgeting must accept the environment of today, and the physical human and Financial resources at present available to the organization".

Arora (1995) argues that “planning as involves selecting objectives and action to achieve them; it is looking ahead and preparing for it, which links it to budgeting. Through planning the organization can assess where it is supposed to be in terms of objectives and goals. This comes from the information system.

“Sound planning mentions priorities and the planning control cycle. Since there are so many activities to be performed, it’s imperative that they are listed in order of preference. Budgets are put in place in advance of the budget periods grounded on predicted set of conditions or setting. Benefits of budgeting accrue to the whole organization if both the short and long term consequences of the budgets are considered” (Otley, 1987). However, the annual budgeting process leads to the modification of those strategies, and then administrators should produce an in depth plans for the application of the long term plans. Deprived of the yearly budgeting procedure, the burdens of day-to-day working problems may tempt managers not to plan for upcoming operations (Scott, 1987).

2.1.6.2. Implementing

Ngozika, U. (2009) stated that “budgeting and budgetary control contribute in the improvement of management efficiency and high productivity, the budget committee should be educated in the implementation of budget. This would enable them to understand the importance of adhering to budget and the minimization of loses. Thus a budget education should be conducted at least once a year by the financial or an independent accounting or management consulting firm. Its usefulness cannot be questioned or over emphasized”.

2.1.6. 3 Monitoring and Controlling

Despite the laudable benefits of budgeting, its preparation, implementation and execution need to be controlled and monitored to avoid deviations from the plan and serve as a basis for revising the budget put in place. Challenge of preparation implementation and human factors that tend to affect budgeting need to be given serious thought. In the preparation of the budgets, management should give serious thought to the external environment, emerging technologies, organizational structure and size as well as culture of the organization and the setting where the timber firms operate (Frimpong, 2013).

2.1.6.3.1. Monitoring

“Each action on your part is in response to you having monitored conditions and adopted an adjusting response. Likewise, business managers must rely on systematic monitoring tools to maintain awareness of where the business is headed. Managerial accounting provides these monitoring tools, and establishes a logical basis for making adjustments to business operations” (Larry, 2009).

”Budget monitoring and variance analysis should be made on regular bases in line with the monthly close of financial system to compare budget versus expenditure by budget holders and finance who are responsible for managing the projects budget and activities with clear justification and action points. So that managers are able to prevent over or under spends timely and take corrective actions” (Yesuf A., 2015).

Australian National Audit Office, 2008 indicated that measure budget performance, organizations monitor the extent to which budget estimates match actual results. It is important for financial control, and to identify where change is required. Monitoring budget accuracy is the responsibility of all managers.

In order to monitor budget performance managers required to provide with relevant, timely and accurate information appropriate to their level of responsibility. It also needs managers to deliver clear and consistent feedback in a timely manner about underlying causes and effects of budget variations, as well as planned actions to manage variations for which they are accountable.

2.1.6.3.2. Control

Drury, (2001) described Control as “the continuous comparison of actual performance with budgets or standards, the comparison of actual results to budgets which enables the analyst to draw conclusions concerning the efficiency of operations, product probability and pinpoint problem areas”. Control is the course of safeguarding that a firm's actions follow to its plan and that its purposes are attained. There can be no control without objectives and plans, since these predetermine and specify the desirable behavior and set out the procedures that should be followed by members of the organization to ensure that a firm is operated in a desired manner.

Drucker (1964) distinguishes between controls and control. “Controls are dimension and evidence, whereas control means way. In other words, 'controls' are purely a means to an end; the end is control. Control is the function that makes sure that actual work is done to fulfill the

original intention, and 'controls' are used to provide information to assist in determining the control action to be taken." Controls are indicates that costs exceed budget and that this may be because the purchase of inferior quality materials causes excessive wastage. 'Control' is the action that is taken to purchase the correct quality materials in the future to reduce excessive wastage. Controls are encompassing all the methods and procedures that direct employees towards achieving the organization objectives.

"Many different control mechanisms are used in organizations and the management accounting control system represents only one aspect of the various control mechanisms that companies use to control their managers and employees. To fully understand the role that management accounting control systems play in the control process, it is necessary to be aware of how they relate to the entire array of control mechanisms used by organizations"(Drucker, 1964).

2.1.6.4. Evaluation

Budgetary evaluation implies towards the stage to which budget variances are tracked back to single department heads and adopted in assessing their performance. Moreover, the patterns in which budgets are used in performance assessment are likely to have an impact on the behavior, performance and attitudes of the participants. For instance, "a punitive approach could result into lower motivation as well as unconstructive attitudes. While, on the other hand a supportive approaches, might lead to positive attitudes along with behavior" (Kenis, 1979).

2.1.6.5. Common mistakes in budgeting

"The biggest mistake for a business owner is to treat their budget as a one-time investment process or a once-a-year investment procedure, merely as a living document that they are using to run the business every day. Regularly, administrators who have prepared budgets as they are trying to accumulate a loan or exercising taxes, they give all their effort and time into illustrating up the budgeting and then will not consider it again" (Klein 2006).

2.1.6.6 Budgetary Control Model

According to Jae K. Shim Joel G. Siegel (2005) control is vital in budgeting. "Budget figures may be checked for reasonableness by looking at relationships. The budgeted costs must be directly tied to planned production output. The manager must be able to strongly defend the initial budget figure and to obtain needed facts. Budget comparisons may be made by current year month to last year month, current year quarter to last year quarter, and cumulative year to date. A comparison is therefore made to similar time periods". According to this theory there

should be a strong budget control system in order to improve the efficiency and effectiveness of an organization expenses.

“Performance based budgeting model is a one type of budgetary control model and the most basic form of performance-based budgeting is that which aims to ensure that, when formulating the government budget, key decision makers systematically take into account the results to be achieved by expenditure. This is what is sometimes referred to as performance-informed budgeting. The essential requirements for this most basic form of performance-based budgeting are information about the objectives and results of government expenditure, in the form of key performance indicators and a simple form of program evaluation; and a budget preparation process designed to facilitate the use of this information in budget funding decisions, including simple expenditure review processes and spending ministry budget decisions” Robinson and Last, 2009).

Robinson and Last (2009) recommended there should be “a program classification of expenditure in the budgeting. By classifying expenditure into groups of similar services with similar objectives, a program budget helps budget decision makers compare the costs and benefits of expenditure options”.

Based on this, this study aims at examining the effect of budget and budgetary control on the performance of EFDRE construction works regulatory authority. Budget and budgetary control (planning, monitoring, controlling, budget implementation and evaluation, and performance of an organization

2.1.7 Organizational performance

In the 1980s, performance is defined as the extent to which an organization, as a social system, could consider both its means and ends. Nevertheless, Cherrington (1988) defined organizational performance as “a concept of success or effectiveness of an organization, and as an indication of the organizational manner that it is performing effectively to achieve its objectives successfully”. In the following decade, the 1990s, Adam considered organizational performance as “heavily dependent on the employees’ performance quality”. He believed that in order to ensure a high quality organizational performance, it is vital to have regular exposure of the staff of the company to new and up-to-date knowledge and skills, which would, in turn, help them keep up with the new changes happening in the market, and, ultimately, enhance the quality of organizational performance.

In the first decade of the twenty-first century, the definition of organizational performance mostly focused on the capability and ability of an organization to efficiently utilize the available resources to achieve accomplishments consistent with the set objectives of the company, as well as considering their relevance to its users. In this definition, the three general elements of organizational performance i.e., efficiency, effectiveness, and relevancy have been taken into consideration. Conversely, the performance of an organization is believed to be able to cover broader areas including the connection between performance and organizational goals (effectiveness); organizational resources (efficiency); and, satisfaction of the stakeholders (relevancy).

Some researchers believe that in the 1970s the concept of performance dealt with both organizational means and ends. Performance is defined as the extent to which a company, as a social system with certain resources, is able to fulfill its goals without being obliged to incapacitate its resources and means or putting excessive strain on its employees.

2.1.8. The Relationship between Budgetary Control and Organizational Performance

Finding of the study by Balogun, Mamidu, A.I. & Dr. Owuze, C.A. (2015) shows that budgetary control has a strong relationship with organizational performance, because, budget itself forms the basis for decision making, foundation for sound planning, measure for performance of an organization, budgetary controls provide structural support for performance and it also acts as a tool for resource allocation and control.

Findings strongly suggest that budgets are greatly linked to performance of an organization; hence, it should not be neglected. The study also revealed that budgets and budgetary controls have a greater link to the performance of an organization because, it provide structural support for performance. If the power of budgetary controls are not fully utilized or recognized by an organization, performance may not be fully maximized, as resources may be allocated and channeled to un-profitable projects/ventures. The study also revealed that the performance of an organization can be improved if budgets are linked with the overall organizational strategies. Keeping proper and complete financial records will also improve performance. Others are: using budgets as bench marks, getting more experienced and skilled financial analyst, revising and

debating on past, current and future budgets, and creating an enabling environment for effective and efficient budgetary control. All of these solutions will go a long way in improving the performance of an organization if adopted.

2.2. Empirical Reviews

Gacheru (2012) did a study on effect of the budgeting process on budget variance of non-governmental organizations in Kenya. The main objective of the study was to determine the relationship between budgeting process and budget variance in non-governmental organizations in Kenya. The primary data was collected using questionnaire and data analyses were done using descriptive methods. The population of this study comprised of 6,075 non-governmental organizations in Kenya over the last five years 2007-2011. Convenient sampling was used to select 20 non-governmental organizations for this study. The researcher used a questionnaire to collect primary data and the data was analyzed by descriptive data analysis using SPSS version 17.The research found that a unit change in budget preparation will lead to a 0.722% change in budget variance; a unit change in budgetary control will lead to a 0.661% change in budget variance; a unit change in budget implementation will lead to a 0.682% change in budget variance. The study recommends that non-governmental organizations should maintain a good budgeting process as the process contributes a lot to their budget variance. This will help them to monitor revenue and expense levels. It also ensures that the cash outflows (payments) and inflows (receipts) remain at adequate levels. This will help them monitor revenue and expenditure levels. It also ensures that cash outflows and inflows remain at sufficient levels. This study recommended further study should be carried out to establish the challenges facing budgeting processes among the non-governmental organizations in Kenya as it is evident that the budgeting process is a major factor that affect budget variance. Likewise a study should also be carried out to establish the effect of budgeting process on budget variance in public sector and state corporations in Kenya.

A study conducted by Gachithi (2010) focused on the factors that influence budget implementation in public institutions in Kenya, a case study of University of Nairobi. The study

aimed at investigating the factors affecting budget Implementation and to determine the extent to which these challenges affect budget implementation in the University of Nairobi. To achieve objective of these study a descriptive study was done. The researcher used both primary and secondary method of collecting data. A structured questionnaire with both open and closed end questions was used to collect primarily data. The respondents constituted Eight (8) Administrators, six (6) Bursars from the colleges of the university, eight (8) senior representative members of the budget Committee from Finance, eleven (11) staff in finance and administration involved in budget preparation. A descriptive analysis was used. The data was presented using statistical measures pie charts, bar graphs, frequency tables and graphical presentations.

The study established that University of Nairobi does not have efficient budget preparation procedures. Other challenges included insufficient funds allocated to department, institutional weakness which hindered effective budget implementation and the methods used to allocate funds to user department were unsatisfactory. The study recommends that for University of Nairobi to curb challenges in budget implementation there is need for effective procedures and guidelines in the allocation of funds and operational implementation policies.

Manoharan, K. (2017) examined some aspects of Budgeting and budgetary control system and organizational performance in the case of selected Indian companies with the objective of investigating the relationship between budgetary control and organizational effectiveness by using statistical method. The study found that there is strong relationship between budgetary control system and organizational efficiency and it was concluded that there are some barriers in proper implementation of budgetary control system in the organization.

Andrew, Albert and Ngoze (2016) conducted a study on Budgetary Control and Financial Performance in Public Institutions of Higher Learning in Western Kenya using descriptive survey design with objective of investigating the effect of budgetary control on financial performance in public institutions. The study found that budgetary control has a statistically significant effect on financial performance in public institutions of Higher Learning in Western Kenya.

Elizabeth (2010) conducted a study on determinants budget implementation in public institutions by taking University of Nairobi as a case study to analyze whether budget implementation in

public institution in Kenya served the multiple roles of planning, controlling, communication and decision making using descriptive research study design. The study established the challenges encountered in budget implementation. The challenges as found out included insufficient funds, institutional weakness, the method used to allocate budget was unsatisfactory and budget included unattainable targets. The study further found out that the institutions used the budget to serves the multiple roles of planning, controlling, coordination and communication. The study established that participation in budget preparation is another important issue because it reflects degree of consensus and ownership from the persons involved. The study concluded that University of Nairobi faces various challenges in budget implementation especially reduced revenue leading to shortage of available resource for its operation.

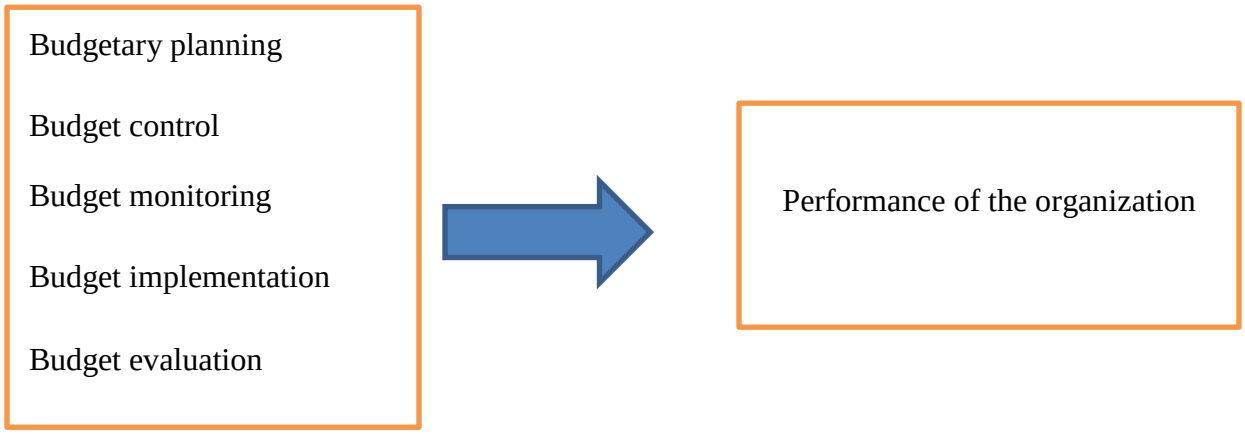
2.3 Summary of the chapter and research gap

"Budgeting is one of the fundamental decision-making processes in organizations". Budget commonly establishes performance goals for the unit in terms of costs, revenues, and/or production (Little, 2000). This is a brief and correct summary of the importance of the budgeting function within the majority of organizations. Budgets are used in differing degrees and for diverse purposes across different industries. Some industries use budgeting as a control of expenditures, where other businesses use budget functions as a tool for planning, a means of communication, or as a goal to measure performance. Although organizations prepares budgets in different formats, all organizations benefit from its use, and budgeting functions perform an important device in a firm's organizational structure and business success.

Many researchers conducted their studies on budgeting and budgetary control in the last decade. Those researchers were focusing on budgeting on its tool, process, practice and control. These make the studies lacks the effect of budgeting on other factors. Further, most of the literature is from the developed countries whose company's strategy approach is different from that of Ethiopia. Thus, to the best of the researcher's knowledge, it appears that no researches have been studied about impacts of budgetary control components on the performance of public organization in Ethiopia, particularly in Federal Governments of Ethiopia, specifically Ethiopian Construction Works Regulatory Authority.

2.4. Conceptual Framework

The conceptual framework followed the objective of the study and is developed by integrating variables from different theories and related researches that state effects of budget and budgetary control on performance of organization from the literature review. The independent variables are classified into different budgetary control systems (planning, monitoring and control, budget implementation, and evaluation). On the other hand, the dependent variable performance of organization is the extent to which an organization has met its stated goals and objectives and how well it performed in the process.



CHAPTER THREE

RESEARCH METHODOLOGY

INTRODUCTION

3.1. Research Design

In this study, a descriptive research design method was applied. Churchill (1991) noted that "descriptive study can be used when the purpose is to describe the characteristics of certain items, estimate proportions of people who behave in certain ways and make specific predictions exploratory in nature".

According to Schindler (2003), "a descriptive research design is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions". Mugenda (2003) describes descriptive research design as "a systematic, empirical inquiry into which the researcher does not have a direct control of the independent variables as their manifestation has already occurred or because the independent variable cannot inherently be manipulated".

3.2 Population of the Study

The population of the study consisted of four (4) Programs of EFDRE Construction Works Regulatory Authority namely, Administration and Management program, Standardization and information program, Construction Works and Resources monitoring program, and Construction Industry Certification and Registration Program. Under these programs we listed above, there are various Departments and Services groups. Four programs have 254 permanent employees excluding nonprofessional workers.

3.3 Sampling Design

"Sample is a set of entities drawn from a population with the aim of estimating characteristic of the population" Yates, Daniel, Moore and Starnes, (2008). The basic idea of sampling is

selecting some of the elements in a population, so that the same conclusions can be drawn about the entire population. This results in reduced cost and greater accuracy of results (Cooper and Schindler, 2003).

For this study stratified sampling technique was used. "Stratified sampling is a probability sampling technique wherein the researcher subdivides the entire population into different subgroups and then randomly selects the final subjects proportionally from the different strata. This technique ensures that individuals from all the subgroup in the population are selected and increases researcher's statistical precision" (Berg, 2004). In this study, the researcher divides the entire population into four (4) programs, and randomly selects the final respondents from each of strata. Hence the sample size was 155 respondents.

3.4. Sources of Data

3.4.1. Primary Data

"Primary data refers to the data a researcher obtains from the field that is a subject in the sample" (Mugenda, 2003). In this study primary data was collected through the use of self-administered questionnaires.

3.4.2. Secondary Data

During the study the researcher gathered further information through internet and reading various publications, reports, books and materials relevant to the study.

3.5. Data Collection Tools

The study used structured questionnaires for the purpose of collecting data. The questions were closed ended used to get specific unique information. The reason for choosing questionnaires is because it is less costly, convenient and not biased.

The independent variables consists budgetary control which involves planning, monitoring and control, evaluation and implementation. The data on both the budget and budgetary control and performance of the organization were obtained by using structured questionnaires.

3.6. Data Validity and Reliability

According to Kirk and Miller (1986) “the extent to which results are consistent over time and an accurate representation of the total population of the under study is referred to as reliability. The extent to which the results of the study can be reproduced under similar methodology is considered to be reliable. There are three types of reliability which relates to the degree to which a measurement given repeatedly remains the same, the stability of a measurement over time and the similarity of a measurement within a given period. The consistence within which a questionnaire is answered remains relatively the same can be determined through test methods at two different times”.

Validity determines whether the research truly measures that which it was intended to measure and how truthful the research result is. The construct is the initial concept, notion, question or hypothesis that determines which data is to be gathered and how it is to be gathered. The researcher tries to explain the purpose of the survey to the respondents about.

3.7. Data Analysis and Presentation

According to Saunders, Lewis and Thornbill (2009), “data analysis is the processing of data to make meaningful information after quantitative data is collected through questionnaires. It will prepare in readiness for analysis by editing, handling blank responses, coding, categorizing and keying into Statistical Package for Social Sciences (SPSS) computer software for analysis”. SPSS version 26 was used to produce frequencies, descriptive and inferential statistics which will use to derive conclusions and generalizations regarding the population.

The data was presented by using statistical measures bar graphs, frequency tables and pie chart presentations. Correlation analysis and regression analysis was developed on the data collected by questionnaire.

A multiple linear regression model was used to test the significance of the effect of budget and budgetary control system on performance of organization.

The multiple linear regression models, was placed below as:

$$Y = \alpha + \beta\ 1X1 + \beta\ 2X2 + \beta\ 3X3 + \beta\ 4X4 + \beta 5X5 + e$$

Where:

Y = performance of public organization.

X1 = Budgetary Planning

X2= Budget control

X3 = Budget monitoring

X4 = Budgetary evaluation

X5 = Budget implementation

e=Error term and α= constant

β=coefficient of independent variables

3.7.1 Pearson's Correlation Analysis

Pearson correlation analysis was conducted using SPSS in order to establish if a relationship existed between budgeting process and Performance of public organization. Correlation analysis measures the degree of a relationship between two variables and expresses the extent of this relationship by means of correlation.

Measures of correlation indicate both the strength and direction of the relationship between variables. The statistic calculated is the Pearson correlation coefficients (r) and varies between -1 and +1. The nearer the value of r is to zero, the weaker the relationship, and the closer to unity (- or +), the stronger the relationship. The sign of the Pearson correlation coefficient indicates the direction of the relationship, and its absolute value indicates the strength, with larger absolute values indicating stronger relationships.

CHAPTER FOUR

DATA ANALAYSIS AND DISCUSSIONS

4.1. Response Rate

Sample size of the study was 155 Employees with regard to the effect of budget and budgetary control on performance of EFDRE Construction Works Regulatory Authority. From these, 139 respondents making response this is 89.6% of the target. “A response rate of 50% is adequate, while a response rate greater than 70% is very good" (Kothari, 2004). This implies that based on this assertions; the response rate in this case of 89 is very good.

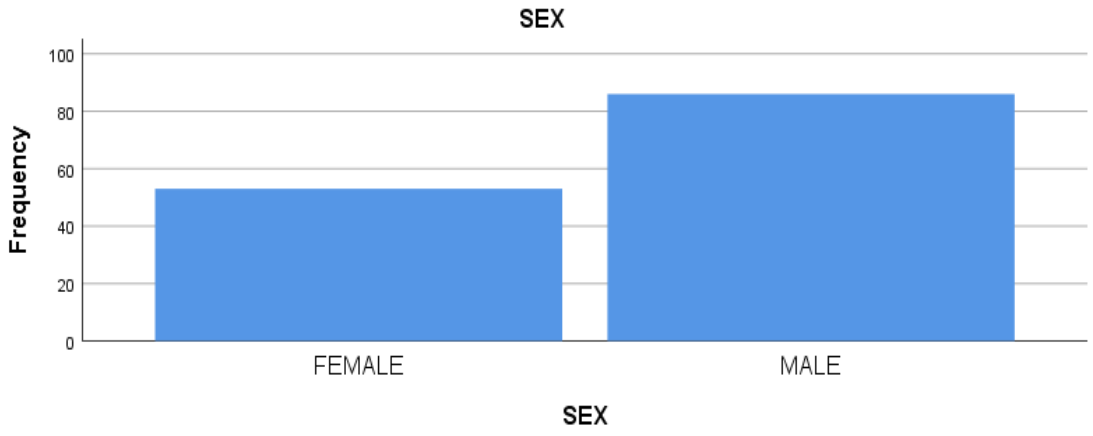
4.2. Demographic Characteristics of Respondents

4.3.1 The Gender Distribution of the Respondents

Table 4.1 gender of the respondent

Questions		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	FEMALE	53	38.1	38.1	38.1
	MALE	86	61.9	61.9	100.0
	Total	139	100.0	100.0	

Source: Survey data



Source: Survey data

Figure 4.1 gender of the respondent

As depicted in the above table and pie chart out of 139 respondents 53(38%) were females, whereas 86(62%) were males.

4.3.2 Age of the Respondent

Table 4.2 age of the respondent

Questions		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	under 25	24	17.3	17.3	17.3
	25-35	63	45.3	45.3	62.6
	36-45	40	28.8	28.8	91.4
	46-60	12	8.6	8.6	100.0
	Total	139	100.0	100.0	

Source: Survey data

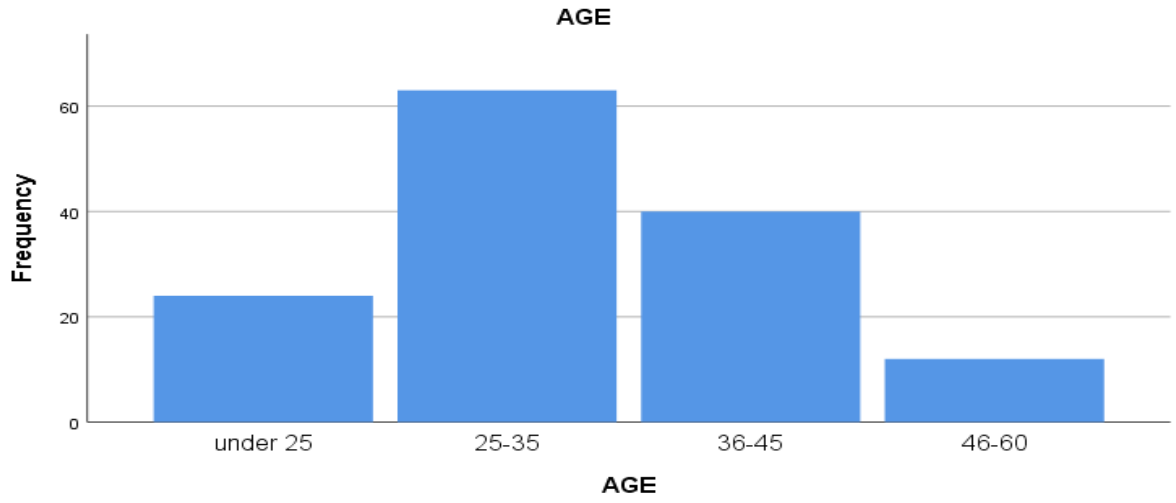


Figure 4.2 age of the respondent

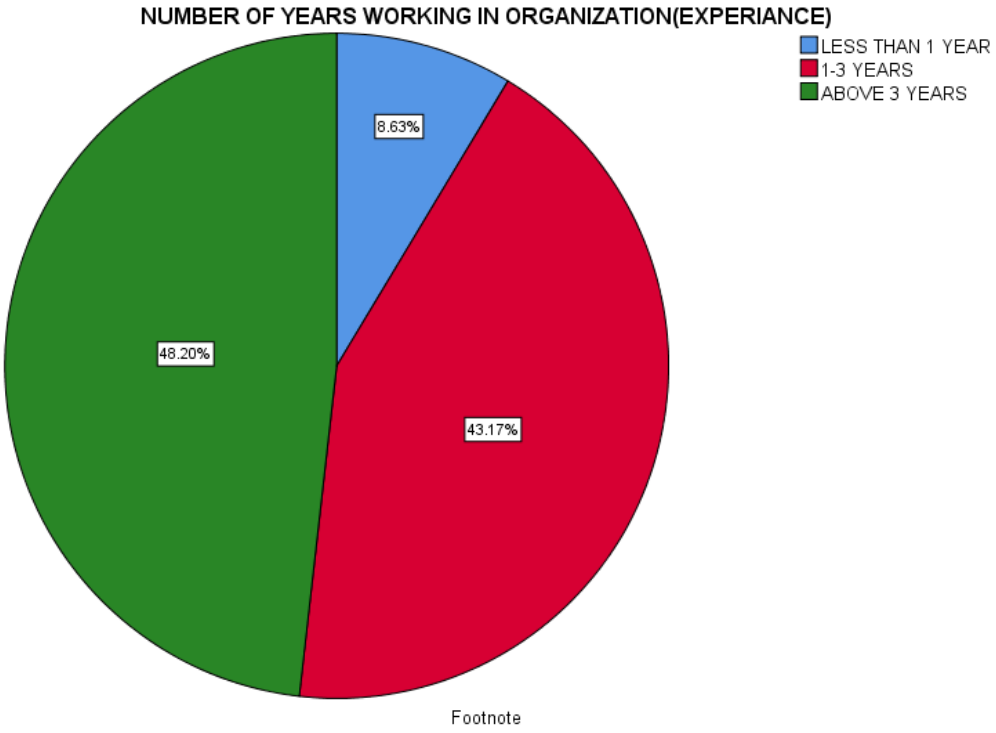
The above table and Bar Chat clearly show that 24(17%) were under 25 years of age, 63(45%) were between age of 25 and 35, 40(29%) of the respondents were aged between 36 and 45, 12(9%) of respondents were between 46 and 60 years. We can see from the above table and chart the majority of the respondents surveyed were between age range of 25 and 35, which contains 45% of the respondents while small portions 17% and 9% were less than 25 years and 46-60 years old respectively.

4.3.3 **Working Experiences of the Respondent**

Table 4.3 work experience of the respondent

Questions		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	LESS THAN 1 YEAR	12	8.6	8.6	8.6
	1-3 YEARS	60	43.2	43.2	51.8
	ABOVE 3 YEARS	67	48.2	48.2	100.0
	Total	139	100.0	100.0	

Source: Survey data



Source: Survey data

Figure 4.3 work experience of the respondent

The above table depicts, 12 (8.6%) of the respondents have work experience of less than one year and 60 (43.2%) of them were having work experience of 1 up to 3 years, while the majority

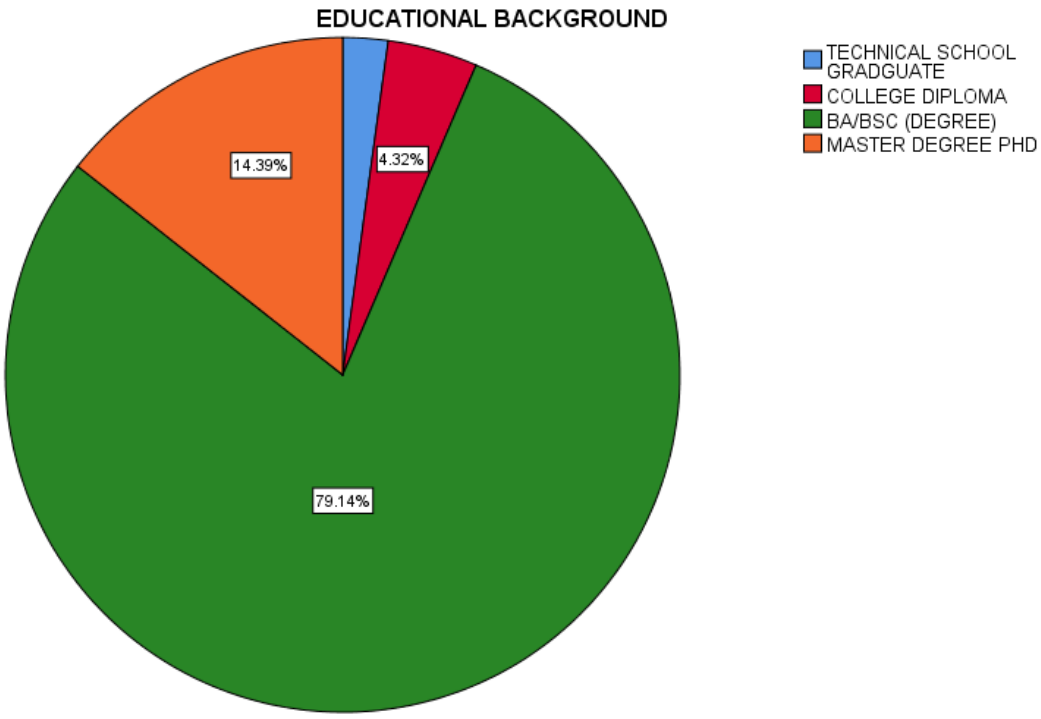
of them, 67 (48.2%) have been worked for more than three years. Therefore, as clearly indicated in the above table and pie chart, most of the employees included in study have more than three years of working experience in EFDRE Construction Works Regulatory Authority which implies that the respondents have better awareness about the organizations.

4.3.4 **Educational backgrounds of the respondent**

Table 4.4 Educational backgrounds of the respondent

Questions		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Technical School Graduate	3	2.2	2.2	2.2
	College Diploma	6	4.3	4.3	6.5
	BA/BSc (Degree)	110	79.1	79.1	85.6
	Master Degree/ PhD	20	14.4	14.4	100.0
	Total	139	100.0	100.0	

Source: Survey data



Source: Survey data

Figure 4.4 Educational backgrounds of the respondent

The above figure clearly shows that most of the respondents, 110 (79.1%) were first degree holders while, the least number 3 (2.2%) of them were technical school graduate, 6(4.3%) of them were diploma holders and 20 (14.4%) of them were master's degree holders.

4.3. Budget and budgetary control

The research sought to ascertain the rank at which the respondent agreed or disagreed on the relationship between budgeting and budgetary control and performance of the organization. The mean value of the responses computed based on Likert scale which indicates the average agreement of respondents: **One** levels **strongly disagree** which was given **1** point, **two** levels **disagree** which was given **2** points, **three** levels no opinion which was given **3** points, **four** levels agree which was given **4** points and **Five** levels **strongly agree** which was given **5** points. Means, Std.Deviation, Median, Minimum and Maximum were worked out for analysis.

4.4.1 **Planning**

Table 4.5 Total mean score by questions for planning

Questions	Mean	Median	Std. Deviation	Minimum	Maximum
There is long term and short term budget plans in the organization	4.28	4.00	.692	2	5
Budgets of the organization have clear goals and objectives	4.24	4.00	.741	2	5
Budget are used as a communication medium for organization plans and objectives	4.21	4.00	.785	2	5

Departments of the organization formulate budget plans preceding to the budget year	4.18	4.00	.828	2	5
Budget holders utilize their approved budget based on their plan.	3.76	5.00	1.609	1	5
Inadequate planning by budget officers causes variance in your budget.	3.94	4.00	.646	2	5
Budgeting organize the actions of the entire organization by mixing the plans of numerous parts.	3.87	4.00	.760	1	5
There is problem of matching plan with budget in your office.	4.09	4.00	.864	2	5
Your office revises its plan frequently in relation to budget	3.71	4.00	1.080	1	5
You have adequate understanding to prepare plan and budget.	3.04	4.00	1.098	1	4

Source: Survey data

The researcher investigated effects of budget planning on performance EFDRE Construction Works Regulatory Authority. The result revealed that they highly agree regarding existence of long term and short term plan with mean value of 4.28 and standard deviation 0.692, and budget have clear objective and goals with mean value of 4.27 and standard deviation 0.741.

Respondents “agree” that there are problems of matching with plan mean value 4.09 & SD 0.864, then they support that budget can be used as medium of communication for organization plan and objectives with the mean value 4.21 & SD 0.785, all department prepare their budget plan prior to budget years with mean value of 4.18 & SD=0.828.

Conversely relatively weakest support was given regarding existence of adequate understanding to prepare plan and budget, office revises its plan frequently in relation to budget and utilization of approved budget by budget holders based on their plans with mean value of 3.04 , 3.71 and 3.76 & SD=0.497 respectively

4.4.2. Controlling

Table 4.6 Total mean score by statement for controlling

Questions	Mean	Median	Std. Deviation	Minimum	Maximum
Budgeting and budgetary control integrates budgeting planning and implementations with control and monitoring	3.68	4.00	1.002	1	5
Budgeting and budgetary control helps the organization to estimate its expenditure in the coming financial year	4.08	4.00	.771	2	5

Source: Survey data

The study established that budget and budgetary control helps EFDRE Construction Works Regulatory Authority to estimate its expenditure in the coming financial year and integrates

budgeting planning and implementations with control and monitoring with a mean of 4.08 and 3.68 respectively.

4.4.3 **Monitoring**

Table 4.7 Total sample mean scores by statement for monitoring

Questions	Mean	Median	Std. Deviation	Minimum	Maximum
Management prepares budget meetings frequently to review performance	3.89	4.00	.866	2	5
The organization has budget policies that monitors budget spending	3.75	4.00	.949	2	5
Control of the budget activities is done by the head of departments	3.81	4.00	.881	2	5
The costs of activities and function of the organization are constantly reviewed by the management team	3.49	4.00	1.045	2	5
The organization's budget performance evaluation reports are prepared frequently	3.68	4.00	.986	2	5

The organization effectively monitor the budget implementation	3.62	4.00	1.017	2	5
Managers always take timely corrective actions on implementation of budget	3.41	4.00	1.493	1	5
There is consistent follow up on budget plans	3.45	4.00	1.460	1	5

Source: Survey data

Managements of public organization in EFDRE Construction Works Regulatory Authority prepares budget meeting frequently to review performance with mean value of 3.89 & SD=0.866.The respondents indicated also Control of the budget activities were done by the head of departments and the organization has budget policies that monitors budget spending representing mean value of 3.81 and 3.75 respectively.

In addition, the respondents, reflects the weakest argument regarding timely budget performance evaluation reports preparation, effectively monitoring the budget implementation and management team reviews on costs of activities and function of the organizations representing mean score of 3.68,3.62 and 3.49 respectively

Conversely, the lowest score for budget monitoring and control mean score 3.41 reflects the weakest argument regarding the existence of corrective actions on implementation of budget and regular follow up on budget plan mean score 3.45 as computed based on responses computed by Likert scale.

4.4.4 Evaluation

Table 4.8 Total mean score by statement for evaluation

Questions	Mean	Median	Std. Deviation	Minimum	Maximum

The management of organization review the budget and make adjustment	3.27	4.00	1.033	2	5
The organization review the process of budget allocation	3.65	4.00	.931	2	5
Department provide timely feedback to budget users to correct the detected weaknesses	3.88	4.00	.808	2	5
The organization conducts regular audit to evaluate implementation and report the result for the audited department and head of the organization on time.	3.73	4.00	.865	2	5
The management team discusses on the results of audit report for taking corrective actions.	3.01	4.00	1.035	1	4
There is a consistent budget implementation review by managements of the organization	4.23	4.00	.594	2	5
Budget defines goals and objectives that serve as bench mark for evaluation	3.90	4.00	.764	2	5

The organization has a good budget performance evaluation	4.01	4.00	.761	2	5

Source: Survey data

Based on above the response obtained also, there was moderate budget performance evaluation in the organizations. The overall mean of evaluation can be approximated to mean scores of 3.7 which indicate the moderate arguments regarding the existence and practice of budget evaluation in the organizations.

The highest score for evaluation mean 4.23 indicates the strongest argument that there is a consistent budget review by managements of the organization and existence of a good budget performance evaluation were representing mean score of 4.01.Conversely, the lowest score for evaluation mean score 3.01 shows the weakest argument regarding the management team discussion on the results of audit reports for taking corrective actions and existence of management reviews of the budget and adjustment with mean value of 3.27.

4.4.5 Implementation

Table 4.9 Total mean score by statement for implementation

Questions	Mean	Median	Std. Deviation	Minimum	Maximum
Budget implementation review is done on monthly basis to examine budget performance in the organization.	2.93	2.00	1.328	1	5

Budget implementation report considers the works done and expenditure performance against set targets.	3.86	4.00	1.001	1	5
The Organization encounters challenges while implementing their budgets such as non-compliance with budgetary timeliness	4.03	4.00	.876	2	5

Source: Survey data

The study established the weakest argument regarding budget implementation review on monthly basis to examine budget performance of the organization with a mean of 2.93, budget implementation report considers the work done and expenditure performance against set targets with a mean of 4.20 EFDRE Construction Works Regulatory Authority encounters challenges while implementing their budgets such as non –compliance with budgetary timeliness with a mean of 4.35

4.4. Organizational performance

Table 4.10 Total mean score on performance of the organization

Questions	Mean	Median	Std. Deviation	Minimum	Maximum
The budgetary control system provides a framework for judging performance	4.02	4.00	.737	2	5

Budgets are used to measure performance in the organization	3.94	4.00	.823	2	5
Budgeting and budgetary control influence on employee's performance towards set targets.	3.89	4.00	.874	2	5
Ineffective budgetary control does influence performance of organizations	4.03	4.00	.742	1	5
Budgeting control affects the quality of service in the organization	3.89	4.00	.961	1	5
Budget control system can be used to evaluate organization's performance.	3.26	4.00	1.390	1	5
Effective and efficient use of resources through the use of budgetary control system improve performance	3.90	4.00	.871	2	5
The organization has adequate number of skilled persons to achieve organizational objectives and goals for effectiveness	3.65	4.00	1.160	1	5
Budget control system used as tool for the achievement of organizational objectives and goal.	3.42	4.00	1.324	1	5

Budget are used to motivate staff	4.09	4.00	.624	2	5
There is high level of employees‟ motivation in the organization	3.80	4.00	1.030	1	5

Source: Survey data

The overall mean of performance can be approximated to 3.8. The highest mean score for performance was 4.09 indicates the positive argument of the respondents that budget and budgetary control are used to motivate staffs which contribute to improve the performance of the organizations.

Conversely, the lowest score for performance 3.26 shows the weakest argument regarding Budget control system can be used to evaluate organization's performance and the scores ranged from 3.26 to 4.09 for performance of organizations showing a relatively high support for the performance of the organization based on responses computed by Likert scale.

4.5. Correlation Analysis

The following section presents the inferential for the study (correlation analysis),

4.5.1 Pearson's Correlation Analysis

Pearson correlation analysis was conducted using SPSS 26 in order to establish if a relationship existed between budgeting process and Performance of the organizations. Correlation analysis measures the degree of a relationship between two variables and expresses the extent of this relationship by means of correlation.

Measures of correlation indicate both the strength and direction of the relationship between variables. The statistic calculated is the Pearson correlation coefficients (r) and varies between -1 and +1. The nearer the value of r is to zero, the weaker the relationship, and the closer to unity (- or +), the stronger the relationships. The sign of the Pearson correlation coefficient indicates the direction of the relationship, and its absolute value indicates the strength, with larger absolute values indicating stronger relationships.

Table 4.11 Correlation matrix

	Organizational Performance	planning	control	evaluation	monitoring	implementation
Pearson Correlation						
Performance	1					
Planning	0.129	1				
Control	0.309	0.453	1			
Evaluation	0.398	0.582	0.463	1		
Monitoring	0.603	0.423	0.509	0.142	1	
Implementation	0.451	0.379	0.593	0.218	0.354	1

Data presented before on budgetary planning, budget implementation, monitoring, control and budgetary evaluation were computed into single variables per variable by obtaining the averages of each variables. Pearson's correlations analysis was then conducted at 95% confidence intervals and 5% confidence level 2-tailed. The above indicates the correlation matrix between the aspects of budget and budgetary control system (budget planning, budget implementation, budget monitoring, budget evaluation and control and performance of EFDRE Construction Works Regulatory Authority.

According to the table, there is a positive relationship between performances of EFDRE Construction Works Regulatory Authority. And budget planning, budget implementation, budget monitoring, budget evaluation and budget control with magnitude 0.129, 0.451, 0.603, 0.398 and 0.309 respectively. The positive relationship indicates that there is a correlation between the variables and performance of EFDRE Construction Works Regulatory Authority.

This infers that budgetary monitoring (0.603) had a strong relationship with the performance of EFDRE Construction Works Regulatory Authority followed by budgetary implementation (0.451), then budget evaluation (0.398) and budget control (0.309) while budget planning (0.129) had the least relationship with the performance of organization.

4.6. Regression Analysis

In order to examine the effects of Budget and budget control system on performance, the researcher develop a regression analysis. A regression analysis used to shows the effects independent variables on dependent variables. The researcher also tries to show the effect of budget and budgetary control system on performance of organization by using multiple regression analysis.

To compute regression and analysis model assumption should be tested. Accordingly, the researcher conducted linearity and Multi-collinearity test to conduct regression analysis

Multicollinearity Test

Problem may arise when two or more predictor variables are correlated. Heteroscedasticity means that previous error terms are influencing other error terms and this violates the statistical assumption that the error terms have a constant variance. In the presence of multi collinearity, Burns and Grove (2010) demonstrate that the coefficient estimates may change erratically in response to small changes in the model or the data.

The decision to finally drop an item also depends on a second step, where the variance inflation factor (VIF) is applied. The VIF detects multicollinearity by measuring the degree to which the variance has been inflated. A VIF greater than10 is thought to signal harmful multi collinearity as suggested by Somekh and Lewin (2015).

Summary of Collinearity Statistics

Model	Collinearity statistics	
	Tolerance	VIF

Planning	0.976	1.021
Controlling	0.608	1.641
Monitoring	0.532	1.903
Implementation	0.435	1.974
Evaluation	0.601	1.649

The Variance inflation factor (VIF) was checked in all the analysis which is not a cause of concern according to Somekh and Lewin (2015) who indicated that a VIF greater than 10 is a cause of concern. The basic assumption is that the error terms for different observations are uncorrelated (lack of autocorrelation).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimates
1	.542	.302	.268	.37664

The above table is a model fit which establish how fit the model equation fits the data. The R Square was used to establish the predictive power of the study model and it was found to be 0.302 implying that 30% of the variations on performance of organization is explained by budget planning, controlling, budget monitoring, evaluation, implementation and budgetary control leaving 70% unexplained. Therefore, further studies should be done to establish the other factors (70%) affecting performance EFDRE Construction Works Regulatory Authority.

ANOVA for regression

Model		Sum of Squares	Df	Mean Square	F	P value
1	Regression	6.837	5	1.673	11.386	.000
	Residual	15.689	133	.151		
	Total	22.526	138			

The probability value of 0.000 indicates that the regression relationship was highly significant in predicting how budgetary planning, monitoring, evaluation, implementation and control affect performance organization. The F calculated at 5 percent level of significance was 11.386 this shows that the overall model was significant.

Regression Coefficients

	Unstandardized coefficients		Standardized coefficient		
Model	B	Std. errors	Beta	T	Sig.
1 (constant)	1.542	0.583		2.062	0.043
Planning	0.162	0.149	0.080	1.089	0.031
Monitoring	0.213	0.071	0.324	3.081	0.004
Control	0.046	0.062	0.057	0.620	0.038
Evaluation	0.153	0.075	0.201	1.823	0.041

Implementation	0.183	0.091	0.241	1.986	0.043

The established model for the study was:

$Y = 1.542 + 0.162 X1 + 0.213X2 + 0.046 X3 + 0.153 X4 + 0.183X5$

The regression equation above has established that taking all variables into account (budget planning, budget monitoring, control, evaluation and budget implementation) constant at zero, performance the organization as measured by SPSS would be 1.542.

The findings presented also show that taking all other independent variables at zero, a unit increase in budget planning would lead to a 0.162 increases on performance of public organization. The relationship was also significant with p-value 0.031 <0.05. The level of confidence for the analysis was set at 95%. Therefore, the P- value less than 0.05(P=0.05) imply that the independent variable is significant. This corresponds to Dickson (2013) who pointed that budget planning processes elevate the performance of the organizations.

The study also found that a unit increase in budget monitoring (P-value=0.004) lead to a 0.213 increase on performance of the organization.

Further the study found that a unit increase in budget control (P-value=0.038) would lead to a 0.046 increase on performance of the organization.

The finding also portrays that a unit increase in budget implementation leads to 0.183 increase on the performances of the organization with a p- value of (p- value=0.043).

Further, the findings show that a unit increases in the budgetary evaluation would lead to 0.153 increases on performance of the organization. The relationship was also statistically significant with p-value 0.041 <0.05.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objectives of the study. The study sought to explain effects of budget and budgetary control system on performance of EFDRE Construction Works Regulatory Authority.

5.1. Summary of Major Findings

The first objective of the study was to evaluate the effectiveness of budget and budgetary control process in EFDRE construction works regulatory authority. Accordingly finding revealed that they highly agree regarding existence of long term and short term plan, and budget has clear objective and goals. According to respondents of this study there are problems of matching with plans, this reveals there are problem of proper implementations of budget in compliance with planned budget, they support that budget can be used as medium of communication for organization plan and objectives and all department prepare their budget plan prior to budget years.

The study established that implementation report considers the works done and expenditure performance against set targets. But there is a weak budget implementation review on monthly basis to examine budget performance; and the organization encounters challenges while implementing their budgets such as non–compliance with budgetary timeliness.

Finding on monitoring indicates that the managements of public organization in the organization prepare budget meetings frequently to review performance of the budgets. According to respondents control of the budget activities were done by the head of departments and the organization has budget policies that monitor budget spending.

The study established that budget and budgetary control helps EFDRE Construction Works Regulatory Authority to estimate its expenditure in the coming financial year and integrates budgeting planning and implementations with control and monitoring

As deducted from the findings timely preparation of performance evaluation reports, management team reviews on costs of activities and function of the organizations and effectively

monitoring the budget implementation were representing lower supports for their existence. Further, corrective action on implementation and regular follow up on budget plan were very low or given minimum mean value for their implementations in EFDRE construction works regulatory authority.

There is a moderate budget performance evaluation system in the organization. Based on the response obtained, management of the organization consistently reviews implementation of budget and there is a good budget performance evaluation system in the organization. While there is a problem of management team discussion on the results of audit reports for taking corrective actions and existence of management reviews of the budget and adjustment

The second objective of the study was to appraise the relationship between budget and budgetary control components with organizational performance. Accordingly, Pearson correlations measured by using SPSS 26 finding reveals there is a positive relationship between performance of the organization of in the organization and budget planning, budget implementation, budget monitoring budget control and evaluation magnitude 0.115, 0.467, 0.373, 0.392 and 0.501 respectively. The positive relationship indicates that there is a correlation between the variables and performance of EFDRE Construction Works Regulatory Authority.

This infers that Monitoring 0.501 had a strong positive relationship with performance of EFDRE Construction Works Regulatory Authority. Followed by budgetary implementing, and budget control 0.467 & 0.392, then budget monitoring 0.373 while budget planning (0.115), had the least effect on the performance of EFDRE Construction Works Regulatory Authority.

The third objective of the study is to evaluate the effects of budget and budgetary control system on the performance of the organization. The findings presented also show that taking all other independent variables at zero, a unit increase in budget planning would lead to a 0.162 increases on performance of the organization. The relationship was also significant with p-value 0.031 <0.05.

The study also found that a unit increase in budget monitoring (P-value=0.004) lead to a 0.213 increase on performance of the organization.

The study found that a unit increase in budget control (P-value=0.038) would lead to a 0.046 increase on performance of the organizations.

Findings also show a unit increase budget implementation would lead a 0.183 increase on performance of the organization with a p-value of (p-value=0.043).

Further, the findings show that a unit increases in the budgetary evaluation would lead to 0.153 increases on performance of the organization with p-value 0.041< 0.05.

Overall, budgetary monitoring had the greatest effect on performance of EFDRE Construction Works Regulatory Authority followed by implementation. Hence study recommends that EFDRE Construction Works Regulatory Authority management needs to fully engage in budgetary monitoring to improve budget implementation and managers of the organization should take additional trainings in order to have an understanding about how to perform more efficient and effective monitoring system, There for organizational performance will improved. This will enable the organization to effectively manage its financial resources and supports and implement various programs and projects for development based on priority.

5.2 Conclusions

From the finding the study concludes budgetary planning was practiced and has long term and short term plan, and budget have clear objective and goals. Then the study concludes that budget can be used as medium of communication for organization plan and objectives and all departments prepare their budget plan prior to budget years. The finding concludes that there are problems of matching with plans in EFDRE construction works regulatory authority. Further finding concludes inadequate understanding to prepare plan and budget and approved budget by budget holders were not utilized based on their plans. Finding realized that budgetary planning and performance of EFDRE construction works regulatory authority has positive relationship.

With regard to budget monitoring the there is a problem corrective actions on implementation of budget and regular follow up on budget plan and also, timely budget performance evaluation reports preparation, effectively monitoring the budget implementation and management team reviews on costs of activities and function of the organizations is weak in the organization.

Based on the response to questioners obtained from respondents concerning budget evaluation the management team discussion on the results of audit reports for taking corrective actions and existence of management reviews of the budget and adjustment is not good enough.

The research concludes ensuring budget implementation processes had a positive impact on performance of the organization.

In determining the association among variables, correlation method was used, whereby the results showed performance of EFDRE Construction Works Regulatory Authority by SPSS is, influenced by use budgetary planning (0.129), implementation (0.451), monitoring (0.603) evaluation(0.398) and control 0.309. The independent variables in the correlation with positive coefficient revealed that there was a direct relationship with the dependent variable. Therefore, performance of public organization as measured by SPSS increased proportionately with more inclusive using of budgetary process and control system components. The study findings concluded that the performance public organization as measured by SPSS is strongly influenced by budgetary monitoring, budget implementation, evaluation, controlling and budgetary planning respectively.

Based on the regression model developed by the researcher budget and budgetary control had a positive effect on the performances of EFDRE Construction Works Regulatory Authority.

5.3 Recommendations

This study recommends that managements of the organization should have a rich considerate about the role which they are needed to play in ensuring budget attainment.

Managements in EFDRE construction works regulatory authority should arrange continuous training for budget holders at the beginning of every budget period to enlighten employees on budget planning to improve problem of matching budget with plan.

Management of the organization in the EFDRE construction works regulatory authority should give serious attention for budget monitoring to improve budget implementation so that performance of the organization is enhanced.

The organization should regularly evaluate budget implementation and management team should discuss this result for taking corrective actions for organizational effectiveness.

The study recommended budget implementation review should be done on monthly basis to examine budget year. The organization in EFDRE construction works regulatory authority

should not wait until period of implementation is over as mistakes can no longer be corrected at the end of the period or continuous evaluation is important. This help to verify budget implementation by using audit to help for organizational performance successful.

Based on the study the researcher commends that organizations should have additional proper practice in the progress of budgetary controls, like Planning, Monitoring, Controlling and implementation and evaluating. Most organizations have minimal formal budgetary controls thus they should develop an appropriate strategy about budgetary control system.

In regards to practice, the study recommends that the organization should establish formal performance measurement and rewarding individuals for their performance which will encourage maximizing their contribution towards the organizations objectives by: goal similarity to be achieved on, personal development employee attitudes, public responsibility, and balance between short term and long term goals.

5.4 Suggestions for further study

The study has achieved its aim that is to investigate the effect of budgets and budgetary control on performance of EFDRE construction works regulatory authority. It has therefore opened up avenues for further research since it was confined EFDRE construction works regulatory authority which may differ in the way they use budget and budgetary control system affect performance of federal government organizations. Therefore similar studies need to be conducted in other Federal Government organizations in Ethiopia in order to assess whether the study could yield similar findings regarding effect of budgets and budgetary control system on performance other Federal Government organizations.

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APPENDIX

Addis Ababa University

Faculty of Business and Economics

Department of Public administration

Dear, sir/Madam:

Dear respondent, I am conducting a study on Effect of Budget and Budgetary Control System on performance of federal government organizations in case of EFDRE Construction Works Regulatory Authority. As one of the respondent, your involvement is very important to this study. The information you deliver will only be used for academic purpose, and will be preserved with highest privacy. Please spend few minutes of your time and respond to the questionnaires below as honestly as you can. Thank you in advance.

General instruction

1. No need of writing your name.
2. In all cases where answer options are available please tick in the appropriate box.
3. For open ended questions if any, please enter your response on the space provided.

Part I Demographic information

1. Sex: Male ☐ Female ☐

2. Age in year: under 25 ☐ 25-35 ☐ 36-45 ☐ 46-60 ☐

Above 60 ☐

3. Number of years working in organization (experience):

Less than 1 year ☐ 1-3 years ☐ above 3years ☐

4. Educational background:

High school complete ☐

Technical school graduate ☐ College Diploma ☐

BA/BSC (degree) ☐

Master Degree PHD ☐

If other, please state_____

Part II Questionnaires related to budget and budgetary control and performance of organization

Listed below are statements about budget and budgetary control and effectiveness of organization in your organization. Please indicate your level of agreement with the statements so that your answers to questions will enable the researcher to assess the effect of budget and budgetary control on performance of your organization, where: 1=strongly disagree; 2=disagree; 3= no opinion; 4=agree; 5=strongly agree

1. Budget and budgetary control						
NO	Items	1	2	3	4	5
I	PLANNING					
1	There is long term and short term budget plans in the organization					
2	Budgets of the organization have clear goals and objectives					
3	Budget are used as a communication medium for organization plans and objectives					
4	Departments of the organization formulate budget plans preceding to the budget year					
5	Budget holders utilize their approved budget based on their plan.					
6	Inadequate planning by budget officers causes variance in your budget.					

7	Budgeting organize the activities of the entire organization by mixing the actions of numerous parts.					
8	There is problem of matching plan with budget in your office.					
9	Your office revises its plan frequently in relation to budget					
10	You have adequate understanding to prepare plan and budget.					
II	**CONTROL**					
1	Budgeting and budgetary control integrates budget planning and implementations with control and monitoring					
2	Budgeting and budgetary control helps the organization to estimate its expenditure in the coming financial year					
II	MONITORING					
1	Management prepares budget meetings frequently to review performance					
2	The organization has budget policies that monitors budget spending					
3	Control of the budget activities is done by the head of departments					
4	The costs of activities and function of the organization are constantly reviewed by the management team					
5	The organization's budget performance evaluation reports are prepared frequently					
6	The organization effectively monitor the budget implementation					
7	Managers always take timely corrective actions on implementation of budget					
8	There is consistent follow up on budget plans					

III	EVALUATION					
1	The management of organization review the budget and make adjustment					
2	The organization review the process of budget allocation					
3	Department provide timely feedback to budget users to correct the detected weaknesses					
4	The organization conducts regular audit to evaluate implementation and report the result for the audited department and head of the organization on time.					
5	The management team discusses on the results of audit report for taking corrective actions.					
6	There is consistent review of budget implementation by managements of the organization.					
7	Budget defines goals and objectives that serve as bench mark for evaluation					
8	The organization has a good budget performance evaluation					
IV	Implementation					
1	Budget implementation review is done on monthly bases to examine budget performances of the organization.					
2	Budget implementation report considers the work done and expenditure performance against set targets.					

3	The Organization encounters challenges while implementing their budgets such as non-compliance with budgetary timeliness					

Part Two

NO	PERFORMANCE OF THE ORGANIZATION	1	2	3	4	5
1	There is high level of employees‟ motivation in the organization					
2	Budget are used to motivate staff					
3	Budget control system used as tool for the achievement of organizational objectives and goal.					
4	The organization has adequate number of skilled persons to achieve Organizational objectives and goals for effectiveness.					
5	Effective and efficient use of resources through the use of budgetary control system improve performance					
6	Budget control system can be used to evaluate organization's performance.					
7	Budgeting control affects the quality of service in the organization					
8	Ineffective budgetary control does influence performance of organizations					
9	Budgeting and budgetary control influence on employee's performance towards set targets.					
10	Budgets are used to measure performance in the organization					
11	The budgetary control system provides a framework for judging performance					