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## Budgeting, Risk Planning, Internal Control and Financial Performance of Kenyan Manufacturing Firms

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### Abstract

Manufacturing companies, integral to a nation's economic fabric, wield significant influence on financial prosperity. This article explores the imperative of nurturing these entities with the utmost care to ensure optimal financial performance. The paper discusses the significance of budgeting, planning, and control in enhancing the financial performance of manufacturing companies, particularly in developing countries. Budgeting involves creating spending plans to ensure effective use of resources, and it has been successful in countries like Kenya, India, and Somalia. Four theories related to budgeting, planning, and control in manufacturing companies are outlined in the study: organizational theory, stakeholders' theory, contingency theory, and goal-setting theory. The study observed that manufacturing companies significantly contribute to national economies through their export-driven models, facilitated by prudent budgeting, robust internal controls, and proactive risk planning. Budgeting stands as a fundamental tool for resource allocation, encompassing stages from planning to periodic evaluation. Risk planning emerges as a proactive shield against potential losses, considering both probability and impact. By harmonizing budgeting, internal control, and risk planning, manufacturing companies not only fortify their financial standing but also augment the economic vitality of their respective nations. In conclusion, the article presents a holistic perspective on the interconnected strategies of budgeting, internal control, and risk planning in bolstering the financial standing of manufacturing enterprises.

**Keywords:** Budgeting, Risk planning, Internal controls, Financial performance, Kenyan Manufacturing firms

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### 1. Introduction

Budgeting, planning, and control were meant to cure the poor financial performance of most large-scale businesses, with the promise that these measures would enable most manufacturing companies to manage their resources in the most appropriate manner (Romenska et al., 2020). Since money is a scarce resource for all manufacturing companies, to use it effectively, planning will be required. However,

planning alone is not sufficient, so control comes in to ensure that plans are carried out in the appropriate manner and funds do not fall into misappropriation (Frank et al., 2008). Budgeting has been very successful in propelling the financial performance of manufacturing companies in many developing countries, for example, Kenya, India, and Somalia. Since manufacturing companies in developing countries are few compared to those in developed countries, the concentration of budgeting, planning, and control has

not been put into much light in these countries.

Budgeting is the process of creating a plan to spend money. The spending plan is called a budget. It helps in determining in advance if the money will be enough to do the things that are supposed to be done. Budgeting is important to most sections of the economy (Ridwan, 2017). Companies must find some method to deal with future activities that are not predictable. What a budget does is show companies operating plans for the coming periods; it also formalizes the company's plan in a quantitative plan, which makes it realistic and easy to understand for probably auditors. It creates a spirit of motivation towards achieving the goals of the company (Kravets, 2019). Most companies around the world have used budgeting methods to utilize the money in the most appropriate manner, and it has been successful for them. Budgeting can be done in different ways, as long as the method used is beneficial and works out for a particular organization. For instance, some organizations may prefer to do their budgets according to departments; in that case, each department prepares its own budget and presents it for approval. This method can be good since it reduces a lot of work that could be done by one person. However, some organizations prefer to have one master budget that includes all the budgets of all departments. This has its advantages and disadvantages. Having one budget can be advantageous in that it saves costs, and there is also no overestimating of what they need so that they can have individual benefits out of the funds of the budget indirectly (Gerasimova, 2020). There are also types of budgets, for example, sales budgets, production budgets, financial budgets, overhead budgets, and master budgets, which were deeply explained in Chapter chapter two and their effects on the financial performance of manufacturing companies based in Kenya.

The origin of budgeting was in England, where it was used as a means of controlling governmental expenditures. In the early 1760s, the Chancellor of the Exchequer presented the national budget to parliament at the beginning of each fiscal year ("Budget Promises Almost £3bn for NHS in England," 2017). The budget was the chancellor's report on national finances. After presenting the budget speech, parliament considered his list of estimated expenditures and, after discussion and debate, acted upon the proposal (Choi, Kwang, 2017). Tax levies were then put in place, and the budgeted appropriations served as fixed limitations for the succeeding year.

Planning is the process of setting a company's goals, strategy, and future actions with the purpose of maximizing the odds of company growth within a set timeframe (Romenska et al., 2020). Planning goes hand in hand with budgeting. For planning to be successful, there are procedures that need to be followed. The moment a certain important step is not followed, the result of the planning might not be good and may affect a whole budget. Planning is an important aspect of most companies; a good plan

defines everything about a company and also its overall image to potential investors. It should be done under proper supervision because most times there could be a lack of understanding about the objectives of the company; there could also be no constructive approach to objectives; and there could be scarce resources to meet the objectives of planning. Giving proper attention to the plans of an involved organization is a good way of avoiding negative outcomes. Other ways of making sure that the after-plan result is good are by establishing coordination between long-term and short-term plans to avoid confusion.

Budgetary control means comparing actual income or expenditure to identify whether or not corrective action is required (Palanjian, 2008). The comparison of budgeted and actual figures will enable discrepancies to be found and remedial measures to be taken at an appropriate time. This process should be a continuous one to enable planning and coordination. Control enables the elimination of waste and increases profitability; it also helps in the correction of deviations from established standards. In manufacturing companies where a huge amount of money is involved, control is better since it will ensure that the discrepancies that could have been realized are solved earlier. Manufacturing companies experience large diseconomies of scale, whereby misappropriation of funds is one of them, meaning if there is proper control, there could be huge profits, which can be beneficial to the company (Mary, 2017). Proper supervision and coordination between long-term and short-term plans are crucial for successful planning. Budgetary control, the process of comparing actual income/expenditure with the budget, is emphasized for identifying discrepancies and taking corrective action in a continuous manner. The text underscores the importance of these financial management practices in preventing misappropriation of funds and enhancing profitability, especially in manufacturing companies dealing with significant financial stakes.

## 2. Theoretical Review

This section explores and discuss theoretical frameworks, providing a foundation for understanding the underlying principles that guide the current study on Budgeting, Risk Planning, Internal Control and Financial Performance of Kenyan Manufacturing Firms.

### 2.1. Organizational theory

Under this theory, there is an institutional perspective on budgeting, planning, and control. Manufacturing companies adopt the budgeting process since, according to their observations, they realize that other firms have become successful. They also do plan in the process of budgeting on how they can utilize their funds in the appropriate manner. They have become financially confident and successful (Jenkins & Delbridge, 2020). Budgeting has become popular in manufacturing companies as there has been a need for certain groups to adopt budgeting and have a copy of the

budget and plan. For example, stakeholders may need the budget to know how the company is performing, especially in the manufacturing industry, where there could be more people interested in the company, so a budget will be able to put them in a position to know whether their activities run in the appropriate manner. Also, employees need the budget to retain confidence in the company that they are able to pay them their salaries and allowances. They also become motivated to work wholeheartedly since the organization involves them in some issues, like making them access the budget (Jenkins & Delbridge, 2020). Also, the budgeting officer, who in most cases is an accountant or CPA, has an interest in the budget and other managerial positions in the company to be able to stabilize the budget and know where the organization is going wrong so that they can correct any errors for the success and proper running of the company.

Budgets are also important in an organization because they help cut certain costs, especially practical budgeting, which, in terms of figures, helps reduce over- or under-budgeting (Jenkins & Delbridge, 2020). For example, the manufacturing budget for each product enables the accountant to determine the cost of the product by getting to outline the labor cost, material cost, transport cost, and other miscellaneous costs when they add them up together and add their profit so that they get the cost of the product. This has enabled us to reduce the potential for opportunism due to properly scrutinized budgets and spending limits. Budgeting in an organization has over many years been given top priority, especially in manufacturing companies, since the importance of budgeting keeps increasing as the years go by (Auerbach & Gale, 2020). For example, during pandemics like this COVID-19 season, most manufacturing companies have not worked well financially since it has hindered most operations like the supply of raw materials, making the organizations work with limited resources. Budgeting has become more important since, using the limited funds and resources, they are able to plan and manage themselves through budgeting. Also, budgeting in the organization during the COVID-19 pandemic has reduced disputes between organizational members since, when they see the budget, they are enlightened on how bad the company is fairing on following COVID-19, and so they are able to accept the situation and find ways of improving the company's performance (Auerbach & Gale, 2020).

Budgets are used in companies when the financial situation has started deteriorating due to some issues, like in this case, COVID 19. Using the budget, accountants can manage using the limited resources and be able to pay work. In this case, budgeting can enable the workers to retain their jobs instead of laying them off by reducing their wages so that their financial performance can be regulated. A budget is a good idea since, in times of poor economic situations, employees retain their jobs by reducing their wages, which is better than leaving others jobless, and they are all important assets to the company.

## 2.2. Stakeholders Theory

Stakeholders' Theory states that a firm is a group of stakeholders working within a system of a society, which, in other words, is the host and provides necessary legal infrastructure for their firms' activities. The purpose of the firm is to create value for its stakeholders by converting their stake into goods and services (Liu & Fang, 2020). According to this theory, in large companies, the degree of detailed information in budgeting and planning is important, as in the case of manufacturing companies, which fall into the same category as large companies. It also states that for a budget to be complete, much effort needs to be put in place for it to be a success. It consumes a large amount of monetary resources; however, wastage of resources occurs every time during planning until the annual operating budget is approved. That's why most top management usually pays little attention to budgeting and control since they consider the high cost involved compared to the benefits derived from such detailed budgeting. Most manufacturing industries in Kenya could be facing the same problem, and definitely it is because in developing countries there could not be enough resources to do detailed budgeting for manufacturing companies, which is why their financial performance lags behind. When you look into much detail, it will be difficult for them to do much detailed budgeting for the success of the company and get to know the loopholes they can improve. Instead, if it does not benefit the top management, they will not give it much consideration, considering the high rate of corruption. Even if they push themselves into budgeting and do not get any reward, they will manipulate the budget to their benefit.

And so, to control reluctance in budgeting planning and control, Blair's view is that to provide incentives to stakeholders like voice and ownership (Porter, 1992), they should also be provided board representation by customers and suppliers, financial adverse employees, and community representatives, as well as seek long-term owners to guide them in governance. In this way, they will be able to work properly in detail, especially within their budgets; hence, the financial performance of these manufacturing companies will improve. If stakeholders are given a say in the decisions of budgeting and planning, the top management will be on their toes and ensure less reluctance and mistakes in budgeting, hence the financial performance will improve. Manufacturing industries will flourish if they adopt this method; it may improve their financial performance by a larger percentage if there is proper planning.

## 2.3. Contingency Theory

In this theory, it identifies two types of fit that have been used in budgeting research: selection and interaction. Selection fit is the congruence between an organization and its contingencies. Several tests of selection fit have been done; the contingency variables are organizational size and technology as independent variables. For example, Bruns and Waterhouse show that structuring activities leads to

more participative budgeting. This can be done by a company or organization arranging its activities in such a manner that they can accommodate other members to have a say in the budgeting process. The organizational size and the way it is diversified bring in the importance of budgeting, especially participative budgeting, and reports that participative budgeting and organizational size interactively affect organizational performance. This is because it will bring out the best in the company involved since if the organization is big and has different departments, in these departments there are people from different diversities. When they come together and do budgeting as one and ensure that every department participates in the budgeting process, it will make work easier for the accountant (CPA), especially in compiling to get the master budget.

Other departments will participate by making their own budgets and bringing them so that they can be compiled. Also, planning will make it easier to ensure that risks that are to take place are controlled in different ways so as to avoid adverse effects that might occur because of risk planning. And since, as we all know, manufacturing companies are highly diversified and their organizational size is also large, participative budgeting will be an important move for them to improve their financial performance, as in our case here, the manufacturing industries in Kenya. It will be a great idea for the manufacturing companies in Kenya to adopt this measure of ensuring that every department takes part in budgeting. It will reduce the workload, whereby one person could have done the budgeting for all departments. It will also be advantageous in this COVID-19 season to avoid a lot of contact when every department does its own budget and sends it to the accountant for preparation of the final budget. Technology comes in as there are systems that are used in budgeting, and a company, especially a manufacturing company, should use a good system to get accurate results.

#### **2.4. Goal setting Theory**

Goal-setting theory (Latham & Locke, 1990) was developed inductively within industrial organization psychology over a 25-year period based on laboratory and field studies. High goals lead to a higher level of task performance than low-level goals. When we look at budgeting, it is a way of setting goals, planning how funds will be allocated, and controlling their usage. When a company budgets its money and other resources, it creates a spirit of motivation for the workers and employees so that they can work towards the goal, which is the budget. It also keeps members active and hardworking to achieve what the budget says. By providing direction and standard organs through which progress can be monitored, challenging goals enable people to refine their performance and look for ways in which they can work to achieve those goals. This applies to the manufacturing companies in Kenya; they set high budgets and were able to motivate them to work extra hard

to improve their financial performance. When these manufacturing companies set high goals through the budgeting process, they were able to work extra hard, and in the process, the challenging goals led to them being recognized internationally, just like other manufacturing industries in developing countries that are recognized worldwide. This measure improved the financial performance of these manufacturing companies based in Kenya, which have been faced with the problem of recognition and good financial performance.

Budgets were to be set in such a way that staff members felt their achievements were challenging. High budgets have been seen to motivate staff compared to low budgets. For example, if a manufacturing company sets a budget of \$5 million and another sets a budget of \$5 billion, the company with a budget of \$5 million will be reluctant to work hard compared to the company with a budget of \$5 billion since the staff will realize they have a lot to do so that they can achieve the budget. In the process, they will work to an extent that their efforts will surpass \$5 billion, and in the process, the financial performance will improve in the process (Auerbach & Gale, 2020). underscores the importance of budgeting, planning, and control in manufacturing companies, drawing on various organizational theories to explain their impact on financial performance and overall success.

### **3. Budgeting, Risk Planning and Internal Control**

This section describes the various principles that influence the financial performance of Kenyan manufacturing firms. Some of the aspects discussed are budgeting, risk planning and internal controls.

#### **3.1. Budgeting**

Budgeting plays a big role in managing and controlling the usage of funds in a company (St. Clair, 2013). It is an involving procedure that requires concentration to make it work appropriately. There is a lot of expenditure involved in the budgeting process, but at the end of the day, it becomes beneficial to the company involved (St. Clair, 2013). Budgeting gives financial confidence to a given management since they are sure that their funds are utilized in a given manner and any wastage or overspending is accounted for. Manufacturing companies in Kenya have a big role to play in order to improve their financial performance. This is because financial performance plays a key role in the running of activities in a given company. It is like fuel in a car; without fuel, a car cannot move. That is how funds play a role in organizations. For that reason, they have to be taken care of, and the most appropriate and effective way is through budgeting. There are procedures that are normally followed during the budgeting process. The budgeting process forces managers to access current operating conditions.

According to Tanzi (2018), there are five groups of

budgeting principles: the first is the long-range goal principle, the second is the short-range goal principle, the third is the responsibly and interaction principles, and the fourth is the budget follow-up principles. He explained in his research that his first principle is that an annual budget cannot be made unless those preparing it know the requirements of the top management. The long-range goal principle states that the budget prepared, if it is long-term, must consider the future economy and how it will change; it must be flexible enough to accommodate these changes in the economy. According to me, it is right, but it should take much consideration into the internal budget, which is most of the time short-term since it is flexible enough when economic situations change. For example, following the COVID-19 pandemics, the economy has really changed for the worse, so if a budget is short-term, the accountant can prepare another budget to accommodate the situation at hand (Ridwan, 2017). And thus, the financial performance is going to be maintained or even improved since the budget will have been prepared to accommodate the current economic situation, and therefore it will work appropriately in accordance with the situation at hand. In reference to Anderson, he explains that short-range targets and goals form the basis for the organization's operating budget for the year. Thirdly, budgeting success or failure is determined by how well the human aspects of the process are handled from top to bottom by all the appropriate people who must take part in the budgeting process, and the fourth is that since the process consists of many predictions, there should be follow-up to check whether the targets have been achieved or not (Tanzi, 2018).

For the financial performance to improve, proper budgeting should be done, especially in manufacturing companies since they are big and involved. For them to thrive well financially, there should be a properly outlined procedure on how they will use their funds for various purposes and how they will minimize costs and improve profits. For manufacturing companies based in Kenya to benefit from budgeting, they should first set quantitative goals and establish operating targets. In practice, most manufacturing companies in Kenya use period budgets as their budgetary control. They follow several accounting tools, and these are cost behaviour patterns, use of cost, and volume profit analysis (Heda & Maslak, 2009).

There are also several techniques used in budgeting: incremental budgeting and zero-based budgeting. Apart from these techniques, there are other techniques that these companies based in Kenya can use to improve their financial performance. Before I explain zero-based and incremental budgeting, I will explain the other techniques they will use. One of them is budgeting, which is done in accordance with the economic situation. For example, in this case of COVID-19, the budget used or made should consider how the economy is fairing and the amount of funds and resources that are available (Heda & Maslak, 2009). In other words, the budget should be realistic and achievable

enough; it should not strain funds and resources to the extent that the company has fewer assets than liabilities. This technique will help the manufacturing companies in Kenya have a good financial performance since Kenya, where there are pandemics that affect the economies of the counties, Kenya being one of them. So to maintain or improve the financial performance, it will be wise for these companies' top people involved in budgeting, the accountant being one of them, to adopt this technique of budgeting in accordance with the economic situation. Now we go back to the two techniques: incremental budgeting and zero-based budgeting. Incremental budgeting is a budget in which figures are based on the actual expenditures of the previous year, and an increase is added to the budgeting of the coming years (Burggräf et al., 2019). Now, zero-based budgeting means that past figures are not used as the starting point; the budgeting starts from scratch for all activities for the year.

Budgeting has also experienced some problems. One of them is that there could be undue pressure due to high budgets that may have been posed. This pressure reduces the motivation to work since most energy will be drained by the pressure they are experiencing. According to Limb (2014), budgets are developed around existing organizational structures, which may be inappropriate for underlying economic conditions. As I have explained above, the existence of well-documented budgets may cause a lack of flexibility in adapting to change. Another problem is that the budgets planned should be standard and attainable. There are various factors to be considered, including the aspiration level of individuals, pressure groups, and the extent of participation and past performances (Limb, 2014).

Firms are required to assess their cost of capital and contemplate measures to reduce it, such as enhancing creditworthiness or examining alternative means of financing (Ochoki et al., 2023). The process of budgeting and overseeing costs necessitates the implementation of risk planning.

### 3.2. Risk planning

Risk planning is the process of learning how to carry out the activities of risk management. Risks are uncertain future events that may be positive or negative. They may affect different sectors of an enterprise or company. Therefore, in order to avoid adverse effects from risks that may occur, it is wise for a company to plan for these risks. Since they are uncertain, it is difficult to know what kind of risk is coming up next. So that to effectively ensure they are planned, the management can use assumptions about the upcoming events or they can compare the previous happenings in a company and assume that the next event that might cause the risk is close to or equal to the previous one. Manufacturing companies are big organizations, and when certain risks occur and affect the organization's financial performance negatively, the effects are adverse, thus bringing up the need for risk planning, which is controlling

the risks so that they do not affect the company at a large range, rendering the company to lose (Darr, 1998). Kariuki and Kamau (2013) posited that the adoption of SMA among manufacturing firms in Kenya is significantly influenced by both industry competition and the utilization of advanced manufacturing technology. The presence of competition and the incorporation of technological advancements necessitate enhanced strategic planning.

Hence, manufacturing companies in Kenya have been affected by these risks, thus affecting their financial performance. There has been a drastic increase in the need for risk planning so that they can save these companies. They can do this by determining risk response plans. There are some responses to risk events, and these are avoidance, which can be done by eliminating the threat by changing the objectives that the risk event is threatening (Kyläheiko et al., 2017). Another way to respond to a risk is by transferring the risk to a third party, for example, insurance, ensuring that the company is insured against some adverse events. Manufacturing companies in Kenya can take insurance cover to ensure that, in case of any risk, they are indemnified and their funds are brought back to their same position and financial performance before the risk (Kyläheiko et al., 2017). They can also moderate this by reducing the impact of risk events. For example, manufacturing companies in Kenya can cover their working areas so that they can prevent any damages from occurring to workers, passersby, and also to the company's operations themselves, reducing the effect of risk in the future. Another way is for the company to accept the risk as part of the company and move on with other activities since they have no other option. They can use it as a mark for the company to motivate them not to repeat the same mistake again. Risk planning and management is a series of steps whose objectives are to identify, address, and eliminate risk items before they become either threats to successful operation or a major source of expensive work (Kyläheiko et al., 2017).

### 3.3. Internal control

Internal control is a process for ensuring an organization's objectives in terms of operational effectiveness and efficiency, reliable financial reporting, and the law (Serebryakova, 2020). The behavior patterns of businesses have led to the need for internal control, since most of the time they are not predictable. Internal control works closely with auditing. Internal control has become important since most stakeholders have an interest in what is going on in a firm or a company, bringing the role of internal control; it is proper internal control that will make most investors more interested in a particular company than the others. This means internal control has a direct effect on the financial performance of a firm. In our survey, we found manufacturing companies in Kenya (Serebryakova, 2020). Internal control means that the activities of the company are effective or not, and the financial statements are reliable enough for the auditors to give good reports to

the company. And if the reports show a true and fair view of the affairs of the company, it means that internal control is working well to ensure that the company's financial performance is good. During this COVID-19 period, internal control plays a major role in ensuring that the activities of the company run in the right manner, even though there are economic challenges here and there. It has to ensure that financial statements are prepared in the right manner. Here, the internal auditors have to work extra hard to ensure no funds or resources are misused or stolen because the means of getting capital itself has become a major problem. The study of internal control aims at attracting other concepts that may be important (Serebryakova, 2020). Kamau et al (2023) posited that the incorporation of internal audit into an organization's operations is an essential component of its internal control framework. This assertion maintains that internal audit, as a strategic function, plays a crucial role in ensuring the effectiveness and efficiency of an organization's internal control measures. The researchers argue that internal audit serves as a mechanism through which an organization can monitor and evaluate the adequacy of its control systems, thereby contributing to the achievement of its overall objectives.

Seven months ago, KRA (Kenya Revenue Authority) raided Africa Gas and Oil Company in Kenya for over \$200 million in tax evasion. The people involved were arraigned in court for questioning (Migot & Paul, 2019). The persons that were to be questioned for the unfortunate happening were mostly the accountants and management, and to some extent the internal auditors since they did not exercise proper internal control. The activities that were running were not legal and did not provide a true and fair view of the affairs of the company. The internal control was not strong enough to ensure that taxes were being paid on time instead of them exercising tax evasion. They did not check the financial statements to see whether taxes were being avoided; this greatly affected their financial performance, which was before and after they started the practice of tax evasion. In this case, it showed that internal control is an important sector in ensuring that the financial performance of these companies is good enough (Migot & Paul, 2019).

So internal control is effective if it is stressed on the manufacturing companies in Kenya so that their financial performance thrives. Most of the companies do not give much consideration to this issue, which raises a point of concern and raises questions about why the manufacturing companies do not have good financial performance. From a local Swedish perspective, broad research into internal control is important, but there is a lack of research on internal control from an international perspective (Aslan, 2018). This shows that internal control should be taken into much consideration since it affects not only manufacturing industries in Kenya but also other countries internationally.

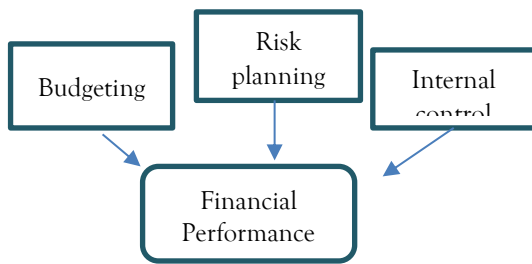


Fig 1: Relationship between variables

Figure 1 emphasizes the pivotal role of manufacturing companies in national economies, underlining the interconnected strategies of budgeting, internal control, and risk planning. It provides a holistic perspective on the symbiotic relationship between manufacturing enterprises and national economies, showcasing how these strategies fortify financial standing and contribute to broader economic vitality.

#### 4. Empirical Review of Literature

Gerpott (2016) studied institutional perspectives on budgets, which fall under organizational theory for budgeting in organizations. It examined how budgets have become popular and the high pressures to adopt budgeting. The research highlighted the benefits that an organization could bring to various groups of people after adopting budgeting in various organizations. This research also showed how philanthropic organizations will scrutinize the budgets of charitable organizations to ensure that future contributions are spent wisely (Gerpott, 2016). The study looked mostly at the importance of budgeting, even for employees and accountants. The study ought to give an overall picture of the budgeting of manufacturing companies in Kenya, since, out of the benefits he came up with of budgeting, it will be beneficial for them to adopt this model for the improvement of financial performance so that they can work well. The study adopted a cross-sectional survey approach in its research design. The population included different groups of people who have direct or indirect interest in an organization, i.e., accountants, customers employees, and shareholders, and how budgeting will affect them. It also included various companies. The study used both primary and secondary data (Gerpott, 2016). The findings showed a strong relationship between budgeting and the financial performance of the involved organization and its general importance.

Evans Obara Onduso (2013) sought to establish the contribution of budgets to the financial performance of manufacturing companies in Nairobi County. The study found that in a budget cycle, the budget is more than just a single document; it is a yearlong cycle whose different phases offer civil society varying access points to influence how public resources are raised and spent and ultimately the budget's desired outcomes. According to his research, it is important for civil society organizations to engage in all

stages of the budget cycle, not only because they can contribute valuable skills to the process but also because they have connections with the community that enable them to bring critical information about the public's needs and priorities to the budget debates. The study findings revealed that there is a strong effect of budgets on the financial performance of manufacturing companies as measured by return on assets. It also revealed that manufacturing companies need to establish a strong link between the budgeting process and the budget process, which I will consider in my study and go deeper into. He used both secondary and primary data.

There are things that Powell and Evans Obara Onduso did not shed some light on that I am going to look into, namely, risk planning and internal control and their effect on the financial performance of manufacturing companies in relation to budgeting. I am sure it will be beneficial to manufacturing companies and improve their financial performance (Gerpott, 2016).

Budgets were too time-consuming to make, and the amount of time needed to prepare these budgets is not profitable for any business. More importantly, a lot of budgets were updated only annually, so the assumptions that stem from these budgets are no longer up-to-date. There was more focus on cost reductions than value creation. This is not to say that cost reduction is a bad thing, just that oftentimes it can hinder the achievement of strategic goals. Further, a budget can exclusively focus on financial performance, giving very little focus to other non-financial goals of the organization (Gerpott, 2016).

Lin (2018) states that the effectiveness of internal control impacts the quality of financing reporting, auditor reactions, insider trading, and capital market consequences. More internal control studies combine with capital markets and provide evidence that is not always effective. Overall, these findings contribute to the profession by suggesting that disclosures of internal control deficiencies generally convey incremental information on the quality of financial reporting to investors.

#### 5. Summary and Conclusion

Manufacturing companies play a major role in the country's economy. Therefore, they should be taken care of in the most appropriate manner so that their financial performance can thrive. They export most of their products, which is a result of proper budgeting, risk planning, and internal control. The country then earns foreign exchange, thus improving the country's economy. All these were blended in well, and they worked, so there was a good financial performance. In the case of internal control (Lin, 2018), they discussed the development of corporate governance codes of conduct and therefore touched upon internal control from a regulatory perspective. Internal control can also be the regulation of the laws that govern a

particular code of conduct in a company for the proper and uniform running of its activities in the right manner. This includes everything from the activities to the financial statement and position of the company.

In the case of budgeting, it is important for any company to have a budget for how it utilizes its funds. This is important since it enables them to utilize their funds well to avoid overspending or spending less, for example, on low-quality equipment to perform certain tasks, enabling proper budgeting. The Kenyan Constitution itself has a properly outlined budgeting process that is to be followed so that budgeting can be completed. There are stages in the budget-making process in Kenya: integrated development planning process, planning and determination of financial and economic policies and priorities at the national level over the medium term, Preparation of overall estimates in the form of the budget policy statement of national government revenue and expenditures, Adoption of budget policy by parliament as a basis for future deliberations, submission of the estimates to the national assembly for approval, enactment of the appropriation bill and any other bills, Implementation of the approved budget, Evaluation and accounting for the national government's budgeted revenues and expenditures, Reviewing and reporting on those budgeted revenues and expenditures every three months (Lin, 2018).

Risk planning is also another objective that I have discussed. Following the manufacturing industries where they are situated, it raises the demand for risk planning so that proper financial performance can be achieved. It prevents huge losses from occurring and saves manufacturing companies from the negative impacts of risks that may occur (Lin, 2018). As well, there are other risks that can be taken that can be beneficial to a company. Generally, risk has two components, which are probability and impact.

The pivotal role of manufacturing companies in a nation's economic tapestry necessitates a nuanced approach to fostering their financial well-being. This article delineates the interconnected strategies of budgeting, internal control, and risk planning that underscore the success of these enterprises.

Central to the financial prowess of manufacturing firms

is their export-oriented model, propelled by astute budgeting, meticulous risk planning, and robust internal controls. Through these measures, these companies bolster national economies by augmenting foreign exchange reserves, thereby fortifying the economic landscape. Delving into the realm of internal control, inspired by Lin's discourse on corporate governance codes (2018), this article elucidates the regulatory facets governing a company's operational conduct. It encompasses a comprehensive regulatory framework governing activities, financial statements, and overall organizational positioning.

Budgeting emerges as a cornerstone for effective resource allocation, epitomized by the structured budgeting process outlined in the Kenyan Constitution. The delineated stages encompass integrated development planning, policy determination, parliamentary approval, enactment, implementation, and periodic evaluation, fostering fiscal prudence within manufacturing entities. The imperative of risk planning is underscored as a proactive shield against potential pitfalls within the manufacturing sector. Emphasizing Lin's insights (2018), strategic risk planning safeguards against catastrophic losses, mitigates adverse impacts, and discerns opportunities within the risk landscape, acknowledging the dual facets of probability and impact. This article endeavors to provide a comprehensive and all-encompassing viewpoint on the interdependent and mutually beneficial connection that exists between manufacturing enterprises and the national economies in which they operate. This symbiotic relationship is fostered through the harmonization and synchronization of various critical organizational functions, including but not limited to budgeting, internal control mechanisms, and risk planning. By effectively aligning these fundamental aspects, manufacturing companies are not only able to bolster and strengthen their own financial standing, but they also make substantial and noteworthy contributions to the overall economic well-being and prosperity of their respective countries. This holistic approach ensures that these enterprises are not only focused on their individual success and progress, but also on the greater good and vitality of the broader national economy.

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