

The Effect of Budgetary Control on Financial Performance of Kigali Serena hotel in Rwanda

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Abstract

The present research on "The Effect of Budgetary Control on the Financial Performance of Hotels in Rwanda": Case Study of Kigali Serena hotel attempted inside a time of 2010-2015 had target of investigating the impact of budgetary control on the money related execution of lodgings in Rwanda. The review utilized both essential and auxiliary information and interred into SPSS and after that examined utilizing graphic insights for fluctuation examination. An organized poll was given to a specimen of 25 representatives drawn from an aggregate populace of 52 workers. Basing on information, the review uncovered that, there is a solid positive relationship between budgetary control system and monetary execution with connection coefficient, $r=0.752$ and $p=0.01$. Since $r>0.1$, consequently, monetary execution as measured by ROA is emphatically impacted by budgetary control methods. The respondents contended that the way toward planning relies on upon past execution while hierarchical execution now days relies on upon the accessibility of recourses and how clients see the client benefit set up, nature of administration, conveyance and dispersion, rivals in a similar industry lastly correspondence to the customers. Budgetary controls are viewed as imperative instrument in arranging and control of assets to upgrade execution in numerous associations.

Keywords: Capitalization; Financial; Business; Budgetary; Investment

Introduction

As per referred to by Byrne [1], spending plan and planning are ideas traceable to the Bible days, exactly the times of Joseph in Egypt. It was accounted for that nothing was given out of the fortune without a composed request. History says that Joseph planned and put away grains which kept going the Egyptians all through the seven years of starvation. Spending plans were initially presented in the 1920s as a device to oversee expenses and trade streams out extensive mechanical associations. Byrne [1] states that it was amid the 1960s that organizations started to utilize spending plans to manage what individuals expected to do. In the 1970s execution change depended on meeting budgetary targets as opposed to viability organizations then confronted issues in the 1990s when they were not willing to burn through cash on developments keeping in mind the end goal to remain with the unbending spending plans, they were no longer worried about how clients were being dealt with, just meeting deals targets got to be distinctly fundamental [2].

That many creating nations in Africa have occupied with nitty-gritty arranging activities of different sorts in the period after autonomy and this has brought about an extensive variety of writing on arranging. Little consideration was paid to budgetary controls in spite of the fact that this is by and large perceived as the principle instrument for dispensing assets to particular repetitive and improvement exercises. As of late, in any case, spending frameworks have gotten more consideration and writing on open consumption administration and turn out to be more normal. The monetary allowance is progressively perceived as the key device for financial administration [3]. It is all things considered additionally perceived that a nation can have a sound spending plan and money related framework and still neglect to accomplish its planned targets.

In business associations, planning are formally connected with the coming of mechanical capitalization for the upset of the eighteenth century, which introduced a test for modern administration. Be that as it may, planning at the early condition of its advancement was worried with get ready and to allow adjust execution assessment and thus compensates. Data that administration bookkeeping control

framework helps chiefs, by checking organization's changing natural conditions, is to look at circumstances and dangers in the market with the goal that they can get included an incentive against contenders since it is vital in encouraging the arrangement of spending plans, since planning and bookkeeping are firmly related [4].

As per Bremser [5], spending plans are known to have a critical part to transmit the desire of top administration to lower levels and are utilized to impart top administration's desires to directors and workers. As indicated by Lucey [6], it is a quantitative articulation of plan of activity arranged ahead of time of the period to which it relates, communicated in cash terms affirmed before the period. Lucey [6] additionally asks that execution is impacted by many components which incorporates arranging and coordination, illumination of expert and duty, compelling correspondence both inner and outer, control of assets accessible, both human and non-human and inspiration of both the lower and center administration.

In the event that the genuine numbers conveyed through the money related year swing to be near the financial plan, this really shows the association's administration comprehends its business and has been effectively driving it in the heading they had arranged. Then again, if the genuine outcomes separate wide from the financial plan, this conveys a crazy flag [7]. Consequently, spending plan based control means chief's assessment as indicated by budgetary objectives. In this specific situation, planning advantages and it's conceivable negative impacts on states of mind and practices of directors on execution are still among the subjects of key administration control frameworks that are being inquired about by and by almost all expansive organizations

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reforecast their conjecture their exercises, as months pass, the real salary accomplished and costs acquired can be contrasted with the financial plan and gauge [8]. Fundamentally, a spending framework empowers administration all the more adequately to arrange, facilitate, control and assesses its exercises. It is a gadget expected to give more prominent adequacy in accomplishing authoritative effectiveness.

It appears that planning impact execution of any business. Notwithstanding, the contention is that, however, this impact can't be precluded; there is a plausibility whether the method for linkage is negative or positive. Subsequently, this review endeavors to investigate the viability of budgetary control on execution of business association in Rwanda.

As of late, organizations have performed ineffectively due, to the way that they need viable and productive spending plans, and budgetary control frameworks to enough and sensibly dispense assets to meet authoritative objectives, and boost execution. A review directed is watched by that organizations proceed to bungle and come up short since they have imperfect budgetary arranging and control frameworks, which they obviously neglect to perceive.

Especially in inns particularly in Serena inn additionally neglect to perceive the force of spending plans and budgetary control over execution results. This has been credited to different elements conspicuous among which is the insufficiency of spending plan and budgetary control framework in these association. Most associations have endured poor planning forms. A few presumptions have been made about the parts of planning on the association's benefit arranging that is in arranging, spending execution, assessment of execution, imparting and organizing; anticipating and approval all of which are asserted to impact the execution of arranging. It is against this situation, that the analyst picked enthusiasm for investigating the impact of budgetary controls on money related execution of lodgings in Rwanda.

The study will focus on the following objectives:

1. Variance analysis, responsibility accounting, adjustment of funds, zero based budgeting (ZBB) are the techniques of the budgetary controls used in KIGALI Serena hotel.
2. Net profit Margin/Surplus, Return on investment, high turnover and development index are the indicators of financial performance of Kigali Serena Hotel.
3. Budgetary control correlates positively to the financial performance in Serena Hotel.

Objectives

The study is focused in achieving the following three objectives:

1. To assess techniques of the budgetary controls used in Kigali Serena Hotel.
2. To analyze the indicators of financial performance of Kigali Serena Hotel.
3. To establish the relationship between budgetary control techniques and financial performance indicators in Kigali Serena Hotel.

Literature

Budgetary control is known as the method for controlling association in which diverse spending plans are made and with these financial plans, association discovers its frail focuses and afterward it enhances these feeble focuses. Budgetary control includes investigating

the aftereffects of the financial plan once you execute it, where diverse strategies are utilized, for example, fluctuation examination, responsibility bookkeeping, modification of assets, Zero Based Budgeting (ZBB).

As indicated by as it relates in administration: control of undertaking comprises of seeing that everything is being completed as per the arrangement which has been received. Control is checking current execution against pre decided guidelines contained in the arrangements, with a view to guarantee sufficient advance and agreeable execution.

Budgetary control is an apparatus begged by administration to monitor real execution to guarantee planned principles are met. It involves a dull hover of arranging and control which is normally trailed by proper data about genuine outcome to the administration for looking at them against the planned and starting a control activity if important [9]. Nonappearance of compelling budgetary control breeds dismiss for set down methodology, loss of center and terrible coordination of exercises and these are equipped for devastating an association.

Execution of business alludes to the capacity of business to meet the required models, expanded piece of the pie, enhance offices, guaranteeing returns on benefit, and aggregate lessening and once this is accomplished, a business is accepted to perform viably. Administration to a great extent decides the degree to which an association accomplishes its objectives and targets. Execution is fundamental reflects by how the association attempt its exercises and condition the administration makes any which the specialists work execution of private foundations just mean to accomplish out of executions of its operations.

The analysis of a few parts of budgetary control and execution valuation frameworks by using information in light of a poll overview of 42 medium and expansive size organizations situated in the State of Bahrain. The review found that the customary type of spending controllability guideline was rehearsed all things considered. It was presumed that reward is influenced by spending execution alongside new assignments, yet not compensation.

Directed an examination concerning the participatory spending setting and spending duty as a variable that influences execution of the NSE recorded organizations. This review utilized a causal research configuration to recognize circumstances and end results relationship. The number of inhabitants in enthusiasm for this review involved 55 organizations recorded where it considered just 53 as yet working ones. Information for this review was both quantitative and subjective subsequently both clear and substance investigation systems were utilized. The clear factual devices helped the analyst to portray the information and decide the degree utilized. Likewise, to evaluate the quality of the relationship between the factors, the analyst utilized a various relapse. The review inferred that budgetary interest influences return on capital utilized and profit for resources for an extraordinary degree. It was further found that budgetary support influences degree of profitability and spending responsibility to direct degrees.

They did a review on budgetary control and authoritative execution in government parastatals in Europe [10]. An example of 40 government parastatals were utilized for building up the relationship between budgetary control and authoritative execution, optional information was utilized and a time of ten years was investigated. A relapse model was utilized for information investigation and the consequences of information examination uncovered a positive

relationship between budgetary control and authoritative execution of government parastatals.

In their review, inspected the relationship between budgetary control and execution of state services in Boston Massachusetts, a specimen of five services were analyzed to test the relationship between budgetary control and execution of state services, auxiliary information was utilized and an audit of 10 years was utilized, a relapse model was utilized for information examination and a factual positive relationship was found between budgetary control and execution of state services. The consequences of the relapse investigation inferred that legitimate budgetary control measures prompted to execution of state services.

Concentrate tried to assess budgetary procedure of clothing industry in Sri Lanka and see whether budgetary process has huge effect on execution of such industry. The budgetary procedure of clothing industry was surveyed by utilizing factors, for example, arranging, coordination, control, correspondence and assessment. The execution of clothing industry in Sri Lanka was inspected by utilizing Return on Assets. In view of the information removed from attire industry's money related proclamations, connection coefficients and relapse examination demonstrated that budgetary procedure have noteworthy relationship with the authoritative execution of clothing industry in Sri Lanka. This affirms proficient attire organizations keep up sound budgetary process which adds to more elevated amounts of hierarchical execution subsequently a positive relationship.

Methodology

The research is analytical and empirical in nature and makes use of both primary and secondary data. The population for the study is the employees of Kigali Serena hotel. The study used both quantitative and qualitative data. After the data collected were organized, edited and coded, and entered into Statistical Package for Social Science (SPSS) and were analyzed using descriptive statistics. The sample period undertaken for the objectives is from the year 2010 to 2015.

Sample size

According to Alain Boucher formula, the sample size is calculated using the following formula $NC = n / (((n+1) * 1) / N) = (N * n) / (N + n)$, Where NC is the sample size, N is the total population and n is the universal size which is 46 according to the formula.

Then $NC = (52 * 46) / (52 + 46) = 2392 / 98 = 25$ employees.

According to rule of thumb who contends that any size between 30 and 500 is sufficient enough to give credible results. This is what makes to this research believe that the sample would be representative and that the results would be consequently exact.

Data analysis

The study used both quantitative and qualitative data. After the data collected were organized, edited and coded. Quantitative data were entered into Statistical Package for Social Science (SPSS) and were analyzed using descriptive statistics. The SPSS analyzed questionnaires with many questions include both close ended and open ended questions. The package used to determine frequencies in order to discover the degree of occurrence to each variable. The outputs were presented in frequency, percentages tables and graphs.

Model

The following Regression Model was used to analyze the effects of budgetary controls on Performance of hotels (Serena Hotel):

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Y: Financial Performance of Serena hotel measured by ROA;

X₁: Planning;

X₂: Monitoring and Control;

X₃: Participative Budgeting;

X₄: Cost Reduction; and

X₅: Availability of Resources

β₀ = Intercept,

β = Coefficient of independent variables, and

ε = error term.

The independent variables X₁, X₂ and X are variables of budget used for this study which were measured using the various questions to be presented to the respondents in the questionnaire. The computer program SPSS 16.0 version was used to analyze the data. Correlation and regression analysis were utilized to test the effect of budgetary control on financial performance of hotels in Rwanda. Information on Financial Measures will be extracted from the organizations published annual reports.

Results and Discussion

The investigation of the information demonstrates that 72% of respondent were guys as against 28% of females. One can infer that Kigali Serena hotel utilizes more male than female. This is on the grounds that the inn work includes a considerable measure of standing, lifting substantial weights and working under hot conditions like in clothing and underway that can't state supports a pregnant lady. Since this is a major lodging, it needs solid men. 76% of respondents were in the age of 31 and 50 years of age, 12% inside the 51 years or more while 12% additionally were likewise in the age scope of 20-30 years. The review demonstrated dominant part of respondents was inside in gainful age of 31-50. 64% of respondents had college degree while 28% got to Master's Degree, 8% had PhD. This demonstrates the larger part of Respondents had University Education level. This suggests information for the review was acquired from scholarly respondents subsequently the unwavering quality of the information.

Contribution of budgetary control on the organization performance of Kigali Serena Hostel

Concerning the commitment of budgetary control on money related execution of Kigali Serena Hotel, out of the aggregate of 25 respondents, add up to respondents speaking to 100% concurred that budgetary control helps the organization to distinguishes the planning monetary aptitudes required for better basic leadership, Budgetary control coordinates the association's key arranging with spending plans and procedures of cost control, streamlines administration time by utilizing the administration by extraordinary rule, cost investment funds, encourage expectation of monetary breakthroughs by the organization, encouraging forecast of monetary developments by the organization and giving money use following and diminishes operational expenses.

The techniques of budgetary control in Kigali Serena Hotel

Practically test measure 100% of respondents concurred that Serena Hotel utilizing methods of budgetary control by showing fluctuation investigation, obligation bookkeeping, change of assets

and 60% of test size sides with zero based planning. This demonstrates operation and money related choice is ideal for settling on choice. This Decision making helps the association to face and handle new issues and challenges and furthermore Quick and right choices help to tackle issues and to acknowledge new difficulties and how to use the accessible assets for accomplishing the targets of the association and the money related execution.

Financial performance of Kigali Serena Hotel

The data used for this exercise is made up of turnover for 2010, 2011, 2012 2013, 2014 and 2015 financial year of the company. It is a simple calculation of percentage change between the budget and actual performance to justify the efficiency of control and same to performance indicators. Each performance of the budget against the actual for the years under research. Based on the findings, it is clear that financial performance of Kigali Serena hotel is good according to the increasing of sales in previous five years.

Budget is the most effective way to control cash-flow because it allows investments in new opportunities at the appropriate time. If budget is based on business plan, a financial action plan is created and this can serve useful functions particularly if the budget is revised regularly as part of annual planning cycle. Intelligent budgeting incorporates good business judgment in the review and analysis of past trends and data pertinent to the business. This information assists a company in decisions relating to the type of business organization needed, the amount of money to be invested, the type and number of employees to hire (staffing plans) and the marketing strategies required.

This is because the company usually devises both long-term and short-term plans to implement its strategies and to conduct an ongoing evaluation of its performance. The budget can provide the basis for detailed sales targets, inventory production, cash investment or borrowing and capital expenditure. If used wisely, budgeting process increases management's ability to deploy resources more efficiently and effectively.

Factors affecting budgetary controls in Kigali Serena hotel

Amid the review, different components influencing budgetary controls in Kigali Serena hotel were recognized where 10 out of 25 respondents (40%) uncovered that the spending procedure is influenced by cost vacillations, 4 respondents (16%) showed that restricted information about budgetary controls obstructs its operations, 24% of respondents said being the perpetually expanding expense of generation, 3 respondents (12%) uncovered to be the surprising uses, 1 respondents (4%) said to be the changing business condition and furthermore expressed to be the wastage by creation staffs and taking that influences the smooth running of operations of the budgetary controls of Kigali Serena Hotel.

Suggested solutions addressed to the factors affecting the budgetary control process in Kigali Serena hotel

The outcome demonstrated that 17 out of 25 respondents (68%) contended that the most ideal approach to guarantee dynamic enthusiasm of dependable supervision and execution, there ought to be a constant thought of value changes while planning in the association as this empowers mindful work force to realize what are really the predominant market costs when figuring spending plans thus profiting the association, 2 of the 25 respondents (8%) additionally recognized that for the controls to be compelling, administration should prepare each partner in order to make everyone on board which will give enough

information about the subject. Other than the over 6 respondent (24%) contended that there must build supervision amid generation in order to dispose of wastages, taking/misrepresentation and abuse which thus may influence the planning procedure of Kigali Serena hotel therefore of deficiencies made.

Analysis of financial ratios

Budgetary proportions come to contributing, investigating money related articulation data (otherwise called quantitative examination), is one of, if not the most essential component in the major investigation prepare.

Liquidity proportion: Liquidity proportions are the proportions that measure the capacity of an organization to meet its transient obligation commitments. These proportions measure the capacity of an organization to pay off its transient liabilities when they fall due. The liquidity proportions are a consequence of separating money and other fluid resources by the fleeting borrowings and current liabilities. They demonstrate the quantity of times the transient obligation commitments are secured by the money and fluid resources. In the event that the esteem is more prominent than 1, it implies the transient commitments are completely secured. By and large, the higher the liquidity proportions are, the higher the edge of wellbeing that the organization forces to meet its present liabilities. Liquidity proportions more prominent than 1 demonstrate that the organization is in great monetary wellbeing and it is more improbable fall into money related challenges, the liquidity of 1.4 circumstances in 2010, 166.4 circumstances in 2011, 1.0 circumstances in 2012, 1.1 circumstances in 2013, 0.8 circumstances in 2014 and 1.0 circumstances in 2015. Come to demonstrate an expansion of liquidity from 2010 to 2011 and diminishing of liquidity in 2013. In outline, in spite of decline in years of 2014, the present proportion demonstrates that the Serena lodging was dissolvable since all years the present resources are more noteworthy than the present liabilities aside from the time of 2014.

Net profit margin ratio: The profitability of Serena hotel whereby in 2010 and 2011 there were high rate of profit means that one 1 Franc of sales in 2010 and 2011 generated 0.11 Franc of net profit, 2012 and 2013 one Franc of sales generated 0.09 and Franc of net profit, 2014 and 2015 one Franc of sales generated 0.043 Franc of net profit.

Return on Assets (ROA): ROA is a pointer of how beneficial an organization is with respect to its aggregate resources. ROA gives a thought with respect to how productive administration is at utilizing its advantages for create profit. Figured by partitioning an organization's yearly income by its aggregate resources, ROA is shown as a rate. Some of the time this is alluded to as "profit for investment". The benefits of every Year earned from aggregate resources implies that 1 franc of aggregate resources created 0.43 and 0.47 and 0.41 F in the time of 2010, in 2011 and 2013 separately 1 franc of aggregate resources earned 0.17 and 0.18 F in 2014 and in 2015 individually as a rule these demonstrate that those three years 2010, 2011 and 2013; the benefit from resources was higher than in the time of 2014 and 2015.

Return on Equity (ROE): Return on value (ROE) measures the rate of profit for the possession intrigue (shareholders' value) of the basic stock proprietors. It gauges an association's productivity at creating benefits from each unit of shareholders' value (otherwise called net resources or resources short liabilities). ROE indicates how well an organization utilizes speculation assets to produce profit development.

The profits on value whereby in the time of 2011 one F of aggregate value earned 0.77 F, in 2010, 2012 and 2013 one F of aggregate value

produced 0.69, 0.60 and 0.61, respectively and in 2014 and 2015 a one F of aggregate value created 0.26 and 0.29 F, separately, so these demonstrate that in the initial three years 1 F of values created in the vicinity of 0.60 and 0.77, however, in 2014 and 2015 the arrival of 1 F of values was in the vicinity of 0.26 and 0.29 F which are bad. The review in table 14 is giving the pointers that demonstrate a solid positive relationship between budgetary controls and hierarchical money related execution whereby 100% of respondents concurred with Planning, Monitoring and Control, cost lessening, accessibility of assets and assessment.

Budgetary control and organizational performance of Serena hotel

The specialist was keen on seeing if authoritative execution of Serena Hotel relies on upon legitimate budgetary control and to affirm if budgetary control connects decidedly to the money related execution in Serena Hotel. Here the budgetary control involves arranging, checking and control, assessment, Cost decrease and Adequate Availability of Resources mean while authoritative execution pointers are Profit amplification, Return on speculation, Development file and Return on resource.

All the indicator factors were appeared to have a positive relationship between them at a noteworthy level of 0.05 and subsequently incorporated into the examination. There was solid positive relationship between the autonomous and the needy factors.

The relationship between Organizational execution as measured by benefit augmentation and Planning was 0.9927, the connection between Organizational execution as measure by benefit expansion and Monitoring and Control was 0.9111, the connection between Organizational execution and Evaluation was 0.9775, the connection between Organizational execution and Adequate accessibility of monetary assets was 0.9183, and in conclusion the connection between authoritative execution and cost diminishment was 0.8437.

Pearson correlation

Relationship between arrangements of information is a measure of how well they are connected. The most widely recognized measure of relationship in details is the Pearson correlation. It demonstrates the straight relationship between two arrangements of information. In basic terms, it answers the question; two letters are utilized to speak to the Pearson relationship: Greek letter rho (ρ) for a populace and the letter "r" for a specimen. The figured $r=0.98$ which demonstrates an exceptionally solid relationship between budgetary controls and authoritative execution of Kigali Serena Hotel.

The following regression model was adopted for the study:

$$Y = \beta_0 + \beta_1 X_1 + e$$

Where: -Y=Financial performance as measured by ROA

X_1 = Use of budgetary control techniques

β_0 =Intercept

β_1 =Coefficient of independent variables

e=The standard error

The testing of the relationship between the variables was tested using Pearson correlation coefficient. N is 25 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to 0.752**. This implies that,

the use of budgetary control techniques explains 75.2% of observed change in Financial performance as measured by ROA.

The use of budgetary control techniques, are critical factors for financial performance as measured by ROA. The interactions use of budgetary control techniques of the factors creates an impetus for financial performance as measured by ROA.

To finish up, based to the review, unmistakably budgetary execution of Kigali Serena inn is great as indicated by the expanding of offers in past five years. The examination consider uncovered that there is certain effect of budgetary controls on the execution of Kigali Serena hotel and respondents sent various preferences which incorporate among others, as helping administration in arranging and planning their endeavors, guarantees controls, so that arrangements and destinations set down in the financial plans are accomplished, planning goes about as a helper to staffs when targets are met, builds generation effectiveness, takes out waste and controls costs, facilitates the exercises of the different divisions to the extent inn operations are concerned, constrains directors to think ahead to suspect and get ready for the changing condition lastly gives a measuring stick against which genuine outcomes are contrasted and there is an exceptionally solid relationship between budgetary controls and association execution. The outcomes demonstrate that free factor has positive high relationship to ward variable equivalent to 0.98 implying that that 98% of the variety in authoritative execution clarifies from five autonomous factors of budgetary control including Planning, Monitoring and Control, Cost Reduction, Evaluation and satisfactory accessibility of assets.

There is without a doubt a solid positive relationship between budgetary control method and money related execution with connection coefficient, $r=0.752$ and $p=0.01$. Since $r>0.1$, this implies the relationship is solid. Along these lines, money related execution as measured by ROA is unequivocally affected by utilizing of budgetary control strategies.

Budgetary controls are viewed as essential devices arranging and control of assets to improve execution in numerous associations. In any case, different components like, great nature of workers, capacity of administration to lead and direct, the accessibility of assets regarding capital and HR among others must be honored with administration, notwithstanding budgetary controls to energize compelling money related execution.

As suggestions: Budgetary controls are essential in impacting execution along these lines more endeavors ought to be made by administration of associations both benefit and non-benefit to sharpen the representatives on its significance in order to improve execution. It additionally suggests that associations ought to grow more formal practice in the advancement of budgetary controls, that is, Planning, Monitoring and Control and spending support, assessment cost decrease. Most associations have insignificant formal spending controls in their associations consequently the need to build up an unmistakable strategy on spending control forms.

In view of the discoveries, associations need to research different elements that add to better execution separated from budgetary controls, similar to representative's inspiration and put more in staff improvement keeping in mind the end goal to upgrade the execution.

For further research, it is proposed that example measure utilized may have been very little to empower get a general photo of the aggregate lodgings in Rwanda. Consequently more research around there ought to concentrate on expanding the specimen size and cover

a bigger number of associations in Rwanda in order to improve better speculation of the outcomes.

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