BUDGETARY CONTROL AND FINANCIAL SUSTAINABILITY OF LOCAL NON-GOVERNMENTAL ORGANIZATIONS IN KENYA

BY

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DECLARATION

I declare that this research project is my original work and has not been submitted for a degree award at this or any other institution.

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Signature………………………………….……   Date: …………………02. 11.2022

Registration Number: D61/26945/2019

This research project has been submitted for examination with my approval as the University supervisors.

Signature Date ……10/11/2022………………...

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DEDICATION

I dedicate this research to my wife for the moral support and our son who kept me awake throughout the process.

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I would like to acknowledge God for the strength and the will to pursue the program despite challenges.

My gratitude goes to Elizabeth Glaser Pediatric Aids Foundation for the tuition support offered throughout the program.

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ABSTRACT

Budgetary control is a critical component in the effective management of the organization's finances. Budgetary control is the process by which an organization plans for its resources by allocating to specific cost centers, monitoring the progress in terms of utilization by comparing the standard against the actual and effecting the proposed controls in line with the financial goals and priorities of the organization. The financial sustainability of Local Non-Governmental Organizations in Kenya remains a concern as available data shows over-dependence on a limited number of donors and failure to utilize the resources efficiently. The main objective of this study was to determine the relationship between budgetary control and financial sustainability in the context of Local Non-Governmental Organizations in Kenya and to determine the budgetary control techniques employed by the selected organizations. The study was guided by specific objectives; to determine the relationship between planning and financial sustainability components (fund utilization, revenue growth, and diversification of funds), establish the association between monitoring and financial sustainability components, and examine the relationship between control and financial sustainability. Anchored in the theories of budgeting and responsibility accounting, the study employed a conceptual framework where the independent variables and dependent variables were related. The study adopted the top 30 organizations using registration status and fund utilization within the period 2017-2021 targeting 60 respondents from Finance Managers, Senior Finance Officers, Budget Officers, and Financial Analysts. The choice of the Local NGOs in Kenya was found to be fit because they face unique financial sustainability challenges. The researcher collected primary and secondary data using structured questionnaires that were issued to 60 respondents but only 48 were filled and returned. The study used descriptive statistics to analyze the data and establish patterns and trends. Regression analysis was used to determine the relationship between budgetary control and financial sustainability at a confidence level of 95%. The findings showed that there is a positive relationship between budgetary control and financial sustainability by an R square of 56%. The findings also indicated that planning had a significant influence on financial sustainability at p $0.001<0.005$ due to a higher R square compared to other variables. The findings may guide managers in controlling their budgets and provide a ground for future studies.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
CIMA	Chartered Institute of Management Accounting
LNGOS	Local Non-Governmental Organizations
NGO	Non-Governmental Organizations
SACCO	Savings and Credit Co-operative
SMEs	Small and Medium Enterprises
SPSS	Statistical package for the social sciences

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Notwithstanding the general application of budgetary control to coordinate the organization's activities, little is known about how budgetary control influences financial sustainability. The interaction of budgetary control factors with other means of influencing financial sustainability remains largely unexplored. Shava (2021) asserts engagement in budgetary control activities is an imperative aspect of financial sustainability. As such, the role of budgetary control in financial sustainability cannot be underestimated considering how it provides a guideline to monitor and evaluate performance. Accordingly, Kaguri (2015) on the connection between budgetary control and the performance of an entity financially established that budgetary control enables the efficiency and effectiveness of budgets. Correspondingly, financial sustainability is important in creating a positive value for society and operating within a resource-constrained environment. Several studies have observed a relationship between budgetary control and financial sustainability as demonstrated by (Madlela & Kapepiso, 2022) and Rutto and Oluoch (2017) in their studies to examine the connection between the variables. Therefore, exploring this relationship will help in understanding how organizations may attain financial viability.

This research was based on budgeting and responsibility accounting theories. The theory of budgeting was pioneered by Hirst (2007), it states that budgetary control provides the planning solution and how to approach future opportunities, and risks. This theory asserts that budgets estimate future financial needs and examine the financial sustainability of an entity. The responsibility and control accounting theory was instigated by Sorgdrager (1964). The model suggests that for a management system to be effective, it needs to work under responsibility centers. The theory's objective is to support the planning, costing, and monitoring of the responsibility centers of the organization. As such, managers of each center are put under scrutiny to only engage in activities that relate to the center's roles and responsibilities to avoid spending outside the scope of the program (Biswas, 2017). The theories complement each other such that budgeting theory informs future projections while responsibility accounting theory guides on how to monitor and evaluate performance.

NGOs play a critical role in a country; however, their existence and contributions may not hold if the financial sustainability factor is not addressed. For nearly 20 years, Local NGOs in Kenya have played an integral part in service delivery and transformation of the society through capacity building. Following the elevation of Kenya to a lower middle-income country key financier are now reducing donations by a greater percentage. In 2017 four donors doubled government expenditure on health hence high donor dependence and concentration (Ouma & Webi, 2017). It is reported Kenya has approximately 9,255 NGOs both National and international NGOs yet in the year 2018/2019 the organizations raised 89% of the revenue outside Kenya and only 11% within Kenya. Comparatively, only 60% of NGOs in Kenya reported having more than one source of funding though the reliability of the sources could not guarantee. It was observed the funding curve dived by a 4% decrease in the period ending 2020 a trend that is likely to continue into unforeseeable future NGOs Coordination Board. (2021). This study sought to examine how budgetary control could be utilized by Local NGOs to attain sustainability financially.

1.1.1 Budgetary Control

A budgetary control concept is a systematic approach that entails the preparation of budgets, coordination, and delegation of responsibilities and regularly comparing the results against the standard targets. Otieno (2019), asserts that budgetary control enables managers to orient the set targets with the budgets, comparing the reported results and effecting the necessary corrective measures to ensure the goals correspond to the budgets. CIMA (2021) claims that budgetary control entails establishing budgets connecting the executive's commitment to the organization's required policy, and continuous evaluation comparing the actual against the budgeted targets. Kimani (2014) postulates that budgetary control is a process that provides revenue and expenditure forecast which is attained through designing a model of how the organization will perform financially provided specific actions and plans are put in place to monitor the actual budget performance. Kimunguyi, Memba, and Njeru (2015) assert that budgetary management involves the determination of budgets at the onset of the project, and periodic comparison of the actual results with the targets with a focus on the achievement of targets. This establishes the activities to be undertaken within the scope of the project to achieve those objectives (Keraro & Isoe, 2015). Conceptually, different scholars have defined budgetary control differently.

Past studies adopted a varied range of indicators to measure budgetary control variables by organizations. Accordingly, Otieno's (2019) study on how budgetary control influences the financial feasibility of public universities in Nairobi, the study employed budget planning, coordination, and control to measure the variable. Comparably, Kimani (2014) used employees' participation to measure how the selected NGOs in Kenya's effectiveness is influenced by budgetary management. Kerosi (2019) investigated the practices of budgetary control and the impact on small enterprise management within the Kangemi town context in Nairobi. The variable was measured using adequate availability of resources, control, stakeholders and staff participation, monitoring units, and planning.

Accordingly, (Kamau, Rotich, & Anyango, 2017) based their definition on the objectives of budgetary control such as clearly stating the aim of the organization, establishing the responsibilities, providing a basis for comparison, coordinating the activities to ensure the best use of the available resources, and providing the basis for revision of the budget. Besides examining the variable in the private and government sector, the scholars used different units of measure to analyze the variable a gap that this study sought to bridge by using planning, monitoring, and control factors of budgetary control.

1.1.2 Financial Sustainability

Financial sustainability has become an issue of great concern for organizations internationally. The increase in costs of project implementation has been unexpectedly more than the amounts sustainable by received donations. (Wanja, 2017) concurs that project costs have grown unprecedently in Kenya and other countries. The concept of financial sustainability is based on the principle of value maximization for the shareholders at an acceptable risk level, with the help of the best investment strategies and funding options. This ensures that organizations are guaranteed to ward off current competition from their rivals. It also enables them to be in operation for a long time despite challenges in the market (Fatemi & Fooladi, 2013). The organization's financial sustainability is its ability to reallocate the resource whenever there are chances and challenges and still maintain a strong financial balance for the long term (Omeri, 2015). Correspondingly, (Raza et al., 2020) postulate that financial sustainability is the ability of organizations to consistently generate positive cash flow that covers all the operations and administrative costs and be able to sustain their operations while accelerating growth. Lewis (2016) argues that the potential of an organization to generate its funds or revenues domestically is what defines financial sustainability. Financial sustainability is a capacity-increasing process by an organization or institution to make choices and transform them into desired financial results Pauline, N. (2015).

Even though the financial sustainability of an organization is influenced by both financial and non-financial factors, for easy quantification the study adopted financial indicators to measure the variable. Various scholars used different units of measure, (Gerasimova & Redin, 2015) used service and management quality, financial ratios, and operating risk indicators to measure an entity's financial sustainability. A study to examine the financial feasibility of Malaysian public universities, (Ahmad, Siraj, & Ismail, 2018) used officer's perceptions, diversification initiatives, and costs management units to measure the variable. Similarly, in a study on the financial viability of community-based tourism a case study of Malaysia Tourism cooperative limited, the authors used owners and management attributes, networking, diversification of investment, and presence of partnerships to measure the variable.

The funding issues affecting NGOs have been aggravated by the dampening economic growth of funding nations and worsened by mushrooming organizations competing for the same donations. This has put much pressure on NGOs worldwide to undertake income-generating activities, diversify the funding and utilize the available resources effectively (Gebreselassie-Hagos, E., & de V Smit, A. (2013). The failure to diversify income and cost management poses a challenge to the survival of the organizations as the costs rise faster than available revenue leading to a weaker financial position (Ahmad, Siraj, & Ismail, Financial Sustainability of Malaysian Public Universities: officers perceptions, 2018). NGOs in Kenya are increasingly encountering challenges due to constrained resources and social burdens jeopardizing their sustainability. To maintain operations into the foreseeable future, organizations focus on financial sustainability which is their ability to meet administrative costs and project implementation. This means that measures such as budgetary control and other internal control systems sustain their operations (Abdulkadir, 2014). There is inadequate empirical proof of how Local NGOs in Kenya view their sustainability in terms of finance despite the fact the organizations are struggling with sustaining themselves financially. This analysis sought to bridge the gap by focusing on Local NGOs in Kenya.

1.1.3 Budgetary Control and Financial Sustainability

According to Rebrowa et al. (2020), a study that sought to analyze the correlation between budgeting and competitiveness and sustainability of companies that deal in mining in Russia found a significant correlation between financial decisions and budgetary control by the companies. Comparably, (Madlela & Kapepiso, 2022) in the case of Adra Namibia found that Non-Governmental Organizations had effective financial management because of functional and explicit budgetary control techniques. Similarly, a study (Mutungi, 2017) examining the influence of budgeting and budgetary control on the financial performance of the devolved government of Kenya established a significant relationship between budgetary management and the financial efficiency of the devolved government. Consistently, Rutto and Oluoch (2017) found that SACCOs lacked budgetary controls as evidenced by the failure to track expenses and action the corrective remedies leading to a weak financial position that could not sustain the firm. Drawing from the studies, the available empirical evidence shows that there is a statistical relationship between financial sustainability and budgetary control.

1.1.4 Local Non-Governmental Organizations in Kenya

These are NGOs that are formed and registered within the country of the domain and are concerned with global, national, and local issues that affect the target population of that country (NGOs Coordination Board, 2021). Whilst NGOs are independent of the governments, they do not seek to challenge the government or appear to do so (Willetts, 2006). In the wake of post-disaster reconstruction, NGOs have come to prove to be a third player in humanitarian action, environment, and policy development. Regardless of the type and location of NGOs, Lewis (2016) argues that their functions are best known in two dimensions. That is, delivery of services to those people in need and policy advocacy and public campaigns to advance the social transformation agenda. NGOs play a critical role in the Kenyan context ranging from building democracy, conflict resolution, advocating for human rights, preserving cultural heritage, and environmental protection through activism (Karanja & Karuti, 2014). Owing to their contributions, the government of Kenya through its legislative body, enacted The Public Benefit Organizations Act 2013 to provide a guide for the establishment and operations of NGOs, and the regulatory framework.

Although there are several categories of NGOs, Local NGOs were of great interest in this study since their continuity is challenged (Fleisher, S. 2017). In preceding years, it was reported over 89% of the fund were generated from developed economies and only 11% were generated from organizations income generating activities. Accordingly, less than 60% of Local NGOs registered and operating within Kenya have more than one source of funding and 40% rely on a single donor who if they decide to pull out at any time the organizations will not be able to continue supporting their operations. NGOs in Kenya account for over 290,000 workforces making it crucial in creating employment for the citizens. Due to the financial sustainability challenge, over 2000 Local NGOs have been deregistered due to cessation of operation, and only 79% of the registered NGOs in Kenya are operational as per the NGOs Board report 2021. Therefore, Local NGOs face unique funding challenges from International NGOs who enjoy funding from their states, and consistent income from their activities. In midst of changing funding dynamics, over-reliance on foreign donors and inability to utilize resources effectively, the existence of Local NGOs is at stake, as such, to help them remain relevant and continue contributing to national development, it was important to examine their financial sustainability and how they are influenced by the adopted Budgetary control (Humentum 2018).

1.2 Research Problem

Local NGOs have for a long time been key players in economic growth and social development. The sector contributes over Kes 35 billion as they implement projects while creating more than 290, 000 job opportunities for Kenyans. For the survival and continuity of an organization including Local NGOs sustainability financially is critical (Mureithi, 2019). Despite the local NGOs being considered vital players and complementary to government services, these local NGOs face unique and diverse challenges from overreliance on foreign donations, poor management, and increased costs of implementing projects due to inflation and dampening economic crisis. This has contributed to the trend of a weak financial position hence threatening their sustainability and continuity. The over-reliance on foreign donations, inadequate expenditure control and inability to diversify revenues put the organizations in jeopardy such that should foreign donors exist, the organizations will not be able to continue operating (Khieng, S. & Dahles, H. (2015)). It was against this finding that the research sought to analyze the interrelationship between budgetary control of Local NGOs in Kenya and their viability financially.

Similarly, past studies on budgetary control have focused on the budgeting process, coordination, planning, monitoring, employee participation, and control Otieno (2019), by adopting financial ratios, management quality, cost management, and diversification of income in private and public sector context. The current study suggested employing a more comprehensive approach to enrich the debate on budgetary control by examining its influence on financial sustainability in the Local NGOs context using planning, monitoring, and control factors of budgetary control and fund utilization, revenue growth, and diversification indicators of financial sustainability Kimani (2014).

Further, various studies called for a further investigation of the individual aspects of budgeting, planning, monitoring, control, and participative budgeting and an organization's financial performance (Kipkemboi, 2013). Indeed, the connection between variables has been inadequately examined as the previous research concentrated primarily on the impact of budgetary control on the performance of NGOs (Adongo, K. O., & Jagongo, A. 2013). Therefore, this study sought to advance the discussion by examining if the interrelationship between budgetary control and financial sustainability exists among Local NGOs in Kenya by answering the following question.

Does budgetary control affect Local NGOs in Kenya's financial sustainability?

1.3 Research Objectives

The primary objective of this study was to determine the relationship between budgetary control and the financial sustainability of the local NGOs in Kenya and to establish the budgetary control measures utilized by the selected organizations.

1.4 Value of the Study

In theory and practice, the study will contribute to future researchers developing reliable theories on organizational performance. It will help the managers of NGOs and governments to understand the essence of budgetary management and how to strengthen organizations' viability financially. The findings will also provide knowledge on the development of accounting policies in the NGO sector as it will enable managers in the organizations to enhance their sustainability. The study will provide a suitable foundation for understanding the link between the variables within the context of Local NGOs in Kenya. In addition, the study will provide explanations, predictions, and an understanding of the function of organizational structure in financial sustainability.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theoretical and empirical literature on the relationship between budgetary control and financial sustainability by using planning, monitoring, and control as predicting variables and fund utilization, revenue growth, and diversification as dependent variables. It also presents the conceptual model and the research gaps to be bridged by this study.

2.2 Theoretical Literature Review

The study was based on budgeting and responsibility accounting theories. Budgeting theory presupposes that budgets are integral to organizations' plans and strategies to respond to future risks and opportunities. The theories provide a framework for the organization to detect the variance between the objectives and performance and act as a guideline to align the data with the research objectives. The objective of the study was to conceptualize the relationship between budgetary control and financial sustainability and examine the application of various budgetary control tools and the theories that provided a ground for evaluating the deviation using the responsibility centres.

2.2.1 Theory of Budgeting

Budgeting theory championed by Hirst, (2007). It asserts that budgetary control provides a solution to the needs of the organization's program and courses of action to approach future opportunities and possible threats by instituting an effective control system (Evans, Luft, & Shields, 2006). The theory asserts that budgets are the primary elements of an effective control system and are imperative to coordinate budgetary control. This is anchored on the understanding budgets are forecasts that outline the future of the organization in terms of revenue generation and expenditure. As such, the organization's future financial performance is projected hence creating an opportunity to evaluate the financial sustainability of the organization both in the short and long run (Smithies, 1964). In an NGO context, budgets lay an estimate of future revenues from donations and other sources and the corresponding expenditures by clearly outlining the objectives within the budget manual of the organization. The theory assumes that the budgeting process compels managers to set targets and specific objectives aligned with the organization's goal. Consequently, the managers will be pushed to assess the prevailing conditions, monitor the progress, and make corrective actions. Accordingly, towards the end of the process, they will be able to examine and find areas of inefficiencies and recommend remedies to align the results to the plans. However, critics of the theory argue that the emphasis and dependence on the control system might subvert the need for effective management. Consistently, the deviation in budget performance may be due to changing conditions or poor administration negatively impacting the employee's morale since the success of the plan is dependent on them (Davis, Dempster, & Wildavsky, 1966). The theory’s relevance to the study stemmed from the fact that it allows the organization to set standard performance goals and incorporate monitoring capabilities to compare the actual against the standard. Theory facilitated the comprehension of the essence of budgetary control in Local NGOs in Kenya. The theory depicted forecasting of future revenue and estimated expenditure allows the Local NGOs to plan effectively and respond to the future.

2.2.2 Theory of Responsibility Accounting

The model is a control system that is founded on the delegation of authority and assignment of control (Zhang & Xia, 2017). The model suggests that for a management system to be effective, it needs to work under responsibility centers. These may include investment, cost, profit, and revenue centers. The manager of each center is required to only engage in activities that relate to the center's roles and responsibilities. For instance, the management at the cost center will only engage in activities that relate to costs rather than investment and revenues (Biswas, 2017). By delegating the managerial activities into responsibility centers, it can be viewed that it is easier for Local NGOs to understand the specific areas of inefficiencies. From this aspect, the development of budgetary control system is done under the cost center. The responsible managers are made to only focus on the reduction of costs through the provision of an effective budget. On the other hand, the profit center will focus on the organization's revenue growth and profitability. As a result, this creates a suitable interrelationship between budgetary control and the organization's feasibility financially. Even so, critics of the theory argue that meeting the prerequisites of successful responsibility accounting is difficult leading to inaccurate information (Melumad, Mookhenje, & Reichelstein, 1992).

2.3: Financial Sustainability Determinants

The factors that determine financial sustainability as identified by previous studies include strategic financial management, donor relationship management, and diversifying funding sources.

2.3.1 Strategic Financial Management

Since it involves the apportionment of program costs into budgets, cost reductions, and self-generated income, the concept helps the organization to make decisions that improves the cash flow in the long run and include more stakeholders in the value creation process. (Drury, 2012). Strategic financial management integrates the organization's strategic plan with the outlined financial needs in a bid to generate revenue that will have an impact on the organization's direction. As such, the organization leverages sound financial administration, policies, and procedures to manage the resources, plan to spend, and leverage the existing activities to generate more revenue. Consequently, organizations that apply strategic financial management, manage their resources more efficiently and make informed decisions to sustain their financial position (Rashid & Ali, 2020).

2.3.2 Donor Relationship Management

This entails introspective and actively sustaining relationships with newly acquired donors and maintaining current donors to optimize continuity, engagement, and funding by donors. It requires the organization to segment and prioritizes financiers and prospects in the formulation of goals and strategies for how they will manage a particular segment of donors to achieve set financing objectives (Johnston, 2019). Subsequently, by cultivating and implementing an effective system that yields a strong relationship with the funding sources, the organization can generate a more sustainable financial base (Mucheru, 2020).

2.3.3 Diversifying Funding Sources

Income diversification entails increasing the number of income sources or balancing the share of the projected income among different sources (Weltin et al., 2017). As (Githaiga, 2021) notes, under the uncertain environmental context, an organization avoids extended dependence on one or two sources of income to attain financial sustainability. There is value in developing a pool comprising corporations, foundations, and individual donors due to their various degrees of affinity for the projects of the organization. Even though their support comes in small and large portions, they provide opportunities for the organization to create unrestricted funds which result in financial reserves while professionalizing the existing income-generating activities to a level of sustaining various project costs. Therefore, to attain financial sustainability, the organizations diversify the funding sources rather than relying on two or three large grant amounts (Osei-Kuffour & Peprah, 2020).

2.4 Empirical Review

2.4.1 International Studies

Gunawan et al., (2020) investigate the connection between budgetary control and budgetary absorption performance in organizations. The analysis utilized a survey research approach with a sample of 231 out of 548 sample population. The research used primary data from 33 samples using structured questionnaires and used a partial least square path modeling method to analyze the data quantitatively. The study found a significant connection between the variables. Similarly, AL Mahroqi (2021) in a study to examine the effect of budgetary control on the Oman telecommunication company's financial performance, the research establishes a consequential correlation between budgetary control and the financial viability of the telco. The research used a survey-based research approach founded on questionnaires and interviewing the participants to collect data. They used frequency data distribution, correlation, and regression analysis to examine the connection between the variables. Also, a descriptive and explanatory analysis was applied in reviewing the information.

Schubert (2021) research to determine the impact of budgetary control on Germany's SME performances. The study was quantitative and focused on SMEs in Berlin, Stuttgart, and Munich. The cities were chosen because they have a high number of SMEs. Using questionnaires and interviews, the researchers collected data on the study objectives. It was observed that budgetary control impacts the development of reliable decisions. This in turn resulted in suitable performances of different financial indicators. This meant that budgetary control has a significant influence on the financial performance of SMEs. Contrarily, Lyndon & Idumesaro (2019), reviewed the relationship between budgetary control and performance within Bayelsa state, Nigeria. The study adopted an ex post facto design using secondary data from the state departments, on budgets and actual expenditures. The data was analyzed using E-View version 10, and regression analysis to establish the relationship between the independent and dependent variables. The study concluded that there was no statistical connection between the variables.

In a study to interrogate the financial sustainability of Malaysian public universities, (Ahmad, Siraj, &Ismail, 2018) used income diversification, cost management, and public officers' perception as units of the variable where they found that revenue diversification and cost reduction are key in achieving financial sustainability by the institutions. On the other hand, (Ballesteros & Bisogno, 2022) in their research to examine the connection between budget transparency and financial sustainability found that transparency as an element of the budgeting process could be used to measure the financial sustainability of organizations. This is because the study observed a positive relationship between budget transparency and financial sustainability of public sectors from 110 samples from different countries.

2.4.2 Local Studies

Koech (2015) researched the impact of Budgetary Control on the Financial Performance of Manufacturing Companies in Kenya intending to evaluate the influence of budgetary control variables on the companies. The research used a descriptive approach and stratified sampling for data collection from ten sample companies. The study found a significant connection between budgetary control and the financial performance of manufacturing companies using planning, monitoring and control, and employee participation as indicators. On the other hand, Kimani (2014)'s study, 'The Effect of Budgetary Control on Effectiveness of Non-Governmental Organizations in Kenya,' aimed at examining the performance of NGOs in Kenya with various budgetary control tools, she found that there is a weak positive effect of budgetary control on the performance of NGOs in Kenya at R square 14.3%. The research adopted the descriptive research design, questionnaires were sent to 30 samples of international and local NGOs based in Nairobi and employed SPSS in the analysis of the data. The interrelationship between the variables was explored using correlation and regression analysis.

Kerosi's (2018) analysis of Budgetary control practices by Micro and Small Enterprises and their effect on the management of the entities at Kangemi Town in Kenya, revealed a significant positive connection between Mismanagement and Budgetary control. The research intended to review and analyze the literature to find out how budgetary control affects the management of SMEs. The research adopted a descriptive method where data was collected from 160 sampled SMEs using questionnaires. Primary and secondary data were analyzed using Analysis for Variance (ANOVA) to determine the validity and reliability of the data. Inferential statistics were utilized to determine the interrelation between the variables. Kamau, Rotich, and Anyango (2017) studied the variables to establish the effect of the budgeting process on the budget performance of state corporations in Kenya, the case of Kenyatta National Hospital. The researchers adopted a descriptive research design, using a formula the study sampled 72 respondents out of 450 target populations and used the questionnaire to collect data. Similarly, the study utilized regression and correlation models to analyze the interrelation between the independent and dependent variables. The study found that budget performance is significantly influenced by the budgeting process variable.

Otieno (2020), focused on the 'Effect of Budgetary Control Uses of Financial Performance on Public Universities in Nairobi County, Kenya.' The study found a significant relationship between the two variables using budget planning, budget coordination, and budget control as measures. The descriptive research approach was adopted by the researcher and questionnaires for data collection from five sampled main public universities in Nairobi County. The regression analysis model was used to establish the interrelation between the variables under investigation. On the other hand, (Ombaba, 2020) in an analysis to interrogate the connection between budgeting and the financial sustainability of Dairy co-operatives in Uasin Gishu county in Kenya found that through effective budgeting the organization can predict the costs involved and hence able to work on the expected revues to meet the financial sustainability requirement.

2.5 Summary of Knowledge Gaps

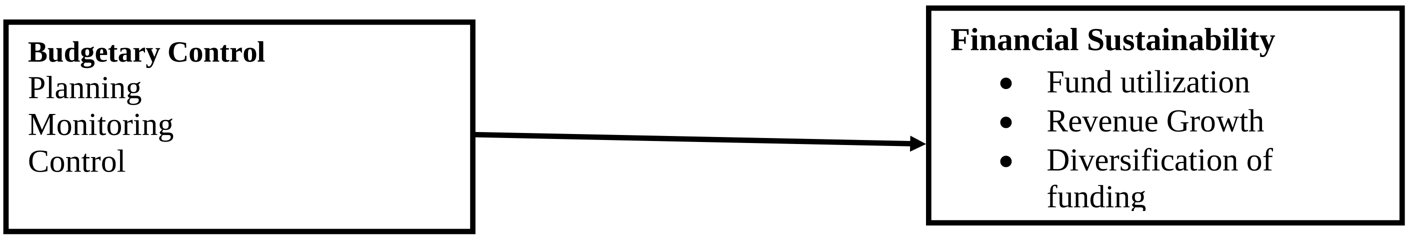
From the past studies reviewed above, the conceptual gap was demonstrated in the difference in the operationalization of budgetary controls and financial sustainability. The information on past research examining the association between the variables has limited data on budgetary controls like planning, monitoring, and control and their interrelationship with financial sustainability indicators such as funds utilization, revenue growth, and diversification of funding. Most of the reviewed literature suggests that many studies were done in the private sector and did not focus on the Not-for-Profit sector. Similarly, the literature suggests that there is little known knowledge about the financial sustainability of NGOs.

2.6 Conceptual Framework

The framework enabled the study to explore the proposed association between the variables. It used a diagrammatic representation to show the link between the independent and dependent variables.

Figure 2.1 The Conceptual Model

Independent Variable **Dependent Variable**



CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

The chapter explored the techniques and research approach the researcher utilized to gather data, analyse the information, and report the research findings. This included the design of research, target population, methods of collecting data, data validity and reliability, and techniques for analysis of information.

3.2 Research Design

A descriptive and inferential research method was employed because the study aimed to collect information to provide a systematic description of the variables. The design was appropriate because all the information of interest was collected for analysis and allowed comparative analysis amongst all the units and provided a systematic description of the concepts under scrutiny. By examining the top 30 NGOs, the study used inferential statistics to conclude the population. This included generalizing the study findings on the target population.

3.3 Target Population

The study target population comprised the top 30 Local NGOs registered in Kenya as per the Annual NGOs Sector Report for 2019/2020. It was revealed that there are about 9,225 Local NGOs in Kenya. The study used the registration status and fund utilization criteria to include the selected population. This was because the top 30 Local NGOs in terms of utilization of funds have more information about the budgetary control techniques adopted by Local NGOs in Kenya. Therefore, studying 30 NGOs was sufficient for attaining outcomes for the study since many Local NGOs in the country do not reveal their information on financial utilization. In addition, it was noted that NGOs have varied ways in which they engage in their financial operations.

3.4 Data Collection

The study adopted a structured questionnaire; with closed and open-ended questions to gather primary data considering the nature of the variables that were under study. The questions were standardized to enable respondents to answer the same questions. The respondents were drawn from four categories; Finance

Managers, Senior Finance Officers, Budget Officers, and Finance Analysts since they are the ones who are involved in budgeting and monitoring exercises with a focus to collect data from at least 75% of the respondents. The questionnaires were administered through drop and pick and collected after two weeks. Collecting data from a sample of 30 NGOs was shown to be reliable as it generated information from four employee categories.

3.5 Data Analysis

The research adopted the regression analysis approach to examine the connection between the variables as well as a review to draw discussions and conclusions. The researcher utilized the Likert Scale to differentiate the values of various data. Then used frequency data distribution, correlation, and regression analysis to examine the association between the independent and dependent variables. Also, the study used explanatory analysis to review the information and present the findings. To attain the significance of the variables, the research utilized a p-value of <0.05. Open-ended questions were coded using content analysis to quantify and analyze the presence and relationships of such concepts to conform with the analytical model and conceptual model. The multilinear regression model was used to analyze the connection between the variables by four models to predict the dependent variable.

3.5.1 Data Validity and Reliability

Data validity is essential to the accuracy of measurement in the sense that the collected data is suitable for a specific situation. It implies the extent to which a measurement or conclusion is well established and likely corresponds to reality. On the other hand, the reliability of data is the level of consistency such that it can produce a similar result under consistent circumstances. Based on the essence of the validity and reliability of data, the researcher applied a pretest by sending out 3 questionnaires for a pretest to evaluate the respondent's level of understanding of the questions, their interpretation, and their answers. The researcher then identified the recommendations for improvement particularly on the clarity of questions to increase the validity and reliability of the data. Similarly, the researcher presented the questionnaire to the panel of experts guided by the supervisor and sought an expert review by two data scientists to ensure that the tool would ensure that the data to be collected would be valid and reliable.

3.5.2 Model of Analysis

The multilinear regression analysis is given by:

Y= $a + b1x1 + b2x2 + b3x3 + e$

Y= Financial sustainability as measured by diversification, utilization, and revenue growth, and $x1$ = Planning, $x2$ = Monitoring, $x3$ = Control

$b1$, $b2$ and $b3$ =Coefficients, a= Constant term, e=Standard error

The predictor or independent variables X1, X2, and X3 are the variables of the study that were used to predict financial sustainability that was measured using various indicators through questionnaires. The SPSS software was used to analyze the data and frequency analysis to establish the data trend and determine the tools of budgetary control and financial sustainability indicators used by the selected organization. The researcher adopted the regression and correlation analysis model to establish the relationship between the independent variable (planning, monitoring, and control), and the financial sustainability of the LNGOs.

3.5.3 Tests of Significance

The model and significance of individual variables were determined by expressing them in terms of parameters. The model's significance was also determined using the F-test and achieved through the ANOVA technique, and the significance of the coefficient was established using a T-test.

CHAPTER FOUR

DATA ANALYSIS, RESULTS, AND DISCUSSION

4.1 Introduction

Data analysis and presentation of findings aligned with the objective of this research which was to examine the relationship between budgetary control and financial sustainability of selected local NGOs in Kenya are presented in this chapter. The analysis is sequenced into response rate, respondents and organizations information, and the interrelationship between planning and financial sustainability of local NGOs, monitoring and financial sustainability of local NGOs in Kenya, and finally the relationship between control and financial sustainability of local NGOs in Kenya.

4.2 The Response Rate

The study targeted 60 respondents from the top 30 local NGOs in Kenya. The research distributed a total of 60 questionnaires to Senior Finance Officers or Finance Analysts and or Finance Managers or Budget Officers in the top 30 NGOs based on the NGO Coordination Board 2019/20 report. The study attained 48 responses yet 12 were never returned as such this translated to an 80% response rate.

Table 4.1 Response Rate

	Frequency	Response Rate (Percentage)
Responded	48	80
Did not respond	12	20
	60	100

Source: Research Data 2022

4.3 Respondents and Organizations General Information

Table 4.2 Respondents' General Information

Description		
Designation	F	%
Finance Manager	29	60.42
Senior Finance Officer	10	20.83
Finance Analysts	5	10.42
Budget Officers	4	8.33
Total	48	100.00
Level of Education	F	%
Diploma	3	6.25
Bachelor	37	77.08
Master	7	14.58
PHD	1	2.08
Total	48	100.00
Professional Training	F	%
Finance	29	60.42
Accounting	12	25.00
Economics	5	10.42
Others	2	4.17
Total	48	100.00
Number of Years in the organization	F	%
0-10	43	89.58
11 years - 20 years	5	10.42

Total	48	100.00

Number of Years in the current position	F	%
0-10	45	93.75
11 years - 20 years	3	6.25
Total	48	100.00

Source: Research Data 2022

The analysis to discover the general background information of the respondents. Distributed by designation, a significant percentage of respondents was finance managers at 60.4% followed by Senior Finance Officers at 21.8%, Finance analysts at 10.4%, and budget officers at 8.3%. Regarding the education level, most of those who responded were bachelor holders at 77.10%, followed by master's degrees at 14.8%, diplomas at 6.25%, and Ph.D. at 2.08%. Accordingly, 60.42% reported having studied Finance while 25% reported having majored in accounting. Correspondingly, only 10.42% of the respondents reported having studied economics and 4.17% other professional training. The research findings indicate that a significant number of the respondents had worked between 0-10 years for the organization as represented by 89.55% and only 10.42 reported having worked for the organization for more than 11 years. Notwithstanding, the respondents demonstrated that they have served in the current positions majorly between 0-10 years as shown by 93.75% and only 6.25% reported having served in the current position for more than 10 years.

Table 4.3 Organizations General Information

Description		
Sector	F	%
Health	6	25.00
Education	2	8.33
Relief & Disaster Management	7	29.17
Children	2	8.33
Agriculture	1	4.17
HIV/AIDS	4	16.67
Human Right	2	8.33
Total	24	100.00
Number of years in operation	F	%
0-10	0	0.00
11 Years -20	9	37.50
21-30	5	20.83
above 30 years	10	41.67
Total	24	100.00
Number of counties	F	%
1 -10 Year	13	54.17
11 Years -20	6	25.00
21-30	3	12.50

41-47 Years	2	8.33
Total	24	100.00

Number of employees	F	%
1-200	8	33.33
201-500	14	58.33
501-100	2	8.33
Total	24	100.00

Source: Research Data 2022

The researcher wanted to find out the background information of the target organizations by examining the sector, number of years in operation, number of counties they operate nationwide, and the total number of employees at the time of data collection. The study found that most of the target organizations operate in relief and disaster management 29.16% followed by the health sector at 25%, and HIV/AID at 16.67%. Similarly, education, children, and human rights organizations reported 8.33% of the respondent's sector and 4.17% agriculture sector. Correspondingly, a significant number of the organizations reported having worked in the sectors for over 30 years as demonstrated by 41.67% and 37.5% reported to have been in operation between 11-20 years. Finally, data showed that 20.83% of the organizations have been in operation for 21-30 years. Finally, when asked about the number of employees, 58.33% reported having employed between 200-500 employees, 33.33% between 1-200, and 8.33% between 501-1000. This demonstrates that local NGOs in Kenya are part of the major source of employment.

4.4 Measures of Financial Sustainability used by the Organizations

When asked about the indicators the organization uses to measure the financial sustainability of the organization, 70.83% of the respondents strongly agreed that their organization uses diversification of revenue as an indicator, 20.83% agreed, while 4.17% disagreed, and only 4.17% strongly disagreed. On the utilization of donations and generated revenue only 41.67% strongly agreed and 37.5% agreed that their organizations use it as an indicator to measure financial sustainability. On the other hand, 4.17% were undecided, 12.5% strongly disagreed and another 4.17% disagreed that their organizations use it as an indicator to measure financial sustainability. Also, the data shows that many of the organizations as represented by 79.17% use the growth in revenue in terms of grants as an indicator to measure their financial sustainability, however,12.5% of the respondents disagreed while 8.34% strongly disagreed.

4.5 Statement on Fund Utilization by the Selected Organizations

In terms of fund utilization, data shows that 37.5% of the respondents strongly agree and 20.83% agree that their organizations overspent on project budget for the periods between 2017-2021 while 25% disagreed and 4.17% strongly disagreed, and only 12.5% moderately. Regarding the underspending information, 29.17% strongly agreed and 45.83% agreed that their organizations underspent the budget within the periods 2017-2021. However, 4.17% and 12.5% disagreed and strongly disagreed that their organizations were underspent while only 8.33% were undecided.

Table 4.4 Statement on Fund Utilization by The Selected Organizations

Statement on Fund Utilization	SA	A	M	DA	SDA
The organization overspent the project budget over the periods 2017-2021	7.5	50.83	12.5	25	4.17
The organization underspent project budget over the periods 2017-2022	9.17	65.83	8.33	4.17	12.5
The organization reported a deficit over the periods 2017-2022	29.17	62.50	0	4.17	4.17
The organization reported a surplus over the periods 2017-2021	15.28	59.72	6.94	11.11	6.95

Source: Research Data 2022

4.6 Statement on Revenue Growth by The Selected Organizations.

The researcher intended to find out the revenue growth of the organizations between the periods 2017-2021. Regarding the increase in donor value over the periods, most of the respondents indicated that there was a significant increase in the value as shown by 56.25% strongly agreeing and 18.75% of the respondents agreeing. Accordingly, 10.42% were moderate and 6.2% disagreed and 8.33% strongly disagreed. As observed, most of the respondents indicated that the cost of donor acquisition was within the recommended threshold as shown by 64.58% strongly agreeing, 14,58 agreeing, and only 10.42% disagreed while 6.25% strongly disagreed with 4.17% moderate. As observed, due to the increase in donor value and maintain donor acquisition costs, the data shows that the donor net worth increased over the periods since 60.42% of the respondents strongly agreed and 22.92% agreed with only 2.08% strongly disagreed, and 6.25% disagreeing. Also, 8.33% of the respondents were undecided.

Table 4.5 Statement on Revenue Growth by The Selected Organizations.

Statement on Revenue Growth	SA	A	M	DA	SDA
There was an increase in donor value over the periods (2017-2021)	56.25	18.75	10.4	6.25	8.33
The cost of donor acquisition was within the recommended threshold of 15% for the periods 2017-2021	64.58	14.58	4.17	10.42	6.25
The net donor worth (Lifetime donor value –donor acquisition cost) increased over the periods 2017-2021	60.42	22.92	8.33	6.25	2.08

Source: Research Data 2022

4.7 Statement on Diversification of Funds by the Selected Organizations

The research sought to examine the extent of diversification of revenue by the selected organizations. Regarding whether the organizations received bilateral and multilateral donations in the periods 2017-2021, most of the respondents strongly agreed 54.17% and 22.92% agreed while only 8.33% and 4.17% disagreed and strongly disagreed, and only 10.42% moderately. About whether the organizations received private charities and foundations contributions, 14.58% strongly agreed and 35.42% agreed while 16.67% and 12.5% disagreed and strongly disagreed with 20.83% being moderate. When asked whether the organizations received individual donors' contributions, only 27.08% and 31.25% strongly agreed and agreed that for the periods 2017-2021 their organizations received individual donors' contributions. However, 27.08% and 10.4% disagreed and strongly disagreed indicating their organizations did not receive such contributions with only 4.17% being moderate. Also, none of the respondents indicated that they received government grants within the period under the study while the majority had no idea 41.67% and 39.58% and 18.75% disagreed and strongly disagreed. About whether the organization received corporate giving during the period, 25% strongly agreed, 14.58% agreed and 27.08% had no idea. Accordingly, 29.17% and 6.25% disagreed and strongly disagreed. Finally, when asked about whether the organization generated its income over the periods, 20.83% and 14.58% indicated that the organizations had income-generating activities over the periods while 25% were moderate, and 22.92% and 16.67% disagreed and strongly disagreed indicating that their organizations did not have income generating activities over the periods.

Table 4.7 Statement on Diversification of Funds by The Selected Organizations

Statement on diversification of revenue	SA	A	M	DA	SDA
The organization received bilateral and multilateral donations in the periods 2017-2021	54.17	22.92	10.4	8.33	4.17
The private Charities and foundations contributed towards the organization in the periods 2017-2021	14.58	35.42	20.8	16.67	12.5
There were individual donors' contributions to the organization over the periods 2017-2021	27.08	31.25	4.17	27.08	10.42

During the periods 2017-2021, the organization received government grants	0	0.00	41.7	39.58	18.7
The organization received corporate giving during the periods 2017-2021	25	12.50	27.1	29.17	6.25
The organization generated its income from income-generating activities over the periods 2017-2021	20.83	14.58	25	22.92	16.67

Figure 2.7 Source: Research Data 2022

4.8 Statement on Application of Planning as a Budgetary Control Tool

The research wanted to find out how often the selected organizations apply the planning factor of budgetary control in the periods of 2017-2021. Using the Likert scale, most of the respondents showed that their organizations utilized a budget manual 43.75% and 35.42% indicating always and often. On the other hand, 10.42% showed their organizations rarely use the manual while 4.17% indicated their organizations never use the manual, and 6.25% showed that the organization uses the manual sometimes. Regarding the annual budgeting process, many of the respondents showed that their organizations always undertook the process at 89.58% and 8.33% indicated that their organizations undertook the process often. However, 2.08% indicated that their organizations undertook the process sometimes. When asked about whether their organizations utilized short- and long-term plans, the majority at 77.08% and 16.67% showed that their organizations always and often used the plans while only 6.25% indicated their organization rarely uses the plans. Finally, when the respondents were asked about whether their organizations involved employees in the budgeting process, a significant number indicated that they always involve employees 60.42% and often involved employees at 16.67%. On the other hand, 12.5% showed that their organizations rarely engaged employees in the budgeting process, and 10.42% showed that they never involved employees in the process.

Table 4.8 Statement on Application of Planning as a Budgetary Control Tool

Statement on Planning factor	5	4	3	2	1
A budget manual is used in the budgeting process to provide a guided planning	43.75	35.42	6.25	10.42	4.17
The organization engages in an annual budgeting process where overall budget targets are set and tied to performance targets	89.58	8.33	2.08	0	0
The organization has short and long-term plans to inform constant realignment of resources	77.08	16.67	0	6.25	0
Employees are involved in the budgeting process for buying in and their contributions considered	60.42	16.67	0	12.5	10.42

Source: Research Data 2022

4.9 Statement on Monitoring Factors of Budgetary Control

The author sought to find out whether the selected organizations applied the monitoring factors of budgetary control. When asked about whether the organization utilized a budget review committee within the periods under the study, 31.25% of the respondents indicated their organizations always utilized while 22.92% showed they often used a budget review committee. Accordingly, only 10.42% showed that their organizations utilized the committee sometimes. However, 20.83% indicated that their organizations rarely used the committee while 14.58% showed that their organizations never uses the committee. Regarding updating work plans, 56.25% said they always update the plans while 29.17% said they often update the work plans. Correspondingly, 14.58% said their organizations rarely update the plans and only 1.08% indicated that their organizations never updated their work plans. Accordingly, only 18.75% indicated that their organizations updated the work plans sometimes. Concerning whether their organizations reviewed budgets periodically, 18.5% said their organizations always reviewed budgets while 37.5% said they often review the budgets. Regarding the utilization of budget monitoring tools a consequential number of the respondents indicated that their organizations applied budget monitoring tools at 39.58 and often at 31.25%. Similarly, 14.58% showed that their organizations applied budget monitoring tools sometimes while another 14.58% indicated that they rarely utilize budget monitoring tools.

Table 4.9 Statement on Monitoring Factors of Budgetary Control

Statement on Monitoring factor	5	4	3	2	1
The budget committee reviews the proposed budgets in line with the organization's set financial goals and priorities	43.25	10.92	10.42	20.83	14.58
Work plans are updated periodically to align with the changes in finances	56.25	9.17	18.75	14.58	1.08
Budgets are reviewed periodically to ensure they are within the scope	48.75	7.50	20.83	16.67	8.33
The organization uses various budget monitoring tools to monitor the budgets throughout the project life cycle	60.58	10.25	14.58	14.58	0

Figure 2.9 Source: Research Data 2022

4.10 Statement on Control Factors of Budgetary Control.

The research wanted to find out whether the organizations under the study applied the control factors of budgetary control over the period 2017-2021. When asked about whether their organizations prepare periodic budget variance analysis reports, 97.92% of the respondents demonstrated that they always produce periodic reports and 2.8% showed that their organizations often prepare the reports. Regarding whether their organizations implement the corrective measures to align with the budget, 66.67% of the respondents showed that their organizations always implemented the corrective measures while 20.83% said they often implemented the measures. However, 8.33% said that their organization rarely implemented the corrective measures with 4.17% indicating that they never implemented the measures. About whether the organizations had and utilized budget control policy, many of the respondents 93.97% indicated their organizations always used the policy to guide control of the budget while 4.17% said their organization often applied the budget policy. Correspondingly, 2.08% showed that their organizations employed budget control policies sometimes and not always.

Table 4.10 Statement on Control Factors of Budgetary Control.

Statement on Control factor	5	4	3	2	1
Budget Variance Analyses are performed, and deviations reported	97.92	2.08	0	0	0
The organization implements corrective measures to avoid noncompliance and spending beyond the scope	66.67	20.83	0	8.33	4.17
The organization uses the budget control policy to control budgets by a guided framework	93.97	4.17	2.08	0	0
The organization uses pipeline review reports to report committed obligations and pending commitments.	10.42	52.08	20.83	14.58	2.08

Source: Research Data 2022

Further, the researcher presented an open question regarding the budgetary control tools that the organizations utilized over the period under the study. The researcher sought to understand some of the tools that are mostly used by organizations. As such, most of the respondents indicated that budget variance analysis was the most used at 90% followed by cost work plans at 8% and only 2% indicated they use pipeline review reports for budgetary control. Similarly, when asked about the challenges their organizations face in implementing budgetary control, most of the respondents indicated that lack of proper coordination between the departments was the major challenge 54% followed by inaccurate information from the budget controllers 36%. Contrarily, strict reporting timelines and inadequate resources to invest in systems were reported as challenges that hinder the organization from effectively implementing budgetary controls at 7% and 3%. Consequently, most respondents 50% reported that their organization's motivation to control the budget is to achieve the organization's mission while 30% showed that their motivation is to ensure that the resources are utilized throughout the project period and 20% indicated that controlling budget was to ensure that resources are not wasted.

4.2 Financial Sustainability

4.2.1 Respondents' Level of Agreement with Statements on Budgetary Control and Local NGOs In Kenya's Financial Sustainability.

The researcher wanted to find out the extent to which the budgetary control component influences the financial sustainability of the selected organizations. The researcher asked whether budgetary control was essential in helping the selected organization in managing their finances more efficiently to sustain their operations, the extent to which the planning factor of budgetary control helped the organization in the diversification of revenues to reduce the over-dependence on a limited number of donors and the extent to which the respondents agreed that monitoring and control factors influenced revenue growth and utilization of resources. Most of the respondents agreed with 68.75%, 70.83%,68.34%, and 91.67%.

Table 4.11 Respondents' Level of Agreement with Statements on Budgetary Control and Local NGOs In Kenya's Financial Sustainability.

Statement on Financial Sustainability	SA	A	M	DA	SDA
Budgetary control is essential in helping the organization in managing the finances more efficiently to sustain the operations	12.5	56.25	14.6	10.42	6.25
Planning factors of budgetary control help organizations to diversify funding to reduce over-dependence on a limited number of donors	20.83	50.00	0	18.75	10.42
Monitoring factors of budgetary control is essential in growing the revenue of the organization by identifying additional funds to meet organizational needs	32.92	35.42	8.33	10.83	12.5
Control factors of budgetary control are key to organizations in utilizing resources efficiently to avoid under or over-dependence	29.17	62.50	0	8.33	0

Source: Research Data 2022

4.3 Inferential Statistics

This segment outlines the inferential statistics for the research using regression analysis and association analysis.

4.3.1 Relationship Between Budgetary Control and Fund Utilization of Local NGOs In Kenya

The findings from multiple regression analysis established that budgetary control parameters investigated in the study explained 65% of fund utilization. The findings further established that planning (β=2.611, 95%CI:1.01, 5.11, p=0.041) and monitoring (β= -1.41, 95%CI: -0.31, -6.33, p<0.011) were significant predictors of fund utilization as shown in Table

Table 4.12: Relationship Between Budgetary Control and Fund Utilization of Local NGOs In Kenya

Budgetary control parameters	**R-square**	**Standard error**	**P-value**	**Beta coefficient (95%CI)**
Planning	0.65	1.511	0.041	2.611(1.01, 5.11)
Monitoring		0.613	<0.001	-1.41(-0.31, -6.33
Control		0.222	0.411	-1.21(-2.34, 5.51)
Intercept		0.111		261.78

The equation for the model is

$$Y1 = 261.78 + 2.61x1 - 1.41x2$$

Whereby: $Y1$ = Fund utilization, $x1$ = Planning, $x2$ = Monitoring

4.3.2 Relationship Between Budgetary Control and Revenue Growth of Local NGOs In Kenya

The findings revealed that budgetary parameters investigated in this study explained 73% of revenue growth. Thus, planning (β=4.55, 95%CI:1.81, 11.47, p<0.001), monitoring (β=10.41, 95%CI:3.56, 36.33, p<0.001), and control (β=6.23, 95%CI:1.02, 15.51, p<0.001) were independent predictors of revenue growth of local NGOs in Kenya as shown in Table

Table 4.13: Relationship Between Budgetary Control and Revenue Growth of Local NGOs In Kenya

Budgetary control parameters	**R-square**	**Standard error**	**P-value**	**Beta coefficient (95%CI)**
Planning	0.73	0.041	<0.001	4.55(1.81, 11.47)
Monitoring		0.098	<0.001	10.41(3.56, 36.33)
Control		1.311	<0.001	6.23(1.02, 15.51)
Intercept		1.311		203.12

The equation for the model is

$$Y2 = 203 + 4.55x1 + 10.41x2 + 6.23x3$$

Whereby: $Y2$ = Revenue growth, Y2=Revenue Growth and Y3=Diversification of revenue, $x1$ = Planning, $x2$ = Monitoring, $x3$ = Control

4.3.3 Relationship between Budgetary Control and Diversification of Local NGOs In Kenya

The results established that the budgetary parameter evaluated in this study accounted for 34% of the diversification of local NGOs in Kenya. Planning was found to be a significant predictor of diversification (β=2.55, 95%CI:1.03, 10.53, $p<0.001$)

Table 4.14: Relationship Between Budgetary Control and Diversification of Local NGOs In Kenya

Budgetary control parameters	**R-square**	**Standard error**	**P-value**	**Beta coefficient (95%CI)**
Planning	0.34	0.131	<0.001	2.55(1.03, 10.53)
Monitoring		1.312	0.321	-1.00(-4.02, 6.11)
Control		0.863	0.453	-64.66(-10.41, 3.89)
Intercept		0.762		351.12

The equation for the model is

$$Y3 = 351.12 + 2.55x1$$

Whereby: $Y3$ = Diversification, $x1$ = Planning,

4.3.4 The Relationship between the Budgetary Control and Financial Sustainability of Local NGOs In Kenya.

The results showed that 56% of financial sustainability was explained by planning, monitoring, and control. However, planning (β=10.41, 95%CI:3.51, 40.53, $p<0.001$) and monitoring (β= -3.11, 95%CI: -8.02, 1.03, $p<0.001$) were found to be significant predictors of financial sustainability of local NGOs in Kenya while control was not found to be a significant predictor of financial sustainability of NGOs in Kenya as shown.

Table 4.15: The Relationship Between the Budgetary Control and Financial Sustainability of Local NGOs In Kenya.

Budgetary control parameters	R-square	Standard error	P-value	Beta coefficient (95%CI)
Planning	0.56	0.041	<0.001	10.41 (3.51, 40.53)
Monitoring		3.121	0.003	-3.11 (-8.02, -1.03)
Control		0.992	0.197	-4.16 (-5.11, 1.33)
Intercept		0.223		891.12

The equation for the model is

$$Y = 891.12 + 10.41x1 - 3.11x2$$

Whereby: Y = Financial sustainability, $x1$ = Planning, $x2$ = Monitoring.

The study shows that there was a positive relationship between financial sustainability and the independent variables (planning, monitoring, and control). The regression coefficient shows that in every unit change in the independent variable the same influence is experienced by the dependent variable as it changes by the same unit. This implies that a single unit change in planning would lead to an increase in financial sustainability by a unit at a factor of 2.611, 4.55, and 2.55 respectively of fund utilization, revenue growth, and diversification components of financial sustainability. As such, the data implies that the planning factor is a significant predictor of the independent variable. Similarly, a unit increase in the monitoring will result in a unit increase in financial sustainability by a factor of 10.41 regarding the growth component and a decrease of 1.41 in fund utilization, and 1 in diversification components.

A unit change in control will lead to a unit increase in financial sustainability by a factor of 6.23 regarding the revenue growth component of financial sustainability, a unit decrease in a unit in control will lead to a unit decrease in 1.2 in revenue utilization, and 64 decreases in revenue diversification. This effect also applies to the contrary meaning a unit decrease in the independent variable would lead to a unit decrease in the dependent variable. The R square of the independent variable (planning, monitoring, and control) is 0.56 which means that an increase in standard deviation by any unit would cause an exact increase in the financial sustainability of local NGOs. Consequently, the study shows that there is a significant relationship between budgetary control and financial sustainability as indicated by the p-value: (p=0.001<0.05. The regression equation is $Y = 891.12 + 10.41x1 - 3.11x2$. This is since planning and monitoring are the major variables that influence the financial sustainability of local NGO organizations.

4.4 Summary and Interpretation of the Findings

4.4.1 Introduction

This section presents the summary of research findings, interpretation, and implications of the research alongside the research objectives. The findings are broken down into the measurements used by the organizations to measure financial sustainability, the variables used to operationalize budgetary planning, and the indicators used to operationalize financial sustainability.

4.4.1 Financial Sustainability Measurement

In the analysis of indicators used by the organizations to measure financial sustainability, it was observed that 91.66% of the respondents indicated that they used diversification revenue for the period under the study. Diversification involves spreading the sources of revenues to minimize the risks that may befall an organization that over relies on a few sources of revenue. Also, revenue growth in terms of new grants and increase of the existing grants was mostly used as indicated by the respondents 79.6% and 79.1% indicated that their organizations measured financial sustainability using the utilization of the revenue.

4.4.2 Fund utilization

In the interrogation of the fund utilization by the selected organization over the period 2017 -2021, the study observed from the findings that most organizations overspent the project budget, and a significant number of them also underspent the budget meaning they did not consume the whole amount. Also, the study found that a significant number of the organizations reported a deficit which was likely due to expenditure by the organizations that reported overspent, and that majority of the organizations that underspent the budget reported a surplus meaning the available funds were more than the budgeted costs within the period that was examined. To understand the level of agreement, the data shows that the agreement was 58.33%, 73%,91.67%, and 75%. This implies that fund utilization is an essential element in measuring the financial sustainability of an organization.

4.4.3 Revenue Growth

The study found that respondents agreed with the statement on revenue growth as observed that there was an increase in donor value over the periods which could be viewed as new grants or other income-generating activities, and the organizations acquired new funding or fundraising using expenses that are within the recommended threshold of 15%, and final the respondents also agreed that there was an increase in net donor worth as shown by 75%, 79.16%, and 83.34. This indicates that focusing on the acquisition of new donations using fewer fundraising expenses will lead to the increased net worth of the sourced funds unlike when the cost outnumbers the benefits.

4.4.4 Diversification of Funds

The study found that the selected organizations agreed with the statement on the diversification of funds measure of financial sustainability. The respondents agreed that their organizations received bilateral and multilateral donations in the periods 2017-2021, though they did not receive any donations from both the county and national government. Also, the study found that the selected organizations diversified their revenues by receiving charity and foundation contributions towards the organizations during the period, there was corporate giving towards the organizations and a significant level of generating their income. This implies that the selected organization understands the essence of diversification of funds as shown by 77.09%, 50%, 58.33%,37.5%, and 35.41%. This shows that having multiple sources of funding should be the focus of all organizations that intend to become financially sustainable

4.4.5 Planning Factor

The study found that most of the organizations have a budget manual which is being utilized by the organizations as demonstrated by the respondents in matters budgeting for the organization and that to a significant extent the organizations involved in the annual budgeting process where the overall budget targets are set and tied to performance targets. Also, the study shows that many of the organizations engaged in short-term and long-term planning to allow constant realignment of resources and that employees were involved in budgeting hence the process was participative. This is shown by the data as 79.17%, 97.91%,93.75% and77.09%. This demonstrates the essence of the planning factor of budgetary control and why organizations should emphasize the need to apply the planning variables to achieve the desired objectives.

4.4.6 Monitoring Factor

The study found that most of the respondents agreed that they always or often use budget committees to review the proposed budgets in line with the organization's set goals and priorities, work plans are updated periodically to align with the changes in finances, budgets are reviewed periodically to ensure they within the scope and that they use various budget monitoring tools to monitor the budgets throughout the project life cycle. This was demonstrated by 54.17%, 85.42%,56.25%, and 70.83%.

4.4.7 Control Factor

The study found that the selected organizations utilized budget variance analysis to control the budget against actual to avoid exceeding certain or all budget lines, the responsible individuals were also keen on the implementation of the proposed corrective measures within the budgets and overall costs, and that most organizations had budget control policy which was utilized in the periods that were under study. This was demonstrated by most respondents who indicated that their organizations always and often applied the control factors as shown by 100%, 87.5%, 98.08%, and 62.5%. This implies that the organizations are aware and are applying the control factor of budgetary control to ensure that all the corrective actions are implemented, and deviations addressed.

4.4.8 Financial Sustainability

The analysis determined that many of those who responded agreed that budgetary control is essential in helping the organization in managing the finances more efficiently to sustain operations. Also, a large number of the respondents agreed that planning factors of budgetary control help organizations to diversify funding to reduce over-dependence on the limited number of donors. Accordingly, the respondents also indicated that monitoring factors of budgetary control are essential in growing the revenue of the organization by identifying additional funds to meet organizational needs. Finally, it was also observed that focusing on control factors of budgetary control is key to organizations in utilizing resources efficiently to avoid under or over-dependence. This is demonstrated by many of the respondents who agreed to a large extent as shown by 68.75%, 70.83%,68.24%, and 91.67%.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Summary

In this chapter, the summary, conclusions, and recommendations of the study are presented based on the research objectives; to examine the effect of budgetary control on the financial sustainability of LNGOs in Kenya and established the budgetary control measures adopted by the LNGOs. Many of the respondents about the measures of financial sustainability indicated that the use of diversification of funds, how the resources are utilized, and the growth of the same over the period is used to measure the financial sustainability of an organization. The study concludes that financial sustainability is the ability of an organization to meet both its short- and long-term financial objectives while sustaining its operations. This conclusion is based on the revelation that organizations key priorities in measuring financial sustainability included evaluating the donor base, reevaluating their financing options, using other options besides money, and focusing on the organization's mission. Therefore, having multiple donations that are not necessarily huge as having few donations enhances the financial sustainability of an organization. Also evaluating the financing by considering what the organization is spending against what the organization is supposed to spend is concluded as one of the motivations for measuring financial sustainability. Similarly, it is concluded that sustainability is not all about money but finding other opportunities including staff volunteering, in-kind support, and pulling resources with other organizations while maintaining the organization's mission to achieve set objectives.

Most of the respondents showed that their budgets cover a period of one to five years and that they utilize planning, monitoring, and control of the budget. The findings show that budgetary control is essential in an organization. As such, it is concluded that budgetary control is the process of setting the financial goals and priorities at the planning stage, monitoring the performance of the budget by observing any discrepancies, and controlling the same by effecting the corrective measures to meet the organization's objectives. It is concluded that with effective budgetary control, an organization will be able to plan its resources and identify opportunities to diversify, utilize and grow its revenue base, monitor the performance to ensure only desired results are achieved and implement the corrective measures to align the actual with the budget.

Due to the effective utilization of planning factors of budgetary control, it can be concluded that the selected organization's budgets are guided by a budget manual a standard document that acts as the roadmap to budgeting, the organizations participate in an annual budgeting process where overall goals are set for the year, the organizations have and utilize short and long term plans and that the management involves the employees in the budgeting process to allow them to contribute and buy-in so that they can own the implementation.

Because of effective budgetary control of the selected organizations, the proposed budgets are reviewed by the budget committee and the organization's goals and priorities are aligned with its mission, the work plans are updated periodically to evaluate the changes and align with the changing needs, the budget is reviewed periodically and the deviations from the standard budget documented and reported to the budget committee, and budget monitoring tools that keep the actual against the budget in check are used by the organization.

Due to effective budgetary control by the selected organizations, it can be summarized that the budget variance analysis is performed and deviation reported, the organization priorities implementation of the suggested corrective measures to avoid cases of noncompliance or overspending or underspending on certain budget lines, the organization utilizes the budget control policy to guide the responsible authorities to control the budget under a guided mechanism and pipeline review reports are used to report committed obligations and pending commitments to be fulfilled.

The research in summary established that the adjusted R square was 0.56, that is, coefficient of determination for the predictor variable examined. Accordingly, this suggests that there was a variation of 0.56 between the independent variable and dependent variable. Therefore, the study shows that budgetary control factors explained 56% % of the financial sustainability in LNGOs. The regression analysis model at p-value ($p=0.001<0.05$) was determined to be in the form $Y = 891.12 + 10.41x1 - 3.11x25.2$**.**

5.2 Conclusions

The primary purpose of the research was to determine the connection between budgetary control and the financial sustainability of LNGOs in Kenya. The study was based on the theory of budgeting and responsibility accounting which asserts that organizations need to detect the deviation of budget and it must be coordinated through responsibility centers. This study has an 80% response rate with 60.48% of the respondents being finance managers. This suggests that Finance Managers are more likely to involve in budgetary control. The data suggests that most respondents had served in their current roles for a period of not more than 10 years, and most LNGOs have been in operation for a period of more than 30 years. The first objective was to determine the relationship between budgetary control and financial sustainability and establish the budgetary control techniques used by the selected organizations. Regarding the first objective, the study found that there was a connection between budgetary control and financial sustainability by 56%, and planning was concluded to be a key contributor to financial sustainability. Therefore, it is concluded that there is a relationship between the two variables and the research findings support the literature and the theories used to guide the conceptual framework.

5.2.1 Measurement of Financial Sustainability

The study concludes that diversification of revenue allows the organization to increase its donor base. Accordingly, this conclusion is in line with the fact that having donors who contribute at least 15% of the organization's revenue shields the organization such that in the event of losing one donor, the organization is more likely to continue with the operation without too much disruption. Also, the study concludes that fund utilization and revenue growth are key indicators of the selected organization's financial sustainability. Therefore, organizations should engage in periodic reviews of their financial sustainability by examining the percentage of each donor's contribution to their portfolio, the utilization of the existing revenue, and assessing whether there has been revenue growth or not.

5.2.2 Fund Utilization

The study concludes that the selected organizations reported variance in terms of budget utilization as evidenced by over-expenditure, under-expenditure, deficit, and surplus. This indicates that failure by the management to monitor the budgets would lead to over-expenditure due to spending beyond the scope and not utilizing opportunities such as discounts and tax exemptions to ensure that much of the funds are not used on project-unrelated costs. It is also concluded that the organizations that reported variances in terms of under and over-expenditure failed to monitor the budget. The managers at various cost centers should focus on ensuring there are no variances because this could send a negative signal to the donor. Due to the variance, some organizations reported deficits while others reported surpluses. It is therefore concluded that fund utilization indicators measure the financial sustainability of an organization.

5.2.3 Revenue Growth

The study concluded that revenue growth is an indicator that most of the selected organizations use to measure the financial sustainability of their organizations. As such, it is concluded that an increase in donor value is an indicator that the organization is sustainable since this translates to increased revenue for the organization. Also, the study concludes that managing fundraising expenses within the recommended threshold is an indicator that the organization is financially sustainable. This is because the cost-benefit analysis requires the benefits to be more than the costs for a choice to be suitable. Similarly, the study concludes that an organization's donor net worth the total donor value less the fundraising expenses is a good indicator to determine if an organization is financially sustainable.

5.2.4 Diversification of Funds

The research concludes that most organizations based on the analyzed data use diversification of funds to measure their financial sustainability. It is also concluded that the organizations targeted multilateral and bilateral funding sources, charities and corporates, individuals, and philanthropists, and used of own income-generating activities. However, it is also concluded that barely all the selected organizations aim to secure funding from the government of Kenya. Therefore, the management of LNGOs should shift their focus from one big donor to multiple funding and increase their income-generating activities to cushion themselves against any shocks that may come with the withdrawal of major donors.

5.2.5 Budgetary Control; Planning

The study concludes that the selected organizations plan accordingly to ensure that resources are allocated appropriately. It is also concluded that the selected organizations have and utilize the budget manual more effectively, they also engage in annual budgeting processes to ensure proper management and coordination of resources, and short-term, and long-term plans are utilized to focus on those objectives that can be achieved with a short period and those that can be achieved in long. The study concludes that the selected organizations incorporated the ideas and opinions of the employees by involving them in the budgeting process.

5.2.6 Budgetary Control; Monitoring

The study concluded that the selected organizations have a budget committee that reviews the proposed budget in line with the organization's financial goals and priorities. Also, it is concluded that monitoring tools such as work plans are updated periodically to realign the changes with the organization's financial needs, the periodic budget review is performed to identify variances, and the organizations utilized the monitoring tools to monitor the budget in the periods examined.

5.2.7 Budgetary Control – Controls

The study concludes that budget variance analyses were performed and deviations from the standard budget reported in the period under the study, the organizations implemented corrective measures recommended by the budget committee from their reviews to avoid noncompliance with donor rules and regulations and spending outside the scope. Also, the research concludes that budget control policy existed, and it was utilized to provide a guided budget control and that the organizations used pipeline review to examine and report on the committed obligations and pending commitments.

5.2.8 Financial Sustainability

Regarding the financial sustainability variable of the selected organizations, the study concluded that budgetary control helped the organizations to manage their finances more efficiently to sustain their operations throughout the periods, planning factor of the budgetary control helped the organizations to diversify their funding to reduce over-dependence on a limited number of donors. Also, the study concludes that monitoring factors of budgetary control employed by the organizations over the period were essential in growing their revenue by identifying additional funding needs, and control factors of budgetary control were key to the organizations in terms of efficiency in resource utilization.

5.3 Recommendations for Policy and Practice

Guided by the indicators of financial sustainability, the study recommends that managers of LNGOs should prioritize measuring the sustainability of the organizations in terms of finances with a focus on identifying other sources of revenue, to utilize the resources more effectively and grow the revenue to avoid overlaps that could be experienced after one cycle of funding. The study also recommends that LNGOs should reduce the dependence on a limited number of donors and diversify their sources through engaging in income-generating activities, and seek grants from charities, corporative, and governments to minimize the risk of closing the operations should one donor pulls out. The study also recommended that for effective budgetary control, the management should institute and implement planning, monitoring, and control elements such as budget manual, budget committee, variance analysis, prompt implementation of corrective actions and involve the employees in the budgeting process. Finally, the study recommends that organizations should have clear budget manuals and control policies to provide a guided approach in response to the organization's needs and the responsible managers should have specific key performance indicators regarding budgetary control.

5.4 Limitations of the Study

Though data collection was a success, the researcher experienced challenges in data collection due to financial constraints since the researcher had to engage research assistants to help with the distribution and collection of questions which slowed down the process. Lack of cooperation and reluctance to share the data from the selected organizations limited the access to data as evidenced by the fact that only 48 out of 60 questionnaires sent out were filled and returned. The researcher used to drop and pick an approach to administer the questionnaire and collect the data a technique that proved too difficult due to movement and some of the respondents were too busy, so the researcher had to persuade them to fill out the questionnaires.

5.5 Recommendations for Further Research

The study adopted a sample size of 30 top LNGOs in Kenya using fund utilization criteria to include and exclude the participants. This may not give a clear picture of the financial sustainability of LNGOs in Kenya since we have more than nine thousand organizations. Therefore, more research is recommended in this area using a large sample and use of other criteria to include the participants. Also, the researcher used planning, monitoring, and control factors of budgetary control to examine the unit of change in the financial sustainability of the selected organizations in response to a unit change of the independent variable. Further studies should focus on using other indicators to measure budgetary control. Accordingly, the study recommended that future studies should use digital data collection techniques to ensure that data is available in time and to overcome the inconvenience caused by financial constraint

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