

**EFFECTS OF BUDGETING ON PERFORMANCE IN NON  
GOVERNMENTAL ORGANIZATIONS IN KENYA**

**BY**

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**D61/67564/2011**

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN  
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR MASTER  
OF BUSINESS ADMINISTRATION DEGREE OF THE UNIVERSITY  
OF NAIROBI**

**OCTOBER, 2013**

## DECLARATION

This research project is my original work and has never been presented in any other University or college for award of degree.

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The project has been submitted for examination with my approval as the University supervisor.

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## **ACKNOWLEDGEMENTS**

I wish to thank the Almighty God for his love, abundant grace and provision that enabled me to study without any interruptions. I thank him for giving me the strength, Grace, Wisdom and knowledge to successfully complete my studies.

My sincere gratitude goes to my supervisor Mr. Barasa Joseph Lumumba for his professional guidance, valuable advice and contributions that led to the successful pursuit of this project. I am so much grateful for his reliability that enabled me to consult with him severally to enhance the quality of this project.

I would wish to thank my wife Caroline Kajuju for her understanding and support when I was not there for her during the research project period.

I also thank my parents for their encouragement, support and prayers throughout the study period.

I wish to acknowledge the assistance accorded to me by respondents. They provided crucial data without which the pursuance of my research project would have been futile.

Last but not least big thanks to my fellow MBA students for helping in proof reading the document.

## **DEDICATION**

To

My dear wife

Caroline Kajuju

(Your support and encouragement was a pillar to the success of this project)

## **ABBREVIATIONS**

NGO	Non-Governmental organization
SPSS	Statistical Package for Social Sciences

## **ABSTRACT**

Service excellence is demanded of today's organizations since financiers and customers/ beneficiaries are increasingly demanding their service requirements and best use of money through the projects they undertake. This offers a unique challenge to NGOs since they are not in the business of making profits and their emphasis is on sticking to the requirements of their donors while at the same time meeting the expectations of their beneficiaries with limited resources. The study thus sought to evaluate the effects of budgeting on performance in non-governmental organizations. The research was conducted through a survey. The study used both primary and secondary data. Questionnaires were structured as the main data collection instrument. Self-administered drop and pick questionnaires were distributed among the target organizations. This enabled the researcher to get adequate and accurate information from people with experience. Before processing the responses, the completed questionnaires were edited for accuracy, completeness and consistency. The data was coded to enable the researcher group it in various categories. It was established that greater budget participation reduces the subordinate propensity to create organization performance only in situations of high task uncertainty, but not in situations of low task uncertainty. Organizational performance is measured by the degree under which an organization is able to utilize their budget and sticking to the limits of budget provision. The design of budgeting system ought to match variations of task characteristics. Giving subordinates the high degree of budget participation would be effective in the situation of high task uncertainty or high task difficulty, but ineffective in the situation of low task uncertainty or low task difficulty. However, the impact of budget participation on organization performance is invariant whatever the degree of task variability may be.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the study**

Budgets are financial blue print that qualifies a firms plan for the future. It's a detailed plan that outlines the acquisition and use of financial and other resources over a given period of time. According to Flamholtz (1983) a budget in an organization acts as a mechanism for effective planning and controlling. Schick (1999) concurs by stating that the main purpose of a budget in any organization is for planning and controlling in order to achieve organizational goals and objectives. A budget is a standard against which the actual performance of an organization can be compared and measured. A budget stipulates which programmes and activities should be pursued. Lucey, (2002) defines a budget as a quantitative statement, for a period of time which may include planned revenues, assets, liabilities and cash flows.

Budgeting in non-governmental organizations is used as a planning tool. Organizations use a budget as a guiding tool of its activities. According to Goldstein (2005), a budget is used by institutions in setting priorities by allocating scarce resources to those activities that are most important to the organization. The annual budget is commonly referred to as the master budget and has three principle parts namely the operating budget, cash budget and the capital budget.

Premchand (2000), states that a budget is a company policy and determine the manner in which resources are managed. The financial task in budget implementation includes spending the specified money, maximizing savings and avoiding over expenditures at the end of the financial year. Frucot and Shearon (2001) argues that implementation

of the budget require an advance program of action evolved within the parameters of the end of the budget and means available. According to Horngren (2003), effective budget implementation is usually assessed by addressing various variances between the actual performance and budgeted performance.

According to Atkinson (1993), one of the most visible and highly publicized economic challenges facing the implementation of operational budget is the decline in the purchasing power of an institution. Continuing budget pressure in an organization is forcing management to re-think their current service delivery and develop initiatives that reduce costs and increase efficiency. Budgetary task is usually rendered operational through the administrative process in any organization.

In any organization, budget implementation officers determine the portion of the organization's resources that a manager of each unit would be authorized to spend. Budgets establish organizational performance goals for each organizational unit in terms of costs and revenues. A budget enables an organization to predict the movement of their short term and future performance. According to Premchand (2000), if institutions fail to provide fairly accurate predictions in operations and capital projects, then doubt is cast on the performance of that institution.

### **1.1.1 Role of budgeting**

Budgeting in a business has benefits and consequences that go beyond the financial dimension and have more to do with organization's management in general. Budgeting forces managers to do better forecasting. Vague generalizations about what the future may hold for the organization are not good enough for assembling a budget. Managers must put their predictions into definite and concrete forecasts. (Tracy, CPA Accounting for Dummies, 5<sup>th</sup> edition 2013). Budgeting motivates managers and

employees by providing useful yardsticks for evaluating performance. The budgeting process can have a good motivational impact by involving managers in the budgeting process and by providing incentives to managers to strive for and achieve the business's goals and objectives. Budgets provide useful information for superiors to evaluate the performance of managers and can be used to reward good results. Budgeting can assist in the communication between different levels of management. Putting plans and expectations in black and white in budgeted financial statements including definite numbers for forecasts and goals minimizes confusion and creates a kind of common language. Well-crafted budgets can definitely help the communication process.

### **1.1.2 History of Budgeting**

Even though money management has been around as long as money existed, the idea of a budget is a recent concept, often attributed the British monarchy in the 1700s. The Parliament was put in place to establish some form of checks and balances. At that time, budgeting was mainly self-serving as the first controls were put on the military so the King couldn't create a force to overthrow the Parliament. However, things were rarely written down, there wasn't a regular review and any auditing or reporting. As the budget expanded to include more areas of the government, the idea of a true budget evolved to mean more control and accountability.

At the beginning of the Nineteenth Century, many of the currently accepted policies and procedures were taking shape. It was actually the French efforts to streamline their own government that budgeting became a useful and practical practice. By the mid-1800s, they had put together guidelines for performing audits, defined a standard fiscal year, and created accountability reporting. They required written

reports that detailed all of the revenue and expenses for the year with a reconciliation of where all funds came from and how they were dispersed. In the early 1800s, American government and business began to recognize the concept of a balanced budget. While it would appear to mean something different to people now, in those days a balanced budget meant controlling expenditures and keeping them low while reducing or eliminating debt.

Starting as a tool to manage governments, budgets appear in business and personal lives. It is a way to accurately track what is coming in and what is going out. That gives you the data to determine where you can make changes in your income and expense strategies to make the most of the money you have.

## **1.2 Statement of the problem**

Throughout the world, the processes of determining how to raise, allocate and spend resources constitute one of the foundations of organization. Service excellence is demanded of today's organizations since financiers and customers/ beneficiaries are increasingly demanding their service requirements and best use of money through the projects they undertake. This offers a unique challenge to NGOs since they are not in the business of making profits and their emphasis is on sticking to the requirements of their donors while at the same time meeting the expectations of their beneficiaries with limited resources. Organizations must therefore ensure that budgets are efficiently and effectively managed. With today's economic difficulties all over the world, budget implementation must be carefully reviewed against the best applicable standards to ensure that there is proper utilization of scarce resources. According to Premchand (1994), implementation of budgets requires advanced programs of action and highest quality of service.

Locally, studies focusing on budgeting have been carried out. Ndiritu (2007) carried out a study on the effectiveness of cash budgeting at Telkom Kenya which was a public institution. He focused on cash management budgeting process as an important tool of planning and controlling. His study found out that although cash budget as a management and control tool was in place in Telkom (K) limited, it was not effective in improving the management of cash.

Obulemire (2006) found out that, public schools in Nairobi used budgets mostly to implement short term operational plans with majority of the long term plans being implemented without prior budget. Kavoi (2011) found out that adequate planning and accurate projections done in budget preparations influenced budget achievement targets in the University of Nairobi.

Muthinji (2009) carried out a study on the challenges of budget implementation at the commission for higher education. His aim was to study the challenges of budget implementation and its effectiveness at the commission. He found out that budget was important for communication and there is an increasing trend towards decentralization.

Murrison (2001) did a survey on budgeting practices among the major British Non-Governmental organizations in Kenya. He focused on their budgeting practices and the extent to which budgets are used as a management control tool. The result showed that 100 percent of the Relief projects over estimated their income.

The current practice is that many non-governmental organizations implement projects through funds received from donors. The expectations of both the beneficiaries and financiers is quite high and most of these expectations are never met either through none or partial completion of these projects, cost overruns or substandard projects. As

a result, some donors have withdrawn from funding some organization or imposing stringent conditions to their grants. This situation has been driven by factors that affect budgeting, thus this study explores the relationship between organizational performance and budgeting.

### **1.3 Objective of the Study**

To evaluate the effects of budget implementation on donor funding in non-governmental organizations.

### **1.4 Value of the Study**

In any organization, budget forms an important part of its plan. It is for this reason that utmost care must be taken to ensure effective and efficient budget implementation. Effective and efficient budget utilization can lead to goodwill among donors. This study may be useful to the following.

The results of this study may educate the management of non-governmental organizations on the importance of efficiency and effectiveness budget implementations among donors. The study may also help in planning and controlling in the implementation of projects and ensure efficient utilization of resources. Academicians and scholars will benefit from the study in that it will provide a useful basis upon which further studies on budgeting for non-governmental organizations could be conducted. The study will also add to the existing body of knowledge.

NGO council will also benefit from this study, since the study will inform on the best ways of budget implementation and ensuring efficient utilization of resources and also what informs donors in their decisions to fund projects. NGO council can advise its members. This can lead to improved performance of NGOs

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter gives a summary of historical background of the studies that have been done on budgeting highlighting the various theories connected to budgeting, historical background of budgetary process and an over view of budgeting in Non-governmental organizations.

The chapter will also highlight the benefits of budgeting and eventually conclude by identifying gaps and areas that need further study.

#### **2.2 Theoretical Review**

##### **2.2.1 Budget incremental theory**

Incremental theory is defined in terms of expenditure increases and argues that it depend on economic growth. Under incremental budgeting, these increments can come from economic growth or from an enlargement in the relative size of the public sector and not from redistribution of resources among government programs. Redistribution means that some budgets must shrink so that others may grow. A process that leads to this outcome must concentrate at least as much on the base as it does on the increment.

Budget incremental theory approach starts with the estimated amount for the current financial year or the provisional accounts of actual expenditure in the previous financial year. Small amounts (increments) are then added or subtracted to accommodate budget increases or cut for the coming year. For almost two decades, incrementalism has been the prominent theory of budgeting. It is the leading

explanation to how budget process works, and for many scholars and participants, it is also the prescription of how the process should work (Allan Schick 1983).

### **2.2.2 Garbage Can budgeting Theory**

According to Garson (2008), garbage can theory was first developed by Cohen *et al*, (1972) to describe decision making in colleges. It articulates that these educational institutions face decision making situations involving unclear goals, technology and fluid participants. The theory does not describe decision making in public administration as a matter of rational choice but a process characterized by anarchy.

The theory continues to explain that organizations do not function like computers solving problems and possible solutions but rather function like garbage cans into which a mix of problems and possible solutions are poured with the precise mix determining decision outcomes.

The processes in the garbage (organization) can include those associated with problems, politics and policies (kingdom 1995). The problem stream revolves around agenda setting process. The political stream revolves around contention over alternatives and reflects public opinion, interest groups, experts, elections, partisan forces and legislative, judicial and executive bodies.

The policy stream revolve around defining policy solution, often described as much as a process where favorite solutions are looking from appropriate problems as one in which problems lead s to solution (Cohen *et al* , 1972) In this model, decision makers and problem track one another through a series of choices without great progress in coming to a solution.

### **2.2.3 Agency Theory**

Agency relationship exists when a party acts on behalf of another. According to Stephen (1973) agency relationship exists when two (or more) parties when one designates as an agent, acts for, on behalf of, or as a representative for the other, designated the principal in a particular domain of decision problem. In a budget, a budget slack exists when an agent inappropriately does a projection of lower revenue or higher expenses than is realistic or warranted during financial planning for a project or business.

Budget slack is defined as the difference between appropriated budget and the true minimum cost (Moene, 1986) Budgeting slack is considered unethical business practice when intentional because it tends to give the false impression that the eventual performance of the associated business or project has turned out better than planned. Budgeting slack has been identified as one of the key unresolved problems in budgetary control (Horngren 1982) Budget slack may be caused by the uncertainty of future business environment while others may be caused intentionally for private benefit of the budget owners. According to Peter (2012) budget slack caused intentionally for private benefit of the budget owners is immoral.

Lukka (1988) indicates that there are three motivations to create budgetary slack. The first motivation is resource intention where budgetary slack occurs when resources used exceed the optimal allocated resources. The second motivation is performance and evaluation intention where low budgets based output targets have been set in order to increase the probability of a favorable evaluation. The third motivation is what Lukka called motivation intention where budget targets are set at optimistic levels in order to motivate the subordinates to improve their performance. Whereas motivation intention slack is considered a means by which the central management

may positively influence the divisions' performance, the resource and performance intention slack as considered a dysfunctional behavior that affect the organizations performance negatively.

### **2.3 Historical Background of Budgeting Process**

The English word "Budget" has its origin from a French word "Bougette" whose meaning is a bag or a large sized pulse used by travelers in early centuries and used to hang on the saddle of their horses (Burkhaed 1956). Over time, the meaning of the word has changed to be the financial plan itself.

#### **2.3.1 The traditional role of budgets**

According to Wiki.answers.com, Traditional Budgeting refers to a list of all planned expenses and revenues. It focuses on what the managers tend to spend rather on what resources they need. It fails to identify wastes, incoming workloads and cost drivers; it does not support continuous improvement and appears to have general lack of ownership and buy - in. Critics also found out that it is very time consuming for the benefits to be achieve. Therefore, traditional budgeting practices don't appear to be connected to the overall organizational strategy. Another major flaw of it is that it assumes that the current year's expenditure level is justifiable although it may not be true because it may be high or low.

Phillips (2010) indicates that traditional approach to budgeting invariably leads to "silo decisions," in which resources are allocated on a project-by-project basis. The individual judgments that are being made preclude any coherent analysis of the wider options available, often resulting in missed opportunity for the organization concerned.

According to F. Rothberg (2011) Traditional Budgeting is grounded in command and control. An underlying assumption can be that managers and employees do not have the skill sets, motivation, or honesty to act in a way that supports company objectives. Skepticism around how much employees can be trusted extends to how much information is shared and when.

Drury (2009) describes traditional budgeting so aptly that "Traditional budget is that once per year the manager of each budget Centre prepares a detail budget for one year". Traditional, annual budget has been criticized of being rigid and risky because it is based on uncertain estimate.

Bourne *et al*, (2002) have done a research which shows that 80 percent of the companies are dissatisfied with their budgeting and planning process and they thought traditional budgeting might have had its day. Team of Cranfield School of management made criticisms on traditional budgeting that traditional budgeting has lost its value and it is not suitable for modern business organizations.

According to fanning, (2000) traditional budget has some disadvantages of being inefficient in cost of budgeting and reducing its effectiveness. These criticisms can be reduced by information technology through heavy investment. Most of the companies rely on spreadsheet applications, which is the cheapest and elastic tool. Recently, the emergence of new web-based tools has reduced the cost of budgeting as compared to traditional applications (fanning, 2000).

Bourne *et al*, (2000) argue that most of the companies were used to term budgeting but now they are moving to different techniques. Companies like Electrolux and credit Lyonnais had moved to rolling forecast. Rolling forecasts are produced on monthly or quarterly basis. Companies like Svenska handelsbanken works without

budgets and companies like Bp and Volvo are good examples of companies that mainly focus on future rather than explaining past performance.

According to Hope and Fraser (1999a: 17), a number of companies like Handelsbanken, Volvo, IKEA and Ericsson have abandoned traditional budgeting. The main criticism on traditional budgeting is that it is inefficient and incomprehensible (Arterian 1998). Annual budget encourages stiff planning and incremental thinking according to hope and Fraser (1999). That's why hope and Fraser claim that dismantle the budgets and adopt a system focusing on strategic performance, value-adding processes and knowledge management.

Marginson and Ogden (2005) investigated on company called Astoria. The company belongs to a global technology industry and try to maintain its position through continuous improvement. Company runs in a globally competitive environment where cost control is crucial for survival. They found some evidence that managers of their case study were frightened from engaging in innovating activities because they were used to budgets. So, it means that budgets may deter innovation but it seems far from reality.

Concerns regarding a number of limitations and weakness that have been linked to traditional budgeting processes are becoming increasingly widespread, with the primary “fear” being that they could potentially hinder and damage an organization’s performance (Bunce and Fraser, 1997). These concerns fall into two main categories that the process is inefficient and ineffective.

Eventually, the final conclusion is that traditional budgeting is not yet ready to put them aside. However, it had its halcyon days and now it has lost some of its worth,

still it is very popular and essential. If it fits properly and works, it can give considerable advantages to the modern organizations with the help of rolling forecast.

### **2.3.2 Contemporary role of budgets**

Modern companies are the companies who operate in a dynamic environment and use all modern techniques to survive in this competitive environment. These companies are getting more precise, speedy and economic forecasting by using explicit forecasting process. These models are based on clear assumptions. If and when situations vary, the assumption can be changed accordingly and new forecast will be produced. Bourne et al (2000) argue that modern companies are investing in IT software to cut the cost of budgets. Modern companies forecast accurately and describe the variance before it occurs. They also argue that modern companies understand that better financial performance comes from day-to-day planning and managing, not from better financial management (Bourne *et al*, 2000).

Rolling forecasts, produced on monthly or quarterly basis are the main substitute to the annual budgets (Arterian, 1998). This alternative is not a new thought. Many organizations use rolling forecast alongside with annual budgets. The key benefit of the rolling forecast is that it is elastic; it doesn't have the same inflexible image as an annual budget. The only disadvantage of the rolling forecast is that it may create the feeling of uncertainty among managers due to being changed frequently. This thing may also create difficulty to fairly distribute the promotion opportunities and bonus remuneration of managers. Ekholm and Wallin, (2000) argue that budgets have internal effectiveness and share information with interested parties like shareholders.

According to Fanning (2000), Contemporary budgeting is best for companies who operate in a fast changing environment, have fast-growing product range and markets, companies where intangible assets are essential like branded businesses.

#### **2.4 Budgeting process among non-governmental organizations.**

#### **2.5 Recommended budget implementation practices.**

Budget implementation is an activity that takes place throughout the accounting period. This is a very critical activity as it cuts through all the various departments of an organization. Budget implementation deals with the transformation of numbers in the books into actual delivery of outputs and results. While a budget may be a good indicator of an organization's intention, actual implementation reveals how best an organization can manage its resources. The following are the main key recommended budget implementation practices.

##### **2.5.1 Budget realism/ credibility**

The budget is the instrument which, for each financial year, forecasts and authorizes all revenue and expenditure considered necessary by an organization/ authority or even a nation. Many organizations knowingly underestimate revenues as opposed to knowingly overestimate them for fiscal conservatism but also as a means of undertaking discretionary expenditure during the year. The first step in preparing a realistic budget and to identify measures to contain permanent commitments such as entitlements, wages. Besides this, the budget implementation system should have a complete budgetary/appropriation accounting system needed to track transactions at each stage of the expenditure cycle (commitment, verification, payment) and

movements between appropriations or budget items. The budgeting system should also have effective controls at each stage of the expenditure cycle, whatever their organization. Shand (2010) argues that a budget that lacks credibility will have aggregate expenditure out-turn compared to original approved budget or composition of expenditure out-turn compared to original approved budget.

### **2.5.2 Predictability and timeliness in release of funds**

To allow for orderly planning and implementation by spending organization, it is important for funds to be released in a timely manner. Even if a budget is realistic in the sense of having well-prepared and objective aggregate revenue and expenditure estimates, this does not mean that budget execution will be smooth. Timing problems between payments coming due unavailability of the cash can be a hindrance to a smooth budget implementation process. As an integral element of expenditure management, organizations need to develop cash planning and management to keep within budgeted expenditure in cash terms; to prevent unanticipated borrowing that might disrupt an organizations activity. Shand (2010) notes that the ability to adjust spending, both in the timing as well as the amount, is of strategic importance in any budget system.

### **2.5.3 Cash Management**

The objective of cash management is to assure funds availability, minimize borrowing costs and avoid idle cash. Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. The goal is to manage the cash balances of an enterprise in such a way as to maximize the availability of cash not

invested in fixed assets or inventories and to do so in such a way as to avoid the risk of insolvency. Cash management and planning has three main objectives namely to ensure that expenditures are smoothly financed during the year, so as to minimize borrowing costs, enable the initial budget targets, and to contribute to the smooth implementation of an organizations activities. An integral part in cash management is the cash flow forecast. A cash flow forecast is a plan that presents, normally on a monthly basis an organization's cash receipts and payments, the cash balance (surplus/deficit) as well as the opening and closing bank balance. The Cash-Flow forecast provides information to NGO management as well as important stakeholders about sources and use of cash and the future cash situation. It shows when cash levels might become critical and allows initiating at an early stage actions to bring cash in- and outflows in balance. The forecast should be updated regularly to reflect the latest expectations about cash receipts and payments.

#### **2.5.4 Level and type of expenditure control**

The financial situation of an organization should be reviewed at least on a monthly basis, with the focus on the budget, receipts of income and expenditure. The Executive Director/financial officer is responsible for ensuring that expenditure controls are in place and adhered to and, more specifically, that expenditures remain within the budget, expenditures are only for the purposes set out in the budget, and financial documentation, including quotations, invoices and receipts are collected and filed in an orderly manner. It is therefore imperative to have internal financial control mechanisms and policies in place. According to Theunis (2010), internal accounting control comprises a series of procedures designed to promote and protect sound management practices, both general and financial. By following internal accounting control procedures, an organization will significantly increase the likelihood that

financial information is reliable, so that managers and the Board can depend on accurate information to make decisions, assets and records of the organization are not stolen, misused or accidentally destroyed, the organization's policies are followed, and government regulations are complied with.

#### **2.5.5 Budgeting / accounting integration**

Budget and accounting offices should be "reading from the same page". Monitoring of budget implementation should be the responsibility of the budget office while the accounting systems should provide timely and reliable reports on budget execution. Given the importance of demonstrating compliance with the approved budget, the financial reporting system must control the use of financial resources and ensure that budgetary appropriations and allocations are not exceeded. To demonstrate compliance, accounting systems are usually operated on the same basis of accounting used to prepare the approved budget. Thus, the actual financial information captured by the accounting system is in a form comparable to the approved budget. Through budgetary integration, the financial accounting system becomes the primary tool to prove financial accountability. Generally, budgeting is regarded more in terms of planning and enacting a fiscal plan. However, these planning and enactment processes are dependent upon the accounting of expenditures, revenues, transfers and adjustments.

#### **2.5.6 In year budget modification**

Budget modification need to be allowed for circumstances change. Budget Modifications are used to revise the original budget established at the beginning of the fiscal year. It is necessary to process a budget modification when adjusting income or expenditures in a "budgeted" account or when transferring funds to or from a "budgeted" account. All modifications must be transparent and appropriately

approved. But too much revision suggests poor budget planning. During budget implementation, it may become necessary to modify an NGO budget or reallocate expenditures. These changes occur because of unanticipated expenditures, reprioritization of alternatives, funding emergencies or unanticipated changes in realized revenues. A budget modification may be warranted when an adjustment to the approved budget is needed to ensure a successful outcome for the program.

## **2.6 Empirical Review**

This review of existing literature attempts to examine the published material available in the public domain on the issue of budgeting and its role in performance management of organizations, departments and employees. Budgeting emerged as an important management accounting and management control tool in the early years of the 20th century and forms a staple item of all text books on financial management and management accounting. The budgeting process came under severe criticism in the 1980s. The following years have seen the emergence of newer budgeting techniques like flexible budgeting, rolling budgets, the balanced score card approach, and beyond budgeting techniques. Budgeting systems are universal and have been considered an essential tool for financial According to Abernethy and Brownell (1999) these systems are meant to organize and encourage the performance of organizations.

Weinsenfled and Tyson (1990) did a study of 68 US managers in two companies. He found out that if accounting information and communication process functioned appropriately, then budgeting and variance analysis can be a positive tool. A total of 90 percent of the respondents agreed that variances were a good way to measure their

performance. They all agreed that variance reports influenced them positively to improve their performance and increase their bonuses.

Murrison (2001) carried out a study of budgeting practices among the British non-governmental organizations in Kenya. His focus was on budgeting practices in British non-governmental organizations in Kenya and the extent to which budgets are used for management control. Data was collected from thirty relief projects in Kenya. The study showed that 100% of the relief projects over estimated their income budgets.

Peter (2001) carried out a research on budgetary controls in non-governmental organizations in Kenya. The objective of the research was to study how accurately budget anticipates the level and direction of actual results and what factors influence budget accuracy. The population of the study was all relief and development projects spread all over Kenya and data was collected using primary and secondary data. The conclusion of the study was that budget control practices in NGOs vary significantly between relief projects and development projects.

Blansfield (2002) carried out a study on whether US companies have a fully integrated planning process that combine long term and operational planning, performance measures and reporting. Out of the 250 respondents, the study found out that only 14% of the companies had a fully integrated planning processes that combine long term and operational planning, performance measures and reporting.

Nderitu (2007) did a case study at Telkom Kenya, a public institution on the effectiveness of cash budgeting. His focus was on cash management budgeting process as an important tool of planning and controlling. A sample of twenty staff directly involved with cash budget preparation and implementation was interviewed.

He sought information on cash budgetary process of the organization, and how the cash budget had been utilized as an effective management tool in the company. The study showed that there were various loopholes which if not acted upon may lead to high cash lose for the firm.

Muthinji (2009) conducted a study on the challenges of budget implementation at the commission for higher education. The objective of the study was to identify the challenges of budget implementation and its effect at the commission. Data was collected from all departments and descriptive statistics was used to summarize the data. The conclusion was that a budget was important for communication and there was an increasing trend towards decentralization.

## **2.7 Conclusion**

The process of budgetary preparation and control is a challenge to many organizations and this may have an effect on attracting donor funding. A budget is a management tool used by organization to improve performance, communicate the priorities of an organization, a source of information for decision making, a means of staff motivation, and a means of evaluation and control.

This study concludes that, it's universally agreed that the process of budgetary preparation and control has many benefits to the organization, donors and beneficiaries. Organizations which are able to effectively utilize their budgets are favored by donors and thus effective and efficient budget utilization of great importance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the methodology used in gathering data, analyzing data and reporting results. The research methodology refers to the research design to be used, population, Sample, data collection as well as data analysis. The research design adopted addresses the purpose of the research which is an evaluation of budget implementation in non-governmental organizations, data will be collected through a questionnaire from the all managers and accountants working at World Vision Kenya. In this chapter, the researcher specifies the research design, data collection methods and data analysis.

#### **3.2 Research design**

According to Cooper and Emory (1995), a research design is a framework specifying the relationship among the study's variables and it starts with a plan for selecting the sources and types of information used to answer the research question. The research was conducted through a survey. Survey research is a method of collecting information by asking questions. Sometimes interviews are done face-to-face with people at home, in school, or at work. Other times questions are sent in the mail for people to answer and mail back. Increasingly, surveys are conducted by telephone. The main focus of this study will be quantitative.

#### **3.3 Data and Data Collection Instruments**

The study used both primary and secondary data. Questionnaires were structured as the main data collection instrument. Self-administered drop and pick questionnaires

were distributed among the target organizations. This enabled the researcher to get adequate and accurate information from people with experience. Primary data was collected using questionnaires and face to face interview whereas secondary data sources were employed through the use of the previous budgets, financial records and budget policies to supplement the data received from primary sources.

### **3.4 Sample**

The sample size is an important feature of any empirical study in which the goal is to make inferences about a population from a sample. In practice, the sample size used in a study is determined based on the expense of data collection, and the need to have sufficient statistical power. The population comprised of all 195 international NGOs operating in Kenya. The sample size was 24 NGOs based on a 95% confidence level and 25 confidence interval.

### **3.5 Data Analysis**

Before processing the responses, the completed questionnaires were edited for accuracy, completeness and consistency. The data was coded to enable the researcher group it in various categories. Data in this study was both qualitative and quantitative. A content analysis and descriptive analysis was used. Content analysis was used to analyze the respondents' views about the effect of budget implementation on donor's funding whereas descriptive analysis was used mainly to summarize the data collected.

The statistical package for social sciences (SPSS) was used to analyze the data. The descriptive statistics included; mean value, standard deviation, simple percentages and frequency counts. Descriptive statistics tools were used to show the effect of the budget implementation on donor's funding. Appropriate tables and other graphical

presentations were used to present the data collected for ease of understanding and analysis. Regression analysis was used to test the effect of budget implementation on donor's funding.

$$Y = \alpha + \beta X + \epsilon_t$$

Where

Y = Donor funding

$\alpha$  = Regression coefficient / Intercept

$\beta$  = Regression coefficient / Slope

$\epsilon_t$  = Error Term

X = Budget utilization

The study also used secondary data (financial records) to find out the difference between budgeted figure and the actual accomplishment for the last four financial years. The key type of measure is the donor's funding which was determined by the amount of funding.

### **3.6 Data validity and Reliability**

Allen & Yen (1979) defined reliability as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials. Validity is defined as the extent to which the instrument measures what it purports to measure (Allen & Yen, 1979). Validity indicates the degree to which the instrument measures the constructs under investigation

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

This chapter covers data presentation and analysis. The study objective was to evaluate the effects of budget implementation on donor funding in non-governmental organizations. The reliability and viability of the data collected for the study was ascertained through ascertaining the reliability of the questionnaires used in data collection by both a pilot study and Cronbach alpha internal consistency measure used to test the internal reliability of the measurement instrument.

#### 4.2 Descriptive statistics

##### 4.2.1 Response Rate

A sample of 24 NGOs was targeted, randomly selected. To this end, a total of 24 NGOs were expected to participate in the study. A 100.0% response rate was therefore attained, with only 10 respondents managing to respond. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. It therefore goes that the study registered an excellent response rate. This is reflected in the table below.

**Table 4.1 Réponse Rate**

Questionnaires	Frequency	Percent (%)
Returned	24	80.0

Unreturned	6	20.0
<b>Distributed</b>	<b>30</b>	<b>100.0</b>

**Source: Researcher, 2013**

#### **4.2.2 General information**

##### **4.2.2.1 Frequency at which budgets get prepared**

The study sought to find out the frequency at which the various NGOs prepared their budgets. Results are as presented in arithmetic means and standard deviation in table 4.2 below.

**Table 4.2 Frequency at which budgets get prepared**

<b>Frequency</b>	<b>Mean</b>	<b>Standard deviation</b>
Monthly	2.118	.568
Quarterly	1.764	.572
Biannual	-	-
Annual	4.589	.438

**Average mean: 2.833**

**Source: Researcher, 2013**

From the data presented in table 4.2, it was established that a majority of the NGOs prepared their budgets on an annual basis, as indicated by the highest mean registered ( $X = 4.589$ ,  $S.D = .438$ ). Less NGOs surveyed were found to prepare their budgets either on a monthly or a quarterly basis, ( $X = 2.118$ ,  $S.D = .568$ ) and ( $X = 1.764$ ,  $S.D = .572$ ) respectively. A notable finding was that no NGO prepared its budget on a

biannual basis. This finding provides a clear overview of how often various NGOs prepare their budgets, most of which can thus be deduced as annual.

#### **4.2.2.2 Time dimension organizations' budget cover**

The study also sought to find out the time dimension for which the different NGO budgets covered. Results are as presented in arithmetic means and standard deviations in table 4.3 below.

**Table 4.3 Time dimension organizations' budget cover**

<b>Time dimension</b>	<b>Mean</b>	<b>Standard deviation</b>
Monthly	.273	.524
Quarterly	.545	.494
Biannual	.273	.501
Annual	5.454	.523

**Average mean: 3.667**

**Source: Researcher, 2013**

From findings presented in table 4.3, it was established that a majority of the budgets prepared by various NGOs had an annual time coverage as indicated by the highest mean registered ( $X = 5.454$ ,  $S.D = .523$ ). Less NGOs surveyed were found to have their budgets cover shorter time dimensions, including monthly ( $X = .273$ ,  $S.D = .524$ ), quarterly ( $X = .545$ ,  $S.D = .494$ ) and biannual ( $X = .273$ ,  $S.D = .501$ ). This finding provides a clear overview of the time dimension NGOs' budgets cover, most of which can thus be deduced to be annual.

#### **4.2.2.3 Frequency at which budgets get revised**

The study further sought to find out the frequency at which different NGO budgets get revised. Results are as presented in arithmetic means and standard deviations in table 4.4 below.

**Table 4.4 Frequency at which budgets get revised**

<b>Frequency</b>	<b>Mean</b>	<b>Standard deviation</b>
Monthly	.421	.623
Quarterly	6.736	.577
Biannual	1.463	.497
Annual	1.263	.512

**Average mean: 2.375**

**Source: Researcher, 2013**

As can be seen from table 4.4 above, most NGOs revise their budgets quarterly as reflected in the mean ( $X = 6.736$ ,  $S.D = .577$ ). Less NGOs surveyed were found to revise their budget biannually ( $X = 1.463$ ,  $S.D = .497$ ), annually ( $X = 1.263$ ,  $S.D = .512$ ) and much less monthly ( $X .421$ ,  $S.D = .623$ ). This finding also provides a clear overview of how often various NGOs revise their budgets, most of which can thus be deduced to be on a quarterly basis.

#### **4.2.2.4 Organizations' budget type**

The study also deemed it important to establish the various budget types inherent in different NGOs. Results are as presented in arithmetic means and standard deviations in table 4.5 below

**Table 4.5 Organizations' budget type**

<b>Budget type</b>	<b>Mean</b>	<b>Standard deviation</b>
Fixed budget	-	-
Variable budget	.185	.389
Both fixed and variable budget	.340	.543
Zero based Budget	.738	.446
Incremental Budget	.923	.459
Master Budget	.554	.476
Activity based Budget	1.661	.402

**Average mean: 5.417**

**Source: Researcher, 2013**

As can be seen from the presentation in table 4.5 above, it is notable that no NGO has fixed budget type. Majority however employ the activity-based budget as indicated by most respondents ( $X = 1.661$ ,  $S.D = .402$ ). This is distantly followed by those employing the incremental budget ( $X = .923$ ,  $S.D = .459$ ). A much less number of NGOs use the master budget ( $X = .554$ ,  $S.D = .476$ ), Zero based Budget ( $X = .738$ ,  $S.D = .446$ ), both fixed and variable budget ( $X = .340$ ,  $S.D = .543$ ) as well as the Variable budget ( $X = .185$ ,  $S.D = .389$ ). The most common budget type employed by most NGOs can thus be said to be the Activity based budget whereas the least is the fixed budget.

#### 4.2.2.5 Whether budgeting process takes appropriate time duration

Respondents were also asked to indicate whether in their experiences the budgeting process takes appropriate time duration. Results are as presented in arithmetic means and standard deviations in table 4.6 below

**Table 4.6 Whether budgeting process takes appropriate time duration**

<b>Frequency</b>	<b>Mean</b>	<b>Standard deviation</b>
Yes	15.728	.432
No	4.140	.465

**Average mean: 1.208**

**Source: Researcher, 2013**

As can be seen from table 4.6 above, it was established from the study that most respondents are of the opinion that the budgeting process takes appropriate time duration ( $X = 15.728$ ,  $S.D = .432$ ).

#### 4.2.2.6 Reasons for budgeting in your organization

Further, the study sought to find out reasons for budgeting among the respondent NGOs. To this end, respondents were required to indicate their levels of agreement with various statements posed by the researcher in respect to possible reasons, as guided by the key: 1 = strongly disagree, 2 = moderately disagree, 3 = neither agree nor disagree, 4 = moderately agree and 5 = strongly agree. Results generated means and standard deviations tabled in table 4.7 above.

**Table 4.7 Reasons for budgeting in your organization**

<b>Reason</b>	<b>Mean</b>	<b>Standard deviation</b>
To evaluate performance	3.875	.534
Tool to forecasting and planning (short term and long term)	4.542	.612
Judge and control performance	4.292	.478
Co-ordination of the operations	4.083	.522
Way to calculate rewards	3.375	.508
Communication	4.042	.498
Decision making	4.50	.570
Motivation device for managers	3.292	.465

**Source: Researcher, 2013**

As can be seen from table 4.7 above, it was established that most respondents recorded moderate to strong levels of agreement with the statements posed as indicated by the high means. The strongest mean was recorded for the statement ‘Tool to forecasting and planning (short term and long term)’ ( $X = 4.542$ ,  $S.D = .612$ ), the reason for which most NGOs budget in their organizations. A few respondents could neither agree nor disagree with the statements ‘way to calculate rewards’ ( $X = 3.375$ ,  $S.D = .508$ ) and ‘motivation device for managers’ ( $X = 3.292$ ,  $S.D = .465$ ). These can be said to be the unlikely reasons behind budgeting for most NGOs.

#### **4.2.2.7 Personnel involvement in the planning and implementation of the budget**

The study further sought to find out the involvement of various personnel in the budget implementation process. Respondents were thus asked to indicate the extent

to which these personnel were involved on a 4-point likert scale, where: 1 = Not at all, 2 = Less active, 3 = Active, 4= Moderately active and 5= Very active. Table 4.8 below presents the findings.

**Table 4.8 Personnel involvement in the planning and implementation of the budget**

<b>Personnel</b>	<b>Mean</b>	<b>Standard deviation</b>
Directors	3.833	.512
Departmental/ sectional heads	4.208	.617
Supervisors	3.833	.545
Other employees	3.083	.473

**Source: Researcher, 2013**

It was established that most of the personnel provided were actively less actively, other employees ( $X = 3.083$ ,  $S.D = .4730$ ), to moderately, directors ( $X = 3.833$ ,  $S.D = .512$ ); Supervisors ( $X = 3.833$ ,  $S.D = .545$ ) and actively involved, departmental/ sectional heads ( $X = 4.208$ ,  $S.D = .617$ ). It therefore goes that most personnel across the ranks get involved to some extent in the budgeting process.

#### **4.2.3 Budget Implementation**

Most respondents affirmed to the question seeking to find out whether budget implementation in various organizations had an effect on the level donor's funding.

Table 4.9 below shows the results.

**Table 4.9 Budget Implementation**

<b>Frequency</b>	<b>Mean</b>	<b>Standard deviation</b>
Yes	19.056	.573
No	0.829	.498

**Average mean: 1.207**

**Source: Researcher, 2013**

Further, respondents were asked to indicate the impact or effects on spending levels on funding levels in an organization. It was established that over expenditure means ineffective budget monitoring hence low ranking for donor funding. Under expenditure means lack of full implementation hence low ranking; Good budget implementation encourages funding; Good budget implementation sends good signals to donors; Good budget utilization equals good stewardness; Low donor funding limits the organizations spending; Low spending hence funding level is reduced; Excessive donor monitoring; Accountable implementation attracts funding; Proper spending attracts funding; Few support overspending; Good usage motivates donors; Donor confidence hence more funding; when we implement well donors give more money; well prepared budgets attract funding; donors are happy to fund or extend funds for projects that utilize their budgets well and on time

#### **4.2.3 .1 Key issues of budget implementation faced by organization**

Respondents were further asked to indicate on a five point likert scale their levels of agreement with statements posed in respect to key issues of budget implementation faced by organization.

**Table 4.10 Key issues of budget implementation faced by organization**

<b>Key issue</b>	<b>Mean</b>	<b>Standard deviation</b>
Adequate approvals are required before any expenditure can be incurred	1.375	.533
Basis of accounting follows the budget (cash, accrual etc)	1.50	.608
There is operational efficiency and minimization of waste	2.167	.450
The budgets are determined through a robust and open dialogue with the relevant budget implementation team	2.0	.533
Managers know the expected results of their projects	1.542	.483
Managers have reliable financial and other information to enable them to manage their projects	1.625	.592
There is adequate control and monitoring of expenditure	1.875	.483
Funds are released in time for purposes of implementing activities	2.042	.575
There is adequate external audits on budget implementation	2.292	.442

**Source: Researcher, 2013**

Results indicate generally high levels of agreement with most statements. Of particular interest due to the exceptional agreement levels, it can be deduced that for most NGOs, adequate approvals are required before any expenditure can be incurred ( $X = 1.375$ ,  $S.D = .533$ ); basis of accounting follows the budget (cash, accrual etc) ( $X = 1.50$ ,  $S.D = .608$ ) and that managers know the expected results of their projects ( $X = 1.542$ ,  $S.D = .483$ ).

#### 4.2.3.2 Whether organization experienced a budget deficit or surplus

Respondents were required to indicate whether their organization experienced a budget deficit or surplus (over or under expenditure).

**Table 4.11 Whether organization experienced a budget deficit or surplus**

Financial Year	Mean	Standard deviation
2008	1.952	.340
2009	1.857	.738
2010	1.905	.923
2011	1.905	.554
2012	1.952	.653

**Source: Researcher, 2013**

It was established as seen in table 4.11 that for the five year period (2008 -2012), most organizations, surpluses were realized as indicated in the means and standard deviations in table 4.11 above.

#### 4.2.3.3 Bench marks for investigating budget variance

All organizations affirmed to the question as to whether there were bench marks for investigating budget variance.

**Table 4.12 Bench marks for investigating budget variance**

Base of the benchmark	Mean	Standard
-----------------------	------	----------

		<b>deviation</b>
Monetary value	1.131	.552
A percentage	4.525	.457
A repeat of an adverse variance	-	.605
A combination of above	3.394	.563

**Average mean: 2.652**

It was established that most benchmarks were on basis of percentages as per the means ( $X = 4.525$ ,  $S.D = .457$ ). No NGO practices a repeat of an adverse variance.

#### **4.2.3.4 Bench marks for investigating budget variance**

Respondents were asked to indicate their organization's budgeted and actual expenditure in amount. Results are presented in table 4.13 below.

Financial Year	Budgeted amount USD \$	Actual USD \$	Budget variance USD \$	Budget Variance as a %
2012	23,232,198.08	21,700,306.64	1,531,891.44	6%
2011	20,946,145.25	19,878,271.08	1,067,874.17	5%
2010	19,512,508.46	1,222,930.18	18,289,578.28	7%
2009	16,955,172.88	1,208,110.67	15,747,062.20	7%
2008	15,417,789.67	1,354,130.45	14,063,659.21	9%

These findings reflect the amounts invested in various NGOs as budgeted for. The highest amount budgeted for was recorded in 2012 across the companies with an average of USD \$ 23,232,198.08.

#### 4.2.3.5 Importance of budget implementation

1=81-100%, 2=61-80%, 3=41-60%, 4=21-40%, 5=0-20%

	<b>Mean</b>	<b>Standard deviation</b>
Budget guidelines issued prior to preparation of budgets are clear to the participants	1.38	.575
Planning is important to the success of budget implementation	1.33	.509
There is proper communication during the process of budget preparation	1.67	.467
Leadership provided to the subordinate by managers during budget execution is effective	1.58	.492
Coordination among the various projects during execution of budget is achieved	1.88	.542
The management is able to overcome the challenges of budget implementation	1.88	.625

Source: Researcher, 2013

Responding to various statements asked, respondents rated the importance of various aspects of budget implementation. It was established that most respondents are to a great extent (61 – 80%) of the view that budget guidelines issued prior to preparation of budgets are clear to the participants ( $X = 1.38$ ,  $S.D = .575$ ) and that planning is important to the success of budget implementation ( $X = 1.33$ ,  $S.D = .509$ ). High levels of agreement were recorded to views that ‘there is proper communication during the process of budget preparation’ ( $X = 1.67$ ,  $S.D = .467$ ); leadership provided to the subordinate by managers during budget execution is effective ( $X = 1.58$ ,  $S.D = .492$ ); coordination among the various projects during execution of budget is achieved ( $X = 1.88$ ,  $S.D = .542$ ) and that the management is able to overcome the challenges of budget implementation ( $X = 1.88$ ,  $S.D = .625$ ).

#### **16. Improvement respondents wish to see in their organization in budgeting**

Possible improvement respondents indicated included that: Budget variances should be handled urgently; Proper planning guidelines coordination and management; Involvement of implementers; Accurate budgets require more time; Staff involvement in budgetary process; Observing S.M.A.R.T; Budget preparation to be implemented; need to be familiar or have some good knowledge on context of activities implementation in order to take care of costs in a more realistic manner.

## **4.2 Inferential analysis**

### **4.2.1 Descriptive Statistics of variables under Study**

TABLE 5: Descriptive Statistics of the Variables in this Study (n=144)

Variables	Mean	S.D.	Theoretical range	Actual range	Cronbach $\alpha$
Budget participation	26.090	7.669	6-42	6-42	0.737
Task uncertainty	48.818	8.551	14-98	26-59	0.6234
Task difficulty	22.325	5.415	7-49	7-36	0.6431
Task variability	26.050	5.414	7-49	13-43	0.6485
Organizational affective commitment	50.773	7.043	9-63	18-63	0.771
Propensity to create organization performance	13.125	5.236	4-28	4-25	0.605

**TABLE 6: Correlation Matrix among Dependent and Independent Variables**

Variables	$X_1$	$X_{21}$	$X_{22}$	$X_{23}$	$X_{24}$	Y
Budget participation $X_1$	1					
Task uncertainty $X_{21}$	0.093	1				
Task difficulty $X_{22}$	-0.101	0.704*	1			
Task variability $X_{23}$	0.248*	0.776*	0.205	1		
Organizational Affective Commitment $X_{24}$	0.259*	-0.155	-0.324*	0.088	1	

Propensity to create organization performance

Y

-0.009      0.061      0.159      -0.043      -0.095      1

---

\*: p < 0.01, n=144

**TABLE 7: Results of Fitting Equation (4) to Organization performance**

Variables	Coefficients	Estimates	S. E.	t-statistics	p-value
(i = 1, task uncertainty)					
Constant	b <sub>0</sub>	-0.2847	0.4658	-0.6112	0.5421
Budget participation (X <sub>1</sub> )	b <sub>1</sub>	-0.0021	0.0634	-0.0327	0.9740
Task uncertainty (X <sub>21</sub> )	b <sub>2</sub>	0.0836	0.0555	1.5052	0.1345
X <sub>1</sub> × X <sub>21</sub>	b <sub>3</sub>	-0.0198*	0.0074	-2.6814	0.0082
R <sup>2</sup> = 0.0526					
F <sub>3,140</sub> = 2.5890					
p = 0.0550					
(i = 2, task difficulty)					
Constant	b <sub>0</sub>	-0.5700	0.4687	-1.2154	0.2263
Budget participation (X <sub>1</sub> )	b <sub>1</sub>	0.0302	0.0665	0.4540	0.6505

Task difficulty ( $X_{22}$ )	$b_2$	0.2192	0.0899	2.4393	0.0160
$X_1 \times X_{22}$	$b_3$	-0.0346*	0.0155	-2.2378	0.0268
$R^2 = 0.0575$					
$F_{3,140} = 2.8466$					
$P = 0.0399$					

( $i = 3$ , task variability)

Constant	$b_0$	-0.1848	0.4800	-0.3849	0.7009
Budget participation ( $X_1$ )	$b_1$	-0.0335	0.0665	-0.5042	0.6149
Task variability ( $X_{23}$ )	$b_2$	-0.0083	0.0902	-0.0920	0.9268
$X_1 \times X_{23}$	$b_3$	-0.0227	0.0120	-1.8928	0.0604
$R^2 = 0.0317$					
$F_{3,140} = 1.5270$					
$p = 0.2100$					

( $i = 4$ , organizational affective commitment)

Constant	$b_0$	-0.1963	0.4921	-0.3990	0.6910
Budget participation ( $X_1$ )	$b_1$	0.0247	0.0680	0.3640	0.7161
Organizational affective commitment ( $X_{24}$ )	$b_2$	-0.1280	0.0690	-1.8480	0.0670
$X_1 \times X_{24}$	$b_3$	-0.0208*	0.0090	-2.3310	0.0210
$R^2 = 0.0546$					
$F_{3,140} = 2.6970$					
$p = 0.0480$					

\*:  $p < 0.05$

**TABLE 8: Locations of Inflection Point for the Moderating Variables** of Task Uncertainty, Task Difficulty, and Organizational Affective Commitment

Moderating variable	$b_1$	$b_3$	$-b_1/b_3$	Sample Mean	Inflection Point (sample mean $- b_1/b_3$ )	Sample Range
Task uncertainty $X_{21}$	-0.0021	-0.0198	-0.106	48.818	48.712	26 - 59
Task difficulty $X_{22}$	0.0302	-0.0346	0.873	22.325	23.198	7 - 36
Organizational affective commitment $X_{24}$	0.0247	-0.0208	1.188	50.773	51.961	18 - 63

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

From the analysis and data collected the foregoing discussions, conclusions and recommendations were made. The response was based on the objectives of the study.

#### 5.2 Summary

The objective of the study was to investigate and establish the relationship between Budgeting and Performance of NGO. The study found out that there is a positive significant relationship between budgetary participation and organization performance.

The researcher established that the results of this study support the contingent effect of task uncertainty, task difficulty and organizational affective commitment on the relationship between budget participation and organisation performance. More specifically, based on this study, the following can be drawn:

Greater budget participation reduces the subordinate propensity to create organisation performance only in situations of high task uncertainty, but not in situations of low task uncertainty. The contingent effect between task uncertainty and budget participation in reducing organisation performance can attribute to the effect of task difficulty, instead of task variability. In another word, in the condition of high task difficulty, higher degree of budget participation can contribute to reducing organisation performance. However, the impact of budget participation on organisation performance is invariant whatever the degree of task variability may be. For individuals with strong organizational affective commitment, the relation between

participation and slack is negative, while, for individuals with low organizational affective commitment, the relation is positive.

Although much of the earlier work in this area has tended to view the relation between budget participation and organisation performance in a universalistic sense, e.g., Onsi (1973), Merchant (1985) and Prendergast (1997), our results do not support this view. To reduce slack creation, the result of this study shows that high participation is needed only under high task uncertainty (or high task difficulty) conditions, or for individuals with strong organizational affective commitment.

### **5.3 Conclusions**

The results suggest some implications. First, the design of Budgeting system ought to match variations of task characteristics. To mitigate the slack creation in the budgetary process, giving subordinates the high degree of budget participation would be effective in the situation of high task uncertainty or high task difficulty, but ineffective in the situation of low task uncertainty or low task difficulty. Hence minimum organisation performance can be achieved by varying budget participation to meet the degree of task uncertainty or task difficulty.

Second, senior management might adjust departmental budgets before finalizing the budget in Budgeting system. The results of this study show that the increase in both organizational affective commitment and budget participation of subordinate managers may reduce some agency problems existing in the budgeting process, organisation performance. In the situation of high budget participation, subordinate

with strong organizational affective commitment may reveal their private information about budget conditions, and may have no intention to create slack in their budget.

The primary findings of this study are that while there are strong associations between budget participation and performance among all of our NGO managers, the causal mechanisms connecting budget participation with performance are slightly different for our two samples. Similar to the finding of Leach-López et al. (2007) (LSM), the overall information-communication connection between budget participation and performance appears to be more important for the Participatory results, Standardized (PART) coefficient.

While our findings corroborate the findings of LSM that the information-communication aspect of budget participation may become more important as the level of difficulty that managers face when communicating with their seniors results, becomes larger, our findings also substantiate the subtle differences that may exist in each location.

Although LSM did not find that job satisfaction played a significant role in the connection between budget participation and performance among their Standardized (PART) coefficient results in NGO, our results indicate that job satisfaction plays a significant role in the connection between budget participation and performance among our Participatory results, Standardized (PART) coefficient results in NGO.

#### **5.4 Policy Recommendation**

In the context of high budget participation, the superiors may adjust the subordinate's budgets to avoid the slack creation by subordinate with weak organizational affective commitment. As Hopwood (1974, p. 63) noted "senior management write-downs of departmental budgets depend on estimates of the aspiration elements in each case." Therefore, the higher adjustment may be made to the budgets of managers who have weak organizational affective commitment in highly participatory process.

Budget participation is related to the design of budgeting system, but organizational affective commitment of employees is affected by firm's personnel management policies. The company that considers organisation performance dysfunctional may use policies that increase the commitment of its managers to the company's goals and values. To increase organizational affective commitment, Mowday, Porter and Steers (1982) recommend firms to: (1) select employees with a propensity to be linked to the organizational values and goals, (2) integrate employees into the organization's social network, and (3) show sincere concern for their employees.

#### **5.5 Limitation of the study**

Our study suffers from three common limitations found in all cross-sectional survey research: (1) the lack of temporal precedence between the independent and dependent variables; (2) any limitations imbedded in the scales used to measure our variables; and, (3) the generalizability of our samples. While the lack of temporal precedence between budget participation, job relevant information, job satisfaction, and performance precludes formal tests of causality, and while we cannot say that better performers are not provided more job relevant information and allowed greater

participation, the primary implications of our findings are largely unaffected by the direction of these relationships.

We also acknowledge the potential limitation of using self-reported measures of budget participation and performance. Locke et al. (1997) define these single-source measures as the percept-percept method. While the findings of both Greenberg et al. (1994) and Locke et al. (1997) suggest that the single source method may produce higher correlations than multi-source methods, both Locke et al. and Greenberg et al. find that the positive correlations persist in the multi-source studies. Self-reported levels of participation may be more relevant than external measures of participation because it should be the subject's perception of budget participation that influences behavior. While external measures of performance have some documented benefits, self-reported measures of performance remain a common practice in the literature (e.g., Nouri and Parker 1998; Shields et al. 2000; Leach-López et al. 2007).

For example, the researchers can't control over the non-response bias. In addition, the results should be interpreted in the common limitations of cross-sectional research. Second, the generality of the results to the other countries should be carefully done due to cultural difference. Finally, given the complexity of this topic, problems of omitted variables potentially exist.

Despite the mentioned-above limitation, this study has provided the evidence that the contingent effects of task uncertainty and organizational affective commitment on the organisation performance in Budgeting system.

## **5.6 Suggestion for further study**

Even with the enumerated limitations, the findings of this study should have important implications for results employing management techniques in their operations. The findings of this study also suggest several avenues for future research. While the information provided by this study has implications for other national cooperation results Kenya, similar research may be warranted across a variety of locations.

Further research is needed to determine whether the findings of this study are driven by the uniqueness of the NGO managers in our study, managers who have “self-selected” to work for Standardized participatory coefficient results; or whether the information-communication aspect of budget participation may prove to be useful in other settings where communication difficulty is high.

A further research may be needed to isolate or confirm the influence of Information Technology Communication on both Budgeting and Performance.

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Appendix I: Letter of introduction

University of Nairobi  
School of Business  
P.O. Box 30197  
Nairobi

RE: DATA COLLECTION

Dear Respondent,

I am post graduate student, at the school of business, University of Nairobi. I am carrying out a research on effects of budget implementation on donor funding in non-governmental organizations.

To help me carry this study, I kindly request you to fill the attached questionnaire to the best of your ability.

All the information provided will be treated with ultimate confidentiality and will be used solely for academic purposes

Your cooperation will be highly appreciated

Thank you

.....

Geoffrey M. Kativa

MBA student, University of Nairobi

Baraza

.....

Supervisor

Appendix II: Questionnaire

This Questionnaire is divided into two parts. It is designed to collect data on the effect of budget implementation on donor's funding in non-governmental organizations. All

the information provided shall be treated with strict confidence and only used for academic purposes.

Part A: General information

1. Which organizations do you work for? .....

2. What is your functional position .....

3. How often do you prepare your budgets

Monthly [ ]

Quarterly [ ]

Biannual [ ]

Annual [ ]

Any other

.....  
.....

4. What time dimension does your organization's budget cover?

Monthly [ ]

Quarterly [ ]

Biannual [ ]

Annual [ ]

Any other .....

5. How often do you revise your budgets

Monthly [ ]

Quarterly [ ]

Biannual [ ]

Annual [ ]

Any other .....

6. What kind of budget does your organization prepare?

- Fixed budget [ ]
- Variable budget [ ]
- Both fixed and variable budget [ ]
- Zero based Budget [ ]
- Incremental Budget [ ]
- Master Budget [ ]
- Activity based Budget [ ]

7. Do you think budgeting process takes appropriate time duration?

- Yes [ ]
- No [ ]

8. There are various reasons for budgeting in an organization. To what extent do you agree that the following are the reasons for budgeting in your organization?

1. Means strongly
2. Means moderately disagree
3. Means neither agree nor disagree
4. Means moderately agree
5. Means strongly agree

Reasons for budgeting	1	2	3	4	5
To evaluate performance					
Tool to forecasting and planning (short term and long term)					
Judge and control performance					
Co-ordination of the operations					
Way to calculate rewards					
Communication					
Decision making					
Motivation device for managers					

9. Please rate the involvement of the following in the planning and implementation of the budget at your organization.

- 1= Not at all,
- 2= Less active,

- 3= Active,
- 4= Moderately active,
- 5= Very active

	1	2	3	4	5
Directors					
Departmental/ sectional heads					
Managers					
Supervisors					
Other employees					

**Part B: SPECIFIC QUESTIONS ON BUDGET IMPLEMENTATION**

10. Does budget implementation in your organization have an effect on the level donor’s funding?

- a. Yes
- b. No

If yes, kindly indicate the impact or effects on spending levels on funding levels in an organization

.....

.....

.....

11. To what extend are the following key issues of budget implementation faced by organization

- |                |       |         |          |                   |
|----------------|-------|---------|----------|-------------------|
| Strongly agree | Agree | Neutral | Disagree | strongly disagree |
| 1              | 2     | 3       | 4        | 5                 |

Key issue	1	2	3	4	5
Adequate approvals are required before any expenditure can be incurred					
Basis of accounting follows the budget (cash, accrual etc)					
There is operational efficiency and minimization of waste					

The budgets are determined through a robust and open dialogue with the relevant budget implementation team					
Managers know the expected results of their projects					
Managers have reliable financial and other information to enable them to manage their projects					
There is adequate control and monitoring of expenditure					
Funds are released in time for purposes of implementing activities					
There is adequate external audits on budget implementation					

12. For each of the following financial year, indicate whether your organization experienced a budget deficit or surplus (over or under expenditure)

Financial Year	Variance (Over or under expenditure)
2008	
2009	
2010	
2011	
2012	

13. Are there bench marks for investigating budget variance?

Yes

No

If yes, what is the base of the benchmark?

Monetary value

A percentage

A repeat of an adverse variance

A combination of above

14. For the following financial years, kindly indicate your organization's budgeted and actual expenditure in amount.

Financial Year	Budgeted amount USD \$	Actual USD \$	Budget variance (Budget less Actual). USD \$	Budget Variance as a % of original budget
2012				
2011				
2010				
2009				
2008				

15. Kindly rate the importance of the following statements on budget implementation.

1=81-100%, 2=61-80%, 3=41-60%, 4=21-40%, 5=0-20%

	1	2	3	4	5
Budget guidelines issued prior to preparation of budgets are clear to the participants					
Planning is important to the success of budget implementation					
There is proper communication during the process of budget preparation					
Leadership provided to the subordinate by managers during budget execution is effective					
Coordination among the various projects during execution of budget is achieved					
The management is able to overcome the challenges of budget implementation					

16. What improvement would you wish to see in your organization as far as budget Preparation and implementation is concerned?

.....

