THE EFFECTS OF BUDGET VARIANCE ON DONOR FUNDING IN NON GOVERNMANTAL ORGANIZATIONS IN KENYA

BY

ZIPPORAH WANJIRU KIMANI
D61/79229/2012

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER IN BUSINESS ADMINSTRATION,

THE UNIVERSITY OF NAIROBI

OCTOBER 2015

DECLARATION

This research project is my original work and has not been presented in any other University or college for award of degree.

Zipporah Wanjiru Kimani ……………………   Registration No. D61/79229/2012

Signed ……………………………….   Date: ………………………

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

Signed ………………………….   Date: ……………………………..

Mr. Barasa Joseph Lumumba

Department of Finance & Accounting

School of Business

University of Nairobi

ACKNOWLEDGEMENT

I thank the Almighty God for his enduring love, Grace and Providence which enabled me to undertake this study.

I wish to acknowledge all those who have supported me in one way or another to complete this study.

I am grateful to my supervisor, Mr.Barasa for his guidance, instructions and encouragement during the research.

I wish to express my gratitude to my family who sacrificed a lot to allow me conclude the project.

I also acknowledge the support I received from my colleagues and friends towards completion of this study.

DEDICATION

To my lovely daughters

Talia

and

Tiffany

That you may excel beyond this

ABBREVIATIONS

NGO	Non-Governmental organization
SPSS	Statistical Package for Social Sciences
MTEF	Medium Term Expenditure Framework
UNICEF	United Nations Children’s Fund
UNDP	United Nations Development Programme
UNFPA	United Nations Populations Fund
E U	European Union
USAID	United States Agency for International Development
CIDA	Canadian International Development Agency

TABLE OF CONTENTS

LIST OF TABLES

ABSTRACT

The purpose of this study was to investigate the effects of budget variance on the level of donor funding in nongovernmental organizations in Kenya. Organizations have an overall goal or vision that they are established to achieve. An organization must ensure that all its segments works towards a common goal. Since the performance of the various segments will be interrelated in many ways, each segment manager must know not only his/her own role but also how it interacts with the rest of the organization. Otherwise, inefficiency and ineffectiveness will develop in the allocation and utilization of resources. Budgeting is about making plans for the future, implementing those plans and monitoring activities to see whether they conform to the plan.

Secondary data was successfully collected from a total of 17 NGOs out of a sample of 20. The findings from the study revealed that Non Governmental Organizations in Kenya have in place specialists (accountants and Finance managers) who handle all their financial activities. Budgeting was necessary and instrumental among the NGOs because it enables them to plan, make decisions, prioritize activities, guide operations, achieve transparency and accountability as well as obtain funding. A variation was observed in the number of old and new donors among the NGOs from the year 2010 to the year 2014. It was clear that there was a significant relationship between the level of donor funding and budget variance among the NGOs. A significant portion (74.3%) of the variance on the level of donor funding was explained by the budget variance. A strong positive correlation was established between the level of donor funding and budget variance. The respondents suggested that long term partnerships with donors will assist reduce the variance on old and new donors every year. It would also be important to carry out proper monitoring and evaluation to reduce wastage of resources.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Budgets are an estimation of the revenue and expenses over a specified future period of time. It is 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. At the core of proficient financial management is the budget. 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 process is important because it allocates resources, in turn revealing the program preferences of the parties involved in budgeting. 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 organizations.

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. The golden rule for financial planning and budgeting is to approach it as a strategic process. In NGOs, it is important to understand that the future of the organization and its capacity to affect the lives of beneficiaries depends on organization's abilities to secure funding in order to develop projects. All the members of the organization should co-participate in the planning, organizing, and monitoring of the financial resources of the organization and not only people directly in charge. 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 Donor Funding

Donor funding refers to funds from international or multi-lateral aid agencies such as DFID, USAID or UN agencies which is the main focus for most NGOs' financing plans. These funds can either be

Restricted or unrestricted– an indicator of flexibility

Short- or longer-term– an indicator of continuity

Unrestricted funds are funds that come to the NGO without restriction on how they are used, provided they are used to fulfil the NGO's objectives. In general, grants from donor agencies are restricted funds since they usually come with terms and conditions about what the funds may or may not be used for. It is the income that an NGO generates through its own efforts that tends to be in the unrestricted category such as membership fees, fundraising events, general donations and bank interest. This 'free money' brings greater autonomy, flexibility and security for an NGO and is therefore central to a financing strategy

Short-term funds are relatively restricted income, generally from institutional donor agencies. Being project-specific, these funds generally last for 1-3 years and are difficult to extend further leading to a loss of project continuity. This is the most common form of NGO financing. Longer term donor financing with some restrictions, these are funds provided by funding partners where a strong working relationship has been established and where grants are based on programme themes.

There is excessive demand for external funding across the globe. At the same time, donor governments are experiencing increasing demand for use of funds for domestic problems. Funds available previously may be switched to other beneficiaries at short notice, reflecting changing policy initiatives. They tend to reflect external socio-political trends i.e. the priorities of the donor country are uppermost and may interfere with local strategies. External financing tends to favor large NGOs who are considered (rightly or wrongly) to be a safer bet for the effective use of the scarce funds. External financing is often dependent on bilateral agreements that dictate terms to beneficiaries for example only for use with specific target groups or regions. Political tensions have resulted where external donors have channeled funds to NGOs rather than national governments. Dependence on external finance may bring about political dependency: 'pawns of foreign interests'. External financing is usually in the form of time-limited project-specific grants there will always be a need to return to donors for additional financing. External finance can also lead to a lack of cost-efficiency and over-ambitious programs, in particular dependency on donor funds can result in lack of attention paid to options for cost recovery, cost effectiveness and sustainable programmes.

Effective budgeting systems aid the planning of an organization in a systematic and logical manner that adheres to the long term strategy. A budget is defined as the management's quantitative expression of plans for a forthcoming period of time.

1.1.2 Budget and Budget Variance

A budget is a detailed plan for the future that describes in formal, measurable terms how resources will be acquired and used during a specific period of time. A budget is an important tool for directing how resources are spent to achieve an organization's goals because it expresses the plans of management in financial terms by matching activities with available resources. A primary use of a budget is to control expenditures. Budgets should be analyzed regularly to monitor implementation and to highlight variances and inconsistencies. When the budget and actual expenditures differ, it is necessary to investigate why. This information is helpful not only to adjust existing budgets but also to better plan for the future. Remember, the budget is not a "straitjacket" that binds management to spend only what was budgeted. It should be reviewed and adjusted as new information becomes available and as priorities change over time

A budget variance is the difference between the budgeted or baseline amount of expense or revenue, and the actual amount. The budgeted amount is a bench mark i.e. a point of reference from which comparisons may be made. Variances help managers gain insights into why the actual results differ from the planned performance and by so doing assist them in their planning and control decisions. A variance can be favorable or unfavorable. It is favorable if it increases the operating income relative to the amount budgeted and vice versa if it decreases the operating income of the organization (Lucey, 2005).

A lot of attention is geared into budget drafting policies and plans. However, it is the actual allocation of resources for these plans that allow the implementation of activities and their transformation into development outcomes (Kavoi, 2001). Budget implementation is about transformation of numbers in the budget books into actual delivery of outputs and successful achievement of organization objectives.

The road to successful implementation of projects is full of obstacles that must be overcome. One basic problem is that most project managers know more about project formulation than implementation. They are trained to plan not to implement plans. The difficulty could occur in the way of communicating their thoughts and plans to others, so as to enable them attain desired objectives (Garrison, 1985). A previous review of the donor projects by Muleri revealed that; most NGOs policies and programs are target oriented, their implementation is process based as opposed to performance and result based; the management of NGOs is largely not based on performance or results.

The key use of variance analysis is in determining performance evaluation. Performance is attributed by efficiency and effectiveness. The most important task of variance analysis is to understand why variances arise and then to use the knowledge 5 to promote learning and improve performance. The NGOs use variance analysis also to report to the donors the reasons for the deviations. Some level of deviation from the budget is allowed otherwise variance needs to be investigated.

Budget variances can result from two sources - the things that can be controlled and things that cannot. A poorly planned budget, for example, is a controllable factor. Likewise, things like labor costs can be controlled by taking measures such as prohibiting overtime. Uncontrollable factors are often external and arise from occurrences outside of the company such as a natural disaster.

1.1.3 Donor Funding and Budget Variance

Financial reports are developed for internal use such as monitoring expenses within the organization and also for external use such as for submitting reports to donor agencies. In many cases, the donors will use these reports to evaluate the organization performance which will have a consequence on the subsequent funding. It is important that the budget variances are properly explained. A Monthly Expenditures and Variance Report that reflects the expenditures incurred during the month for each line item and the total expenditure incurred for the month is a an important tool for budget variance monitoring. It also gives the cumulative expenditures incurred to date and the available balance on the budget, where there is a budget variance, particularly over spending on a budget line item, or introduction of a new set of activities in a budget column, the report should state if the variance is permitted under the terms of the agreement or it is unanticipated and requires approval.

There are a number of potential funding sources, such as government ministries, multilateral organizations (UNICEF, UNDP, EU, and UNFPA), bilateral organizations (USAID, DFID, and CIDA), international nongovernmental organizations, and foundations. However, not every donor will provide funding in a particular programming area. Part of the fundraising process includes knowing the donor community and what programming areas they fund.

It is important that organizations thoroughly understand the funding organization's reporting and administrative requirements before they begin the application process. The disbursement of funds is usually based upon narrative and financial reporting in a format required by the donor. If the organization cannot meet some of these requirements, it should not apply for funding from that particular donor.

The funding proposal should comprehensively present the information in the format specified by the funding organization, including all required attachments. Your proposal should reflect all of your planning and vision and should clearly explain the need or problem your proposal addresses. Although this will vary somewhat according to the requirements of the donor, as organization gains experience in fundraising, it learns more about the process of project design and proposal writing, as well as about donor expectations and requirements. This experience assists in building relationships with donor organizations and will improve the success in obtaining outside funding. Fundraising is an important factor in ensuring organization's long-term sustainability, but it is not an end in itself. Fundraising is a means to obtain the funds needed to carry out the strategic plan and ensure that organization meets its strategic objectives.

Kagiri pointed out that underlying factors contributing to time and cost overruns in projects have the potential of recurring in future projects and therefore there is need to anticipate their occurrence and continually design appropriate strategies and mechanisms to overcome or minimize their potential impacts (Kagiri, 2005). Budget holders are doing reviews and make necessary adjustments to the budget to cater for the realities on the ground which are only realized during implementation period. According to Karani (2007), under estimation of project duration is one among the process related factors causing delays and impacting negatively on delivery reliability of the construction industry in Kenya

Since the budget is a reflection of the organization’s plan of how to best achieve its goals during the year, the budget variance is a tool for keeping managers on target and for measuring their performance against established benchmarks. The budget variance can help evaluate the performance of managers using standard, accepted indicators. Managers need to know what indicators will be used to evaluate their performance so they know how best to direct their efforts. For example, in many for-profit organizations, the remuneration of senior staff members is linked to their performance as assessed by budget performance

1.1.4 NGOs in Kenya

A non-governmental organization (NGO) is any non-profit, voluntary citizens' group which is organized on a local, national or international level. Task-oriented and driven by people with a common interest, NGOs perform a variety of service and humanitarian functions, bring citizen concerns to Governments, advocate and monitor policies and encourage political participation through provision of information. Some are organized around specific issues, such as agriculture, water, education, environment, health, human rights, gender and development, children's rights, poverty alleviation, peace, population, training, counseling, small scale enterprises, disability and many others. . They provide analysis and expertise, serve as early warning mechanisms and help monitor and implement international agreements. Their relationship with offices and agencies of the United Nations system differs depending on their goals, their venue and the mandate of a particular institution. The World Bank classifies NGOs as either operational NGOs, which are primarily concerned with development projects, or advocacy NGOs, which are primarily concerned with promoting a cause.

An NGO is required to benefit the public at large and promote social welfare, development charity, or research in areas 7 including but not restricted to health, relief, agriculture, education, industry, and the supply of amenities and services. NGOs activities are now spread in every corner of Kenya and cover almost every aspect of the economy. Across the world, the number of internationally operating NGOs is around 40,000. In Kenya we have experience a tremendous growth in NGOs which are now over 4,000 this includes about 400 International NGOs.

In Kenya, the NGO Council provides overall leadership to the NGO sector. It champions the key values of probity, transparency, accountability, justice and good governance. It enhances the self-regulation of its members, and assists them to realize their potential in improving services that improve the socio-economic status of Kenyan society in pursuit of sustainable development. The National Council of NGOs, popularly known as the NGOs Council, is a self-regulating, non-partisan body comprising all registered NGOs in Kenya. It was established in August 1993 under section 23 of the Non-governmental Organizations Co-ordination Act, 1990(Laws of Kenya) as a forum of all Non -Governmental Organizations registered under the Act with a mandate of self-regulation, capacity building and policy intervention for the NGOs Sector. The Council operates through the decisions of the General Assembly (GASS) held annually. The GASS elects an Executive Committee, a Regulatory Committee, and a Board of Trustees. The NGO Council membership includes international, regional and national NGOs operating in Kenya and working with a host of CBOs and groups.

It is estimated that the annual income of NGOs was $1 billion, approximately 3% GDP. The Government now regards NGOs as true partners in development as they complement its efforts. (Mukanga, 2011) In his survey of budgeting practices among the major British NGOs in Kenya (Muleri, 2001)found that most of the studied organisations prepared annual budgets and they start the process six months prior to the time the budgets are expected to become operative and are approved by the management. He also noted that almost 95% of NGOs funds come from abroad. The funds are secured, availed, managed and evaluated on the basis of project proposals and corresponding budgets. The budgets form part of the contractual basis for such funding. Donor dependent NGOs can only secure funding with prior establishment of mechanism to assure some extent of effective budgeting practice. It is becoming the custom for a prospective donor to ask for past three year budget on submission of proposal. Besides being very keen on budgeting, donors are increasingly demanding for proper monitoring of the budget and insist on monitoring and evaluation activities/costs included in the proposal.

1.2 Statement of the problem

Service excellence is demanded of today's organizations as donors and beneficiaries are increasingly demanding best use of funds what is referred to as value for 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 and regulations of their donors while at the same time meeting the expectations of their beneficiaries with limited resources. In his study on budgeting practices among the major British NGOs in Kenya, Muleri sought to establish if good budgeting practices can be used as financial management tool by NGOs. He found that budgeting process can mitigate financial misappropriation and corruption among the NGOs (Muleri, 2001).

According to Premchand (1994), implementation of budgets requires advanced programs of action and highest quality of service. The challenge of donor funds decline in NGOs can be attributed to poor budget implementation. Firstly, the budgetary process is not punctual and the budget works counterproductive due to the unrealistic targets. Secondly, the performance culture is unsatisfactory and thirdly, the complexity of the system cannot create one version of the facts. Therefore, synergies from running efficient processes and accountability are fully missed, and the budget misses its purpose as a control mechanism for the organization.

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.

Mawathe (2008) did a study to investigate the challenges of budget implementation in the commercial banks in Kenya. The researcher wanted to establish if budgets were fully implemented in banking industry and factors that affected budget process. The researcher concluded that there were challenges in budget implementation in the banking sector. Muthinji (2009) did a research on budget implementation in public sector, case studies of Commission of Higher Education and found similar results

The expectations are never met either through none or partial completion of projects, cost overruns or substandard projects. As a result, donors have withdrawn from funding organization or imposing stringent conditions to their grants. This situation has been driven by factors that affect budgeting, NGOs enter into contractual agreement with donors to undertake development work on their behalf (Muleri, 2001). The condition is that the NGO will implement the project as per the agreed upon budget with some donors allowing 5-10% deviation. Despite all the effort, NGOs are at times unable to undertake the activities as planned resulting to funds not spent or overspent. Unspent funds are returned to the donor and overspent are not refunded to the NGO. It is therefore an area of concern why NGOs are unable to implement the budget yet they prepare it and there is plenty of development work to be done

This study therefore will pay interest on the budget variances. The reason for conducting a study of NGOs in Kenya is to understand the effect of budget variance on the donor funding and challenges facing them in management of budget. The research aims at identifying the existing gaps in the NGOs in Kenya budgeting process by evaluating three areas namely budget implementation, budget variance and donor funding Yins (1989) believed that the purpose of conducting field research was not to find relationships or causal factors among variables, but to interpret and describe the practice

1.3 Objective of the Study

The objective of this study is to establish the effect of budget variance on the level of donor funding in non-governmental organizations in Kenya.

1.4 Value of the Study

Organizations 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 will educate the management of non-governmental organizations on the importance of efficiency and effectiveness in budgeting. The study will contribute to a better understanding of good budget monitoring process in a holistic way and to explain the weaknesses of budgetary control that have been found in the literature. 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 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 NGO

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives a summary of the studies from other researchers who have carried out their research in the same field of study. The specific areas covered was the background of budget variance, determinants of budget variance and budgeting approaches, and empirical studies in budgeting process. This study examines how budgets are adapted in response to budget variances and develops a model to test for the determining factors of these variances. The chapter will also highlight the benefits of budgeting and eventually conclude by identifying gaps and areas that need further study.

2.2 Theoretical Literature Review

The theoretical review is a summary of the theories regarding the study problem that is developed through a review of previously tested knowledge of the variables involved. It identifies a plan for investigation and interpretation of the findings. The theoretical review involves a well-supported rationale and is organized in a manner that helps the reader understand and assess the perspective. The purpose is to demonstrate that the proposed relationships are not based on personal instincts or guesses, but rather formed from facts obtained from authors of previous research.

2.2.1 Budget incremental theory

Incremental theory is defined in terms of expenditure increases and argues that it depend on economic growth. This is a budget prepared using a previous period's budget or actual performance as a basis with incremental amounts added for the new budget period. The allocation of resources is based upon allocations from the previous period. 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 mix reflects how many decision areas are handled by the organization, how people have access to the organization, the decision load of the organization, and the organization's level or resources, time, energy, and attention. This theory has been used particularly by students of public-sector budget decision-making

Multiple streams in budgeting. Irene Rubin (2006, 2007) has adapted 'garbage can' theory for the setting of federal budgeting, which she interprets as reflecting the convergence of five streams: revenue (taxes, fees, tariffs, etc.), expenditure (what to spend on), process (who influences what to spend on), implementation/execution (how to administer), and balance (how to meet balance requirements). In what she labels "real-time budgeting," budget decisions are made in a non-linear manner, on the fly, in the context of pressures from any of the five streams or some combination converging at the moment. The multiplicity of streams creates a variety of dynamics. For instance, when actors fail to prevail in the expenditure stream they may seek to focus on restructuring the process stream. When decisions in the expenditure stream precede decisions in the revenue stream, they will be less stable. Etc. Similarly, Katherine Willoughby (Melkers and Willoughby, 1998, 2001, 2005; and Thurmaier and Willoughby, 2001) has analyzed budgeting in terms of "multiple rationalities," referencing Rubin's concept of "real-time budgeting" but arguing that performance budgeting would increase the flow of information in agenda-setting streams (she references the agenda-setting model of Kingdon, 1984).

2.2.3 Agency Theory

Agency relationship exists when a party acts on behalf of another. The relationship of agency is one of the oldest and commonest codified modes of social interaction. According to Stephen Ross (1973) agency relationship exists between two (or more) parties when one designated as the agent, acts for, on behalf of, or as a representative for the other, designated the principal in a particular domain of decision problems. 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.

At the heart of budgeting are relationships among those who provide agency services and those who allocate resources to service providers. Schick (1988) has referred to these individuals as claimants and conservers, respectively. Others have entitled them more generally as agents and principals, respectively (Demski, 1998; Baiman, 1982; Holstrom, 1979). In other words, those who make claims on resources are agents and those who allocate and ration the resources are principals. In this relationship, the principals contract with agents to provide services to the public, and the main focus for all those involved is the contract (i.e., the budget) itself. Two key questions for both participants are "What can be done to draw up the most effective contract possible?" and "How can the contract be upheld?" While no one has come up with The Answer, current research suggests that we should look at the elements that are common to the contract and its enforcement, namely (1) the distribution and management of information, and (2) the hierarchical relationships among budget participants.

Agency problems within firms follow from divergent preferences and information asymmetry. For example, the relation between the CEO of a firm and the work-averse manager of a cost center, whose decisions are unobservable to the CEO? In addition to incentive contracts, the CEO may restrict the manager's scope by rationing certain resources available to him. We argue that limiting managerial latitude by means of resource-oriented budgets can be useful in disciplining managers and may result in lower agency costs. Physical and monetary budgets are common techniques for restricting a manager's latitude and provide us with good examples for resource-oriented budgets. Physical budgets refer to personnel, machines, software, etc.

Monetary budgets are often used for decentralized investment processes in which a certain amount of money is allocated to the manager. The fundamental difference is that the “rights allocated through ... physical budgets are less complete and therefore more constraining than are decision rights allocated by grant of monetary budgets” . Therefore, physical budgets are more effective in mitigating the firm’s agency problems. Restricting the manager’s action space comes at a cost when it also limits the manager’s ability to adapt his decisions to changing economic conditions. The action space is especially relevant when the manager, who, for example, might be preparing maintenance activities, privately observes information that is relevant to reducing the operating costs. Then, a restrictive resource allocation through rigid budgets may prevent an efficient cost reduction by the manager. In contrast, flexible budgets allow the manager to react to changing economic conditions. Therefore, the fundamental tradeoff that we consider in this paper refers to the two-sided influence of the manager’s scope on the firm’s

2.3 Background of Budget variance

One of the objectives of budget variance is to provide a base against which actual performance can be measured. This is only worth doing if action will be taken as a result. Budgets are used to motivate employees, allocate resources and evaluate performance (Walker and Johnson, 1999) The various activities within an organisation require to be coordinated by preparation of plans of actions for future periods (Drury, 1992). Lucey and Drury emphasise the importance of budgeting to an organisation and indicate that no goal of an organisation can be achieved without planning. Top managers provide the strategic directions of the organisation and select the strategic option that have the greatest potential of achieving the organisation objectives. Long-term plans should be developed to implement the strategies and of course the financial implication is defined through projections. Generally, a budget translates the long term plans of an organisation into annual operating plans.

According to Zimmerman (2003), a budget performs two important functions Decision management and Decision control The trade-off between decision management and decision control is often viewed as a trade-off between bottom-up and top-down budgeting. Bottom-up budgets are submitted by lower levels of the organization to higher management and imply larger decision management. Top-down budgets are made by senior management and are implemented by lower level management. Bottom-up budgeting implies that the person held responsible for meeting the targets actually makes the initial budget.

In too many organisations the production of results compared to budget is seen as the end of the process. If no action is taken on the basis of management accounts then there is little point in producing them and even less point in wasting management time discussing them. The budget variance is the difference between budgeted- and actual performance. The budget variance is often used to reward managers in terms of bonuses. Organizations use performance schemes that compare managers' performance and the budget and consequently reward them according to their performance relative to the budget. This creates an incentive for managers to perform as budgeted or to outperform the budget since this increases their salary.

The budget variance process therefore involves reviewing the projections of the long term plans and revises them in the light of more recent information (Drury, 1992). As such, Drury states that the budgeting process cannot be viewed as being purely concerned with the current year but must be considered as an integral part of the long-term planning process as it is influenced by decisions taken in the past and has implications on programmes that will be undertaken in future. Likewise, Muleri, stated that budgeting practice comprises the whole budget cycle process which entails the philosophies adopted to guide the preparation of a budget, the approval process and the mandate for implementation. (Muleri, 2001).

To start with the management of budget variances starts at the budgeting process. The keys to a successful budgeting process as provided by NAF financial foundation in its handbook on practical financial information for NGOs are that first clearly identify programmatic objectives that are aligned with the mission and strategic plan, determine the financial resources needed and available to achieve program goals, involve staff and board members in the process to improve accuracy of information and commitment to the plan, document indicating the assumptions and formulas and finally customise the process to suit your organisation.

David A Palmer 2012 in his paper Financial Management Development, he cites that there are four key reasons for budget variance and it is important that good managers recognise the differences, because the action required may be completely different in each case. The four reasons are: Faulty Arithmetic in the Budget Figures, Errors in the Arithmetic of the Actual Results, Reality is Wrong and the Differences between Budget Assumptions and Actual Outcome.

All over the world, participatory budgeting is being advocated. This is based on the belief that stakeholders‟ participation in the budgeting process improves transparency, accountability and service delivery hence positive budget variances. In his study on people‟s budget and the effectiveness of the budget the case of local governments in Uganda, Mukokoma, (2010) found that the participation of CSOs in the budgeting process is still very low and that the relationship between this participation and effectiveness of the budget process is very weak. Therefore, it is recommended that relevant organisations build the capacity of CSOs to participate in the budgeting process, to secure the benefits of budget effectiveness associated with such participation.

Budget lapsing occurs when unspent funds do not carry over from one budgeting period to the next (Zimmerman, 2003). Budget lapsing creates incentives for managers to spend all their budget because if they don't, next year's budget might be reduced by the amount unspent. Budget lapsing overcomes risk-averse managers' incentives to build up reserves that span multiple years or budgeting cycles (Balakrishnan et. al. 2007). This happens often in NGOs and government entities

Ibrahim (2004) stated that "there is need to determine budget objectives and purposes, as well as finding ways of achieving them. Plans depend upon the existence of alternatives and then discussions have to be made regarding what to do, how to do it, when to do it and by whom it is to be done, planning budget need early preparation, this is because budgeting is a back room activity and can take a lot of time". Budget request usually go through series of stages. Therefore, the early it is started the better.

Some of the key reasons for producing budgets as explained by Drury, Hongren and Lucey are planning, coordination, communication, motivation, control and performance evaluation. This was also confirmed by Kavoi and Gachithi in their study of UoN budgeting process. A sound budgeting system helps to coordinate the separate activities and ensures that all parts of the organisation are in mutual harmony. Everyone in the organisation must be clear on the role they are expected to play in achieving the annual budgets, this way accountability levels of different positions are defined (Mukokoma, 2010).

To measure progress of budget utilization, there is need for a specific check points to be fixed that will allow effective control of budget implementation. The tool not only allows measurement to be made but also allows comparison to be made between the actual results with planned and budget goals. A careful management study should be made to determine the underlying causes (Suberu, 2010).

2.4 Determinants of Budget Variance and budgeting Approaches

Budget Planning Prepare line item budgets and identify budget justification to successfully negotiate budget approval. Cash Flow Management Monitor, analyse and adjust the programme cash flows. Perform a cash flow analysis and cash flow forecasting. Budget Management and Reporting Analyse performance, monitor variances, and take corrective actions. Prepare budget reports and present them effectively. Financial Control and Management Establish solid internal controls, and confidently review financial statements. Interpret and analyse the meaning and implications of key financial reports.

Budget variances could be a result of an estimation error, a budgetary bias, and/or real inefficiency and ineffectiveness (Lukka, 1988). The budgetary bias can be further divided into an upward bias and budgetary slack. Real inefficiency and ineffectiveness is assumed to be the most significant in economic terms. However, according to previous literature, an important reason for budget variances is the creation of budgetary slack. Budgetary slack is the intentional over-estimation of expenditures or under-estimation of productive capabilities of a manager. An over-estimation of expenditures would lead to an over-estimation of productive capabilities as well. Higher management would never agree with an over-estimation of expenditures in combination with an under-estimation of expenditures. There are major difficulties in the determination of the amount of slack managers create in the budgeting process. Previous literature tests slack creation basically in laboratory experiments

Budget variances are frequently present, but the magnitude depends on several factors including economic circumstances, the quarter of the year, and managers' estimation of performance capabilities. For higher management of a company it is important to know if this variance stems from an estimation error because of lack of information or from an intentional under- or overestimation of performance. The reasons for budget variances are widely discussed in management accounting literature.

Since good resource allocation is a critical factor for the success of a firm, it is important for higher management to understand how to make the best decisions during the budgeting process.

Incremental theory is defined in terms of expenditure increases and argues that it depend on economic growth. This is a budget prepared using a previous period's budget or actual performance as a basis with incremental amounts added for the new budget period. The allocation of resources is based upon allocations from the previous period. 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.

2.5 Empirical Review

Muleri (2001) did a study on budgeting practices among the major British NGOs in Kenya. The aim of the study was to ascertain budgeting practices amongst British NGOs in Kenya and to examine the extent to which budgets are used in management and control of the British NGOs. The researcher targeted four international NGOs and twelve local NGOS they funded. A questionnaire and field study were used to collect data which was analyzed through summary, statistics, tables and percentages. The researcher found that most organization used modern practices as zero based and philosophies to reduce financial mismanagement. The study revealed that budgets are normally prepared using such methods as zero based or priority based budgeting. Budgets form an integral part of the planning process and have become a standard practice in NGOs. The study noted that, there is over emphasis on conformity to budgets and donor parameters which tends to relegate proper financial management to the periphery. Many organisation strive to spend with no regard to value for money and impact of their work. The study further revealed that aspects of cost effectiveness are not considered in the budget management and once budgets are approved little effort is made to use them to control the activities or measure performance of the budget holders. The researcher recommends that budget management should be adopted as the yard-stick to measure performance in NGOs.

Kiringai and West (2002) did a study on budget reforms and the Medium Term Expenditure Framework (MTEF) in Kenya. The study reviewed various budget systems and evaluated the strengths of MTEF process and the threats to its sustained implementation in the context of developing countries like Kenya. The study identified a number of weaknesses in the planning and budgeting process that had continued to contribute to its poor performance namely, poor forecasting ability, lack of medium-term perspective, failure to cost future resource requirements, excessive political interference in budgeting, separation of the planning and budgeting process, failure of planning groups to integrate strategic planning concerns into the budget cycle, failure of expenditure controls by line item, incremental recurrent budgeting especially on on-going programme resulting in redundant and rising programme implementation costs, emergency expenditures and unplanned activities, inadequate provision for the recurrent implications of development projects; funding of recurrent activities through the development budget to attract donor funding at the expense of accountability and transparency, at times lack of monitoring and evaluating systems and failure to develop management information systems.

The paper concluded that, MTEF was a powerful tool if fully implemented and adopted as the best practice. However the resource allocation and implementation is flawed citing the following reasons, there was lack of a comprehensive development strategy that were based on realistic national resource constraints, excessive size of the government, failure to achieve aggregate fiscal discipline and poor quality of public expenditure

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.

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.

2.6 Literature Review Summary

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 proper budget implementation 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 adopted to assist 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 will addressed the purpose of the research which is donor funding in relation to budget variance in non-governmental organizations, data was collected through a questionnaire from sampled NGOs. In this chapter, the researcher specified the research design, data collection methods and data analysis.

3.2 Research design

This is the method and procedures that was used to collect information that was required to answer the research questions. 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. Lavrakas (2008), a research design is a general plan or strategy for conducting a research study to examine specific testable research questions of interest. The research was conducted through a descriptive study. A descriptive study enables accurate profile of persons, events or situations to be collected. It helps answer the what, why, how, when, by who, and the where.

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 shall be 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 made use of the previous budgets, financial records and budget policies to supplement the data received from primary sources.

3.4 Research Population

The National Council of NGOs established in August 1993 is a self-regulating, non-partisan body comprising all registered NGOs. By 2014, the Council had cumulatively registered over 6,000 organizations. The study comprised of these NGOs in Kenya over the last five years 2010-2014. The list was obtained from the National Council of NGOs. These organizations were spread all over the country and varied from small organizations operating locally, to international ones with regional programmes. They range from organizations run by small teams of volunteers to mega organizations with hundreds of fully paid staff of diverse professions and sophisticated systems and processes. They reflected diversity in their activities from welfare, to environment, human rights,

3.5 Sample Size and Selection

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 150 international NGOs operating in Kenya. Since the population was segregated into several mutually exclusive subpopulations, stratified random sampling was used. Stratified sampling is where the parent population is divided into mutually exclusive and exhaustive subset and a simple random sample of units is chosen independently from each subset.

Mutually exclusive means that members are more or less equal with respect to some characteristics. The sample size was 20 NGOs based on a 95% confidence level and 25% confidence interval.

3.6 Data Analysis Method

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. A content analysis is to analyze the respondents' views about the effect of budget variance on donor's funding whereas descriptive analysis mainly is 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 was used to show the effect of the budget variance 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 and budget variance on donor's funding. Regression is a way of describing how one variable, the outcome, is numerically related to predictor variables. The dependent variable is also referred to as Y, dependent or response. The predictor variables are also referred to as X, independent, prognostic or explanatory variables. A regression model will be utilised to establish if there are effects of budget variances on the level of donor funding.

The model will take the form of;

$$Y = a + bx$$

Where:

Y= Level of donor funding

a = level of donor funding at year zero when there is no budget variance

x = Budget variance

3.7 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 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 ANALYSIS AND DISCUSSIONS

4.1 Introduction

The purpose of this study was to investigate the relationship between donor funding and budget variance in nongovernmental organizations in Kenya. Secondary data was successfully collected from a total of 14 NGOs out of a sample of 20. This is an indication that the study managed to achieve a response rate of 70% which was considered sufficient to enable the researcher generalize the findings on NGOs in Kenya. The results of the study are presented and discussed hereunder.

4.2 Demographic information

The respondents were asked a number of questions that were aimed at establishing their suitability in providing relevant data that could inform this study. The results are presented net

4.2.1: Functional position

Table 4.1: Demographic information results

Response	**Frequency**	**Percent**
Financial/project/ Accountant	7	50
Project Administrator	1	2
Finance manager	6	48
Total	**14**	**100**

The respondents were required to state their functional position in the organization they worked with. The results in Table 4.1 reveal that 50% of the respondents were accountants with the NGOs; 48% were finance managers and 2% were project administrators. This was an indication that the people who were providing the data used in this study had relevant knowledge and were therefore able to provide reliable and genuine data since they were directly involved with the financial issues of the NGOs.

4.2.2 Reasons for Budgeting

The respondents were asked to indicate the reasons why they carry out the budgeting process in their organizations. Several varying responses were received from the respondents. It was established that some NGOs carry out the budgeting process in order to obtain financial estimates of the activities and resources needed in order to attain certain objectives envisioned in our projects. The findings also reveal that there are some NGOs that carry out budgeting with the purpose of mapping out their operations and the various activities that have to be implemented. Some of the NGOs also indicated that to them the budget is important for annual planning and decision making in their organizations. In a few other NGOs it was also established that the budget was made because it ensures sound financial management for transparency, efficiency and effectiveness in the use of resources within the region.

The study also established that some NGOs carry out budgeting in order to provide them with a guideline on the purpose of the funds sort form donors, and thus ensuring the same are solely used for the intended purpose. They indicated that the budget was important because it enables their organizations to be more focused and engage in what they have already planned. Some of the respondents also revealed that the budget was such an important tool since it guides their expenditure patterns.

4.2.3 Person Responsible for Budget preparation

The results on the person charged with the responsibility of preparing the budget are presented in Table 4.2.

Table 4.2: Person Responsible for Budget preparation

Response	**Frequency**	**Percent**
Financial/project/ Accountant	11	78.6
Project Administrator	3	21.4
Total	**14**	**100**

On the person responsible for budget making process, it was established that in 78.6% of the NGOs the budget was developed by the accountant. It could be the financial or project accountant who prepared the budget estimates on behalf of the organization. This implies that the budget was developed by people who were qualified and therefore providing credibility of the data obtained for this study.

4.2.4 Budget approval

The results on the person responsible for approving the budget estimates are presented in table 4.3.

Table 4.3: Person responsible for budget approval

Response	**Frequency**	**Percent**
Director Finance	8	57
Program Officer/Director	4	29
Finance Manager	2	14
Total	**14**	**100**

The results shown in Table 4.3 reveal that the approval of the budget was done by high ranking employees in the NGOs. It was established that in 57% of the NGOs the budget was approved by the Director of Finance; 29 % of the NGOs have their budget estimates approved by the Program Officer or Director and 14% have their budget approved by the Finance Manager. This implies that in most of the cases there is a second person who goes through the budget and approves it for implementation.

4.3 Budget Implementation

In this section, the study sought data on implementation of the budget by the NGOs. Among the data sought included the number of exiting donors and new donors respectively. The findings on existing and new donors are presented in Table 4.4.

Table 4.4: Results on existing and new donors

Donor	**Descriptive statistics**	
Existing donors	Year	Mean
	2010	2708.86
	2011	3124.14
	2012	2939.17
	2013	2799
	2014	2850
New Donors	2010	113.17
	2011	414.28
	2012	0.57
	2013	142.86
	2014	52.28

The results in table 4.4 reveal that in the year 2010, there was an average of 2709 existing donors and 113 new donors; in the year 2011 there was an average 3124 existing donors and 414 new donors; in 2013 there were 2939 existing donors and an average of 1 new donor; in 2013 there was an average of 2799 existing donors and 143 new donors and in 2014 there was an average of 2850 existing donors and 52 new donors. The results confirm that there is variance in the number of existing donors and the number of new donors. The variance is not uniform and does not have a specific pattern. This is an indication that the NGOs have the same pattern as far as their budget variance is concerned. Therefore the budget variance will be determined by the number of donors available at any particular year.

4.4 Donor Funding and Budget Variance

The study sought to establish the effects of budget variances on the level of donor funding in nongovernmental organizations in Kenya. A regression analysis was carried out with level of donor funding being the dependent variable and budget variance being the explanatory variable. The results are discussed next.

4.4.1 Model Summary

Table 4.5: Donor Funding and Budget Variance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.862(a)	.743	.610	1.56	.743	5.151	5	9	.000

The regression results in Table 4.5 show that the coefficient of determination (R Square) had a value of 0.743. This was an indication that 74.3% of the level of donor funding was explained by the budget variance. This is a confirmation that the variance in the budget developed by the NGOs in Kenya is explained to a very great percentage by the level of donor funding. However, 25.7% of the variance on the level of donor funding is not explained by the budget variance. This variance is explained by other factors that are not part of this study. The results reveal that the significance F. change value was 000. This value is less than 0.005 and this means that there is a significant relationship between the level of donor funding and budget variance.

4.4.2 Analysis of Variance

Table 4.6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.138	5	.027	4.254	.000[a]
	Residual	.423	9	.008		
	Total	.551	14			

a. Predictors: (Constant), budget variance

b. Dependent Variable: Level of donor funding

The results on analysis of variance as illustrated in Table 4.6 above show that the significance value was .000. This value was below the acceptance limit of 0.005. This is an indication that there is a significant relationship between the predictor variable and the dependent variable.

4.4.3 Model Coefficients

Table 4.7: Model coefficients

	Unstandardized Coefficients		Standardized Coefficients			Correlations		
Model	B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part
1 (Constant)	2.042	.216		2.604	.003			
Budget variance	23.032	.010	.975	1.309	.000	.864	.205	.302

a. Dependent Variable: Level of donor funding

The results in Table 4.7 reveal that the constant B. value was 2.042, the standard error was .216 and the regression coefficient for budget variance was 23.032. This implies that the regression model that will explain the effects of budget variance on the level of donor funding can be derived from the results. The model will therefore be: $Y = 2.042 + 23.032x$.

4.4.4 Correlations

A correlation analysis was also conducted to establish the direction and nature of the relationship that exists between the independent and dependent variable. The results are shown in Table 4.8.

Table 4.8: Correlation Matrix

	Variable	Level of donor funding	Budget variance
Pearson's Correlation	Level of donor funding	1.000	.864
	Budget variance	.864	1.000
N	14	14	14

The results on the correlation analysis as shown in Table 4.8 reveal that there was a strong positive correlation between the level of funding and budget variance. This is an indication that when the budget variance increases, the level of donor funding increases as well. The reverse also happens if there is a decrease in the budget variance.

4.5 Summary of Analysis

It was evident from the findings that the financial issues of most NGOs were being handled mostly by accountants and to some extent the finance managers. The accountants also played a significant role in development of budget estimates. It was also evident from the research findings that approval of the budget was approved mostly by the finance directors and to a limited extent the Finance managers. The study further established that budgets are important to the NGOs since it enables them to plan for their activities and make informed decisions. The budget also enables the NGOs to practice transparency and accountability in their activities.

The findings further revealed that there exists a variance in the number of old donors and that of new donors from one year to another between 2010 and 2014. The fluctuations had no specific trend but showed that the number of donors kept varying from one year to another. The correlation results established that there was a strong positive correlation between the level of donor funding and budget variance among the NGOs in Kenya. From the regression analysis results it was revealed that budget variance explains 74.3 percent of the variance on the level of donor funding among NGOs in Kenya.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

A study was carried out to determine the effects of budget variance on the level of donor funding in NGOs in Kenya. This chapter presents the summary of the findings, the conclusions, recommendations and suggestions for further research.

5.2 Summary of Findings and Interpretation

The study established that most of the respondents who took part in this study were accountants and finance managers who were directly involved with the financial activities of the NGOs. It was also evident that most of the NGOs carried out the budgeting process for a number of reasons. The most common among the reasons was to enable them to find estimates for the various projects and activities they were carrying out. The other reason why budgeting was done by the NGOs was to ensure that they planned adequately and have estimates for funding purposes. The other reason why the NGOs do budgeting is to ensure transparency and accountability in their operations. It was also established that a budget was important in directing and guiding the operations of the NGOs.

The study also established that accountants were the ones charged with the responsibility of developing the budget in most NGOs. The approval of the budget was however done mainly by the finance or Program Director. The study further established that there was a variance in the number of existing donors from the year 2010 to 2014. The variance did not reflect any consistent pattern but there were notable fluctuations in the number of old and new donors among the NGOs that took part in this study. The fluctuations were an indication of possible variations in the budgets of the NGOs. There were a few cases where the project administrators also took the responsibility of approving the budget that had been developed by the accountants.

The regression analysis indicated that 74.3% of the variance on donor funding was explained by the budget variance among the NGOs in Kenya. This confirmed that the level of donor funding was largely determined by the budget variance that existed. However, 25.7% of the level of donor funding did not depend on budget variance but on other factors that were not included in this study. The significance value of .000 (which was within the acceptance limit of 0.005) revealed that there was a significant relationship between the level of donor funding and budget variance among the NGOs in Kenya.

From the correlation analysis that was conducted to determine the nature and direction of the relationship between the dependent and independent variable, it was established that there was a strong positive relationship between the level of donor funding and budget variance. This means that when the budget variance increases, the level of donor funding also increases and when the budget variance decreases the level of donor funding decreases as well. Therefore, there exists a direct relationship between the two variables.

A number of suggestions were also made by the respondents concerning the possible improvements to be made by the NGOs on budget implementation and variance. It was evident that most of the respondents suggested that there is need to have long term partnership with the donors to avoid frequent fluctuations in the number of old and new donors from one year to another. Another suggestion was also to ensure that there was proper monitoring and evaluation of the process of implementing the budget to avoid wastage of resources.

5.3 Conclusion

Non Governmental Organizations in Kenya have in place specialists (accountants and Finance managers) who handle all their financial activities. Budgeting was necessary and instrumental among the NGOs because it enables them to plan, make decisions, prioritize activities, guide operations, achieve transparency and accountability as well as obtain funding. A variation was observed in the number of old and new donors among the NGOs from the year 2010 to the year 2014. It was clear that there was a significant relationship between the level of donor funding and budget variance among the NGOs. A significant portion (74.3%) of the variance on the level of donor funding was explained by the budget variance.

A strong positive correlation was observed between the level of donor funding and the budget variance among the Non Governmental Organizations in Kenya. This implied that an increase in the budget variance leads to an almost equivalent increase in the level of donor funding. Suggestions were made concerning possible improvements that will assist in enhancing budget implementation and variance. They include building long term partnerships with donors and also ensuring proper monitoring and evaluation to reduce wastage of resources.

5.4 Policy and Recommendations

The study results revealed significant fluctuations in the number of new and old donors among the NGOs. These fluctuations may not be healthy for the sustainability of the projects they undertake. It will be important for the NGOs to seek long term partnerships with the donors.

The study reveals that 74.3% of the variance on the level of donor funding is explained by the budget variance. It will be necessary for the NGOs to review this position such that one single factor does not determine a large percentage of the level of donor funding.

It will be necessary for Non Governmental organizations in Kenya to practice better monitoring and evaluation of their projects during implementation. This will assist in ensuring efficient and effective use of resources thus reducing wastage.

5.5 Limitation of the study

This study was subject to the following limitations:

Most of the respondents were unwilling to respond to the questionnaires owing to the quantitative nature of the data that was required. Most of the respondents were accountants and they are known to be very busy at times. The researcher had to make persistent follow up to ensure that a significant number of then responded.

The time was not enough to carry out a study that would involve a larger sample than 20. It would require more time for one to carry out a study that would involve a larger sample or even a census of all the NGOs in Kenya. Therefore the sample had to be smaller due to time inadequacy.

The other limitation of this study concerns the resources for carrying out the study. For instance the finances required for facilitation more especially for doing consistent follow up to ensure the respondents cooperated. The researcher could therefore not afford a more intensive study that could require enormous resources since there was a budget constraint associated with the study.

The questionnaire bias: The researcher relied on primary data through the administration of questionnaire. It is likely that some respondents misunderstood the questions or gave biased opinions. Further, the results are limited to a sample of 20 NGOs.

5.6Suggestions for further Studies

The study established that 25.7% of the variance on the level of donor funding is not explained by budget variance. It will be important to carry out a study that will investigate the factors that explain this variance.

It was also evident that there were notable fluctuations in the number of old and new donors among the NGOs. There is need to carry out a study to find out the main causes of the sad variation and the possible solutions to the variation.

It was evident that there was a significant relationship between the level of donor funding and budget variance among the NGOs in Kenya. It will be important to carry out a comparative study to compare the situation in Kenya and another country. This will assist in ascertaining some similarities and differences.

REFERENCES

Aaron, H. J. (2000). Presidential address—seeing through the fog: Policy-making with uncertain forecasts. *Journal of Policy Analysis and Management,* 19 (2), 193–206.

Allen M.J &Yen W.M.(1979). Reliability and Validity of data as cited by Gyenam Kim-Kang1 and David J. Weiss in their paper Adaptive Measurement of Individual Change

Armstrong P. (1996). Budget control and the labour Force: Finding from a survey of large British companies, l17 (5), 110-117.

Blansfield J.A (2002). As stated in a *Study on whether US Companies have a fully integrated planning report that combine long term and operational planning performance measure In reporting.*

Capon, N., & Farley, J.M. (1994). Strategic planning and financial performance: More evidence. *Journal studies*. 31, 105- 10.

Chathukulam, J. (2000). *Empowerment of women panchayat members. Asian Journal of women studies. 11, 3-25.*

Cooper D. R & Emory W. (1995). Business Research Methods*, the University of California published by Donald R Cooper and William C Emory.*

Damaris, M.K. (2011). *Factors that influence the achievement of budget targets a case study of the University of Nairobi.An unpublished MBA* dissertation, University of Nairobi, School of Business.

Dorminiak, G.F., & Louderback, J.G. (1988). *Managerial accounting.* PWS-Kent, Boston, MA.

Drury, C. (2009). Management and cost accounting for business (3rd Edition) Chapman and Hall Publishers

Ekholm, B.& Wallin J. (2000). Is the annual budget really dead?'*The European accounting review.* 9 (4), 519-539.

Emmanuel, O.(2012).Constraints on budgeting and development plan implementation in Nigeria. European Journal on sustainable development, 1(3), 445-456.

Garson, J.(2008). *Study on Gabage Can Models: Multiple stream theory*

Hope, J & Fraser, R (1999). *A survey on the beyond Budgeting movement*

Ibrahim, U.(2004). *Budgeting and budget Preparation. Zaria:* Unpublished *handout. Department of Library and Information Science, ABU.*

Kagiri, D. (2005). Time and cost overruns in power projects. A case study of Kengen Ltd. Unpublished MBA Project, University of Nairobi.

Karani, C.M (2007*), Factors impacting delivery reliability of Kenyan construction industry: A survey of road projects & project manager's perceptions. Unpublished MBA Project, University of Nairobi.*

Kavoi, D. M. (2011). Factors that influence the achievement of budget target: A case study of the University of Nairobi Kenya. Unpublished MBA Project, University of Nairobi.

Kiringai and West (2002) *a study on budget reforms and the Medium Term Expenditure Framework (MTEF) in Kenya.*

Lavraka Paul J, (2008) Survey of Research Methods

Muleri, M.A (2001). *A survey of budgeting practices among the major British Non-governmental developments organizations in Kenya.* An unpublished MBA dissertation, university of Nairobi.

Murrison. (2001). *A survey of budgeting practices among Non-governmental organizations in Kenya.* An unpublished MBA dissertation, University of Nairobi.

Muthinji, E.M (2009). *Challenges of budget implementation in public sector organizations a case study of the Commissioner of Higher Education in Kenya.* An unpublished MBA dissertation, University of Nairobi.

Mawathe (2008) in his study to investigate the challenges of budget implementation in the commercial banks in Kenya

Ndiritu, G. (2007). *The challenges of cash budgeting at Telkom (K) Ltd.* An unpublished MBA dissertation, University of Nairobi, School of Business.

Obulemire, T.A, (2006). *A survey of budgeting practices in secondary schools, a case of public Secondary schools in Nairobi.* An unpublished MBA dissertation, University of Nairobi, School of Business.

Odongo, N. (2008). *Employee attitude towards budgeting process among large manufacturing Firms.* An unpublished MBA dissertation, University of Nairobi.

Ooyo, L. M. (2012). Challenges of budget implementation among relief non-governmental organizations in Kenya.

Pascal, A. (2007). *Methodology for assessing the implementation of the OECD principles of corporate governance.*

Peter (2001). In his study on *budgetary controls in non-governmental organizations in Kenya*

Powell, T. (1992). Strategic planning as comparative advantage. *Journal strategic management*, 4 (13), 140-64.

Premchad, A. (2004). *Government budgeting and expenditure control*: Theory and practice, published by International Monetary Fund.

Ramsey, J. (1985). Budgeting basics: *How to survive in budgeting process*

Reddick, G. (2003). Long-run and short- run budgeting: theories and empirical evidence for Canadian provinces. *International Journal of Public*,26(4), 427

Sheridan, T. (1987). Making budgets mean something again, management accounting,

Stephen, (1973). *Journal on Economic theory of Agency: The principal's Problem*

Theunis, K. (2011). *Fundamental of NGO management*: A practical guide to the financial management of NGOs.

Tracy (2011). Accounting for dummies, 5th Edition.

Walker, K.B and Johnson, E.N (1999) *The effects of a budget-based incentive compensation scheme on the budgeting behavior of managers and subordinates. Journal of Management Accounting Research*

Welsefeld, L. (1990), *How to make accounting a positive tool in management and.* Management Accounting (UK), November- December 19-20.

Zimmerman, J. L. (2003). Accounting for decision making and control, (4th edition). McGraw-Hill, New York, NY.

Appendix I: Letter of introduction

University of Nairobi

School of Business

P.O. Box 30197

Nairobi

RE: DATA COLLECTION

Dear Respondent,

I am a post graduate student, at the school of business, University of Nairobi. I am carrying out a research on effects of budget variances 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

……………………………….

Zipporah Kimani

MBA student, University of Nairobi

Mr. Baraza

…………………………….

Supervisor

Appendix II: Questionnaire

This Questionnaire is divided into two parts. It is designed to collect data on the effect of budget variances 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) What is the main reason for budgeting in your organization?

____

____

4) In your organization;

a) Who prepares proposal budgets (tittle)-----------------------------------

____

b) Who approves proposal budgets (tittle) -----------------------------------

----

Part B: SPECIFIC QUESTIONS ON BUDGET IMPLEMENTATION

Definition: *New donors means a donor who had not funded the organization prior to 2010*

5. Kindly fill in the below table regarding your Donors

Key issue	2010	2011	2012	2013	2014
Total Number of Donors					
Number of New Donors					

6. For each of the following financial years, kindly indicate your organization donor funding proposal and actual donor funding from new donors (in USD)

Key issue	2010	2011	2012	2013	2014
Proposal (New Donor)					
Actual Funding (New Donor)					

7. For each of the following financial years, kindly indicate your organization donor funding for both existing donors and new donors (in USD)

Key issue	2010	2011	2012	2013	2014
Total Donor Funding					
Funding from New Donors					

8. For each of the following financial years, kindly indicate your total organization donor funding and actual spending both existing donors and new donors.

Financial Year	Budgeted amount USD $	Actual USD $
2014		
2013		
2012		
2011		
2010		

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

Financial Year	Budgeted amount USD $	Actual USD $
2014		
2013		
2012		
2011		
2010		

10. What improvement would suggest in your organization as far as budget Implementation and variance is concerned.