

**THE RELATIONSHIP BETWEEN BUDGETARY CONTROL AND FINANCIAL
PERFORMANCE OF THE INSURANCE COMPANIES IN KENYA**

BY

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DECLARATION

I declare that this is my original work and has not been presented for a study in any University or college.

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D61/71007/2014

This research proposal has been submitted for examination with my approval as the University supervisor.

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DEDICATION

This research project is dedicated to my family, mother, brother, sisters and in-laws for their love, patience, help, support and encouragement and their prayers which saw me through in my course.

Special appreciation goes to my Bro Vincent Kinyua for typesetting and proof-reading my work, my husband Kenneth Ochollah and my daughter Leo Nicole for their perseverance, patience and unwavering support throughout my studies.

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ABSTRACT

A robust economic backdrop has been a key driver of underwriting activity and is likely to continue to be so over the coming years. A growing middle class and increased levels of households spending are creating an opportunity for both life and non-life insurers to grow their business. However, for sustainable financial performance and growth, there is dire need for good budgetary controls practices in any organization hence need to carry a further study on the same. This study sought to establish the relationship between the budgetary controls and the financial performance of the Insurance companies in Kenya. To achieve this objective, the study investigated the levels of planning, monitoring systems and participation in budget making. The study adopted a descriptive research design. The data used was primary and secondary data. The sample size of the study was 220 drawn from all the 44 insurance companies listed by IRA as at 2014. Secondary data necessary for the computation of the ROA was collected from the audited financial statements filed with the regulators (IRA). The data collected was then analyzed through descriptive and inferential statistics. The study found that budgetary controls such as planning for the budgets early, budget preparation and forecast enabled the budgets to be effective and efficient. Proper monitoring of the budgeting and budgeting process also proved to be efficient and significantly influenced the financial performance of the insurance companies. Lastly, participative budgeting was found to have a direct relationship with financial performance of the companies ($r=0.247$, $p=0.000$). All the aspects of budget control were found to have a direct relationship with financial performances of the companies and to increase the ROA of same companies. The study recommended that management incorporates the three controls measures in their budget making activities for higher financial performance of organizations.

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LIST OF ABBREVIATIONS

AKI:	Association of Kenya Insurers
CAR:	Capital Adequacy Ratio
CEO:	Chief Executive Officer
GDP:	Gross Domestic Product
ICT:	Information Communication Technology
IRA:	Insurance regulatory authority
NSE:	Nairobi Securities Exchange
OP:	Organization's performance
OPEC:	Oil Producing and Exporting Countries
PBOs:	Public Benefits Organizations
ROA:	Return on Asset
SACCOs:	Savings and credit Cooperative Societies

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In the business world today, organizations have developed a variety of processes and techniques designed to contribute to the planning and control functions. One of the most important and widely used of these processes is budgeting. Budgeting involves the establishment of predetermined goals, the reporting of actual performance results and evaluation of performance in terms of the predetermined goals. Budgetary control systems are universal and have been considered an essential tool for financial planning. The purpose of budgetary control is to provide a forecast of revenues and expenditures this is achieved through constructing a model of how our business might perform financially speaking if certain strategies, events and plans are carried out (Churchill, 2001).

Most firms use budget control as the primary means of corporate internal controls, it provides a comprehensive management platform for efficient and effective allocation of resources. Budgetary controls enable the management team to make plans for the future through implementing those plans and monitoring activities to see whether they conform to the plan, effective implementation of budgetary control is an important guarantee for the effective implementation of budget in the organization (Kiringai, 2002)

Most organizations have adopted broad budgetary control that ensures that the entire budget system is a control system, which it is the formation of a prior, during and after the whole process of control system through the budget preparation, budget evaluation, reward and punishment by monitoring of budget execution. With a narrow budgetary control, an organization can prepare a good budget as a basis for performance management and standards on a regular basis in order to compare actual performance with the budget to analyze differences in the results and take corrective measures, which mainly involves the process of budget implementation, evaluation and control (Hokal and Shaw, 2002).

1.1.1 Budgetary control

According to Scarlett, (2008), budgetary controls refer to the principles, procedures and practices of achieving given objectives through budgets. The budgetary control system helps in fixing the goals for the organization as a whole and concerted efforts made for its achievements.

Budgetary control is the process of developing a spending plan and periodically comparing actual expenditures against that plan to determine if it or the spending patterns need adjustment to stay on track. This process is necessary to control spending and meet various financial goals. Organizations rely heavily on budgetary control to manage their spending activities, and this technique is also used by the public and the private sector as well as private individuals, such as heads of household who want to make sure they live within their means (Dunk, 2009).

Budgetary control is a system of management control in which the actual income and spending are compared with planned income and spending, so that the firm can make decisions if plans are being followed and if those plans need to be changed in order to make a profit. Budgetary control is the one of best technique of controlling, management and finance in which every department's budget is made with estimated data. Then, the management conducts a comparative study of the estimated data with original data and fix the responsibility of employee if variance will not be favorable Organizations can use budgetary control in forecasting techniques in order to make plan and budget for the future (Epstein and McFarlan, 2011).

Some schools of thought have identified several criteria that the budget control systems of insurance companies must meet in pursuance of budget control. One such major classification is proposed by Shizhen (2005) which includes financial reporting, accounting records and source documentation, internal control, cost allowance and cash management and compliance frameworks.

The management of the organizations implements budgetary control to prevent losses resulting from theft, fraud and technological malfunction. These instructions also help management to ensure that expenses remain within budgetary limits. The importance of budgetary control is that it can be implemented by three departments in an organization to enhance effectiveness. These departments are accounting department, statistical department and management department. Accounting department provides old data. Statistical department provides the tools and techniques of forecasting like probability,

time series other sampling methods. Management department uses both department services to estimate the expenditures and revenue of business under the normal conditions of business (Suberu, 2010). Budgetary control will be measured by variance analysis.

1.1.2 Financial Performance

Performance refers to the extent to which an organization's goals and objectives are achieved effectively and efficiently while financial performance is a general measure of a firm's overall financial health status over a given period of time. According to San and Heng (2011), performance can be measured by using variables such as firm's cash flow, working capital, cost base, borrowing as well determining the firm's growth.

Organization's performance (OP) is partly dependent on its technology, processes, systems and employees. It is concerned with efficiency and effectiveness of operations. It is an indicator which measures how well an enterprise achieves their objectives, (Hamon, 2003). An organization can assess its OP according to the efficiency and effectiveness of goal achievement (Robinson, & Last, 2009).

Blair (1995) puts forward major areas in which performance can be examined. These include: liquidity, profitability, financial efficiency and debt repayment capability.

1.1.3 Budgetary Control and Financial Performance

Empirical studies by Fonjong (2007) show a positive link between budgetary controls and financial performance and have a good motivational impact by involving managers in the

budgeting process and by providing incentives to managers to help achieve the business's goals and objectives.

Budgetary control involves the preparation of a budget, recording of actual achievements, ascertaining and investigating the differences between actual and budgeted performance and taking suitable remedial action so that budgeted performance may be achieved effectively (Controllers report, 2001). Budgetary control is the system of controlling costs through budgets. It involves comparison of actual performance with the budgeted with the view of ascertaining whether what was planned agrees with actual performance. If deviations occur reasons for the difference are ascertained and recommendation of remedial action to match actual performance with plans is done (Coates, 2005).

By implementing proper budgetary control planning, the firm is able to reduce costs and improve on quality of its services based on its budgetary allocations. This helps to reduce on costs and achievement of goals is enhanced and thus organizational effectiveness (Mathis, 1989). By budgeting, managers coordinate their efforts so that objectives of the organization harmonize with the objectives of its parts. Control ensures that objectives as laid down in the budgets are achieved (Churchill, 2001).

1.1.4 Insurance Companies in Kenya

The insurance industry in Kenya is regulated by the insurance regulatory authority (IRA). The Insurance Regulatory Authority is a statutory government agency established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya to regulate, supervise and develop the insurance industry. As at December 2013, there were 41 registered insurance companies in Kenya. (Outlook of Kenya Insurance industry, 2014).

The insurance regulatory authorities (IRA) in their situational analysis of the industry 2013-2017 (IRA outlook, 2013) have found out that the industry generally is stable. Growth of the industry is on upward trend with most companies posting positive results. Risk exposure is moderate and most companies are now focusing on counties with 114 new branches likely to be opened by 2017. The insurance sector plays a significant role in the economic development and business sustainability. (Insurance Regulatory Authority Report, 2014).

The sector helps in risk mitigation, social security, investment, job creation and contributes to the country's gross domestic product. The key challenges facing the industry according to IRA are; pricing, premium collection, claims settlement, staffing, fraud, intermediary services, interest rates, price competition, ICT, consumer demand, insecurity and money laundering, cultural barriers, insurance perception, political uncertainty, skills and competence and costs of compliance. (Outlook of Kenya Insurance industry, 2014)

According to the Association of Kenya Insurers (AKI) report of 2013, motor commercial insurance brings the highest premium at 25.7% followed by motor private at 19.1%. The report also places Kenya as the fourth best performing insurance market in Africa after South Africa, Morocco and Mauritius. It also performs better than Mexico, China and Russia.

1.2 Research Problem

Although there is a growing literature linking budgetary control to company financial performance, there is equally a growing diversity of results. The diversity of results has been partly explained by differences in the theoretical perspectives applied, selected research methodologies, measurement of performance and conflicting views on board involvement in decision making and, in part, to the contextual nature of the individual firm. For a sustainable financial performance and growth, there is dire need for good budgetary controls practices in any organization hence need to carry a further study on the same. (Epstein and McFarlan, 2011).

The country has a high level of insurance penetration with premiums equivalent to about 3% of GDP, and is also home to some of Africa's largest insurance groups. A robust economic backdrop has been a key driver of underwriting activity and is likely to continue to be so over the coming years. A growing middle class and increased levels of households spending are creating an opportunity for both life and non-life insurers to grow their business. With higher disposable incomes, increasingly, Kenyans are gaining awareness and investing in personal lines, including health, property and motor vehicle covers as well as savings and retirement income products.

BMI's Country Risk team forecast the economy to expand by 6.7% in 2015 - a revision on our 6.0% growth forecasts - with GDP growth expected to remain steady at about 6% a year through to 2019. With these analysis in mind, Insurance companies are drawing budgets that are making sure they satisfy their customers and are putting in stringent budgetary controls measures to ensure any deviation from the budgets are rectified with

immediate effect so as to ensure its financial performance is getting better and better each financial year. (Kenya Insurance Report, 2015)

Dunk (2007) carried out a study in Europe on budgetary participation and managerial performance in nonprofit making firms and concluded a positive correlation between budgetary participation and managerial performance in nonprofit making organizations. Epstein and McFarlan (2011) carried out a study in Denmark on measuring efficiency and effectiveness of a nonprofit's performance, it was found that budgetary control was one of the important tools in achieving efficiency of in nonprofit making organizations.

Ong'onge (2009) conducted a descriptive survey, using a population of 1,200 registered savings and credit Cooperative Societies (SACCOs) in Nairobi, a sample size of 40 SACCOs was selected using a simple random sampling method. Primary data was collected using a semi-structured questionnaire. Descriptive statistics especially percentages were used to establish the budgetary process used by the SACCOs. The study found that budgets in SACCOs serve to aid control, aid both short and long term planning, communicate plans, and coordinate activities and also to evaluate performance. Majority of SACCOs used a combination of both top-down and bottom-up approach when preparing budgets. Although substantial research has been done on budgeting and financial performance, there remains unsearched and unknown relationship between budgetary control and financial performance of the companies. Do budgetary controls influence financial performance of companies?

1.3 Objective of the Study

To determine the relationship between budgetary control and financial performance of insurance companies in Kenya.

1.4 Value of the Study

The findings of this study are of great benefit and interest to managers, stakeholders, Academicians & researchers and the government as seen below.

Managers of companies- can benefit from the findings of this study by adopting proper measures of budget control to ensure efficient and effective utilization of available budget. The study, having examined the principle of budgeting, preparation, implementation and control, the other firms will be in a better position in dealing with budgets and budgetary control matters. The study will also enable managers and directors of companies to appreciate the importance of budgetary control and its effects on financial performance of companies.

Government-In allocation of national resources the government has to prepare programs for coping with all elements of the country's existence and most of these will be associated directly or indirectly to economic conditions. The plight of cultivators, the difficulties faced by big and small enterprises and industry, working conditions, trade union activities, the challenge of distribution, even the size and character of defense services are issues which require research. Thus budgetary control is mandatory with regard to the allocation of nation's resources.

Public - The study has information which can enable the customers, and suppliers of goods and services choose the kind of business that will add value to the business community especially insurance company investors as this will allow them to determine whether to use budgetary controls to improve on their financial performance or not. The results of the study would help corporate managers in the decision making process, because the study would establish whether there is a linkage between the budgetary controls and financial performance of the organization. The outcome of this research helps the employees to identify companies which are having a going concern when looking for job opportunities.

Academicians and researchers – The researchers and academicians have a chance of sharing new ideas obtained from the study. They can use the knowledge gained to advance in their fields of interest. Academicians and scholars will benefit from the study in that it will provide a useful basis upon which further studies on budgeting for insurance companies will be conducted. The study will also add to the ever expanding literature on Insurance companies as most of the studies which have been carried out on Insurance companies are about the budget making process and not budgetary control. Researchers will also benefit from this study, since the study will inform on the some of the best ways of effecting of budgetary control and ensuring efficient utilization of resources. This can lead to improved financial performance of Insurance companies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section covers the theoretical framework of the study; it discusses theories that support budgetary control, determinants of financial performance, empirical studies and the summary of the literature review. The chapters also highlight the benefits of budgeting and eventually conclude by identifying gaps and areas that need further study.

2.2 Theoretical Review

There are various theories that contribute to the concept of budgeting and performance. These include the Resource Dependency Theory, Stewardship Theory and The Agency Theory.

2.2.1 Resource Dependency Theory

The key for organizations survival is the ability to acquire and maintain resources (Pfeffer and Salancik, 1978). The resource dependence theory advances the view that organizations are not able to internally generate all the resources or functions required to maintain themselves, they must therefore develop relationships with elements in the outside environment to obtain the required resources and services. Internal systems that satisfy the demands of both internal and external resource providers must therefore be put in place. Consequently, resources give organizations power, which changes relationships by prioritizing shareholders' interests, working towards increasing their value and revising compensation practices to improve performance and share price. The

accessibility to resources enhances organizational functioning, performance and survival (Daily, Dalton & Canella, 2003).

The survival of Insurance companies depends on good and effective management. If the performance of a given company is impressive, investors and customers will be willing to associate with such a company. One way of ensuring good financial performance in an insurance company is by enhancing budgetary control measures.

2.2.2 The Stewardship theory

According to Donaldson and Davis (1991), stewardship theory holds that managers are not only self-interested but are also capable of positive actions; they have a need for achievement and internal satisfaction, and will improve their performance in their role as stewards of organizational resources to meet these needs. According to stewardship theory, performance variations arise, not from inner motivational problems among executives, but from whether the structural situation in which the executive is located facilitates effective action by the executive. Donaldson and Davis (1991) present that stewardship theory focuses not on motivation of the CEO but rather facilitative, empowering structures.

In stewardship theory, the model of man is based on a steward whose behavior is ordered such that pro-organizational, collectivistic behaviors have higher utility than individualistic, self-serving behaviors. The stewardship theory defines situations in which managers are not motivated by individual goals. They are rather stewards, whose motives with the objectives of their principals are aligned. Stewardship theorists assume a strong relationship between the success of the organization and the principal's satisfaction. A

steward protects and maximizes shareholders' wealth through firm performance, because, by so doing, the steward's utility functions are maximized (Davis et al., 1997).

In the insurance sector stewardship theory provides that managers and implementers should diligently apply resources to achieve maximum returns to the stakeholders who are the investors and customers. It argues that managers are not only self-interested but are also capable of positive actions, they have a need for achievement and internal satisfaction, and will improve their performance in their role as stewards of organizational resources to meet these needs. To enhance the level of efficiency, checks and balances needs to be put in place.

2.2.3 The Agency Theory

Jensen and Meckling (1976) define an agency relationship as a contract under which one or more persons the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. If both parties are utility maximizers (opportunistic behavior); a good reason exists to believe that the agent will not always act in the best interests of the principal. Divergence exists between the agent's decisions and those decisions which would maximize the welfare of the principal. Within this principal-agent relationship, owners have an interest in maximizing the value of their shares, whereas managers are more interested in 'private consumption of firm resources' and firm growth.

The 'model underlying the Agency Theory is that of a rational actor who seeks to maximize his or her utility with the least possible expenditure. Both agents and principals seek to receive as much possible utility with the least possible expenditure. Thus, given

the choice between two alternatives, the rational agent or principal will choose the option that increases his or her individual utility (Davis, Schoorman & Donaldson, 1997).

In insurance companies, stakeholders should incur agency costs e.g. monitoring to control activities of managers and track implementation of various activity line items. Agency contracts provide for performance related financial rewards to encourage managers to act in the interests of shareholders.

2.3 Determinants of Financial Performance

Financial performance is determined by various factors which are divided into internal and external factor as discussed below;

The internal factors are company specific variables which influence the financial performance and profitability of a specific company. These factors are within the scope of the company to manipulate them and they differ from company to company. In the case of insurance companies, these include capital adequacy, asset management, management efficiency and liquidity management. The external factors which include Macroeconomic Factors and other factors that an individual company cannot manipulate such factors include; Gross Domestic Product (GDP) and Inflation.

2.3.1 Capital Adequacy

Capital is one of the insurance company's specific factors that influence the level of its profitability. Capital is the amount of own fund available to support the company business and act as a buffer in case of adverse situation (Athanasoglou et al. 2005). Moreover, greater company capital reduces the chance of distress (Diamond, 2000).

However, it is not without drawbacks that it induce weak demand for liability, the cheapest sources of fund Capital adequacy is the level of capital required by the company to enable them withstand the risks such as credit, market and operational risks they are exposed to in order to absorb the potential loses and protect the company's debtors. According to (Dang 2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the company to withstand losses during crisis. Capital adequacy ratio is directly proportional to the resilience of the company to crisis situations. It has also a direct effect on the profitability of company's by determining its expansion to risky but profitable ventures or areas (Sangmiand Nazir, 2010).

2.3.2 Liquidity Management

Determines the level of firm performance. Liquidity refers to the ability of the firm to fulfill its obligations, mainly of customers. According to Dang (2011) adequate level of liquidity is positively related with firm profitability. The most common financial ratios that reflect the liquidity position of a firm according to the above author are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. For instance Ilhomovich (2009) used cash to deposit ratio to measure the liquidity level of company in Malaysia. However, the study conducted in China and Malaysia found that liquidity level of company has no relationship with the performances of company (Said and Tumin, 2011).

2.3.3 Inflation

Is a significant indicator for securities markets because it determines how much of the real value of an investment is being lost, and the rate of return you need to compensate for that erosion. For example, if inflation is at 3% this year, and your investment also increases by 3%, in real terms you have just managed to stay even. And to take on market risk, you should receive a risk premium. Above and beyond the inflation rate. So investors who buy stocks do so expecting they will get a return equal to (or better than) that risk premium adjusted by the inflation rate. So a higher rate of inflation means you should get a higher return for investments in the equity markets.

But the effect inflation has on the stock market is more complicated than that. The main impact of inflation on stock prices actually comes from the effect it has on a company's earnings. Low inflation keeps a company's costs down, and increases profits. So all other things being equal, (a favorite phrase of all economists), low inflation is better for the market than high inflation.

There are many causes of inflation. From a supply-demand standpoint, it can be due to increased demand for a particular product, from an increase in a company's cost of supplies, or from limited supplies (like OPEC members restricting oil supplies), or even just due to fear that supplies might be limited at some point in the future. But the single most important determinant of inflation is the output gap, which is the balance between supply and demand in the economy.

2.3.4 Asset Management

The company's asset is another specific variable that affects the profitability of a company. The asset of a company includes among others current asset, fixed asset, and other investments. More often than not the insurance cover is the major asset that generates the major share of the firm income. The quality of insurance cover determines the profitability of insurance. The insurance cover quality has a direct bearing on company profitability. The highest risk facing insurance is the losses derived from delinquent insurance cover defaults (Dang, 2011). Thus, nonperforming insurance covers are the best proxies for asset quality. Different types of financial ratios used to study the performances of insurance company's by different scholars. It is the major concern of all insurance companies to keep the amount of nonperforming covers to low level.

2.3.5 Management Efficiency

It is represented by different financial ratios like total asset growth, firm's growth rate and earnings growth rate. Yet, it is one of the complexes subject to capture with financial ratios. Moreover, operational efficiency in managing the operating expenses is another dimension for management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others. Yet, some financial ratios of the financial statements act as a proxy for management efficiency. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. One of these ratios used to measure management quality is operating profit to income ratio (Sangmi and Nazir, 2010).

The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation. The other important ratio is that proxy management quality is expense to asset ratio. The ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al. 2005).

2.3.6 Gross Domestic Product

Trend of GDP affects the demand for insurance services. During the declining GDP growth the demand for insurance services falls which in turn negatively affect the financial performance of profitability of insurance companies. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for insurance services is high due to the nature of business cycle. During boom the demand for credit is high compared to recession (Athanasoglou et al., 2005).

2.4 Empirical Studies

Callahan and Waymire (2007), according to government statistics, at the end of June 2006, there was over \$7 trillion of corporate, state, and local government, asset-backed structured finance bonds outstanding with much of it rated by only a (literal) handful of bond rating companies that establish creditworthiness of corporate entities and of governmental units. Linking bond ratings to performance is important particularly in a governmental setting where credit ratings remain a key feature of municipal debt management, and debt is the key source of capital. In this study, the researchers examined whether budgetary control and its relationship with performance, using a

sample of large U.S. cities over the 2003-04 timeframe. The study found that the effective level of budgetary control was significantly and positively related to bond rating.

Marcormick and Hardcastle (2011) carried out a study on budgetary control and organizational performance in government parastatals in Europe. A sample of 40 government parastatals were used for establishing the relationship between budgetary control and organizational performance, secondary data was used and a period of ten years was reviewed. A regression model was used for data analysis and the results of data analysis revealed a positive relationship between budgetary control and organizational performance of government parastatals.

Nickson and Mears (2012) examined the relationship between budgetary control and performance of state ministries in Boston Massachusetts, a sample of five ministries were examined to test the relationship between budgetary control and performance of state ministries, secondary data was used and a review of 10 years was used, a regression model was used for data analysis and a statistical positive relationship was found between budgetary control and performance of state ministries. The results of the regression analysis concluded that proper budgetary control measures led to performance of state ministries.

Obulemire (2006) conducted a survey of budgetary practices secondary schools where he found out that budget committee and interdepartmental discussions groups were the most used budgetary tools with less emphasis on brainstorming also found that failure to

consider motivation of employees and participation by all staff in the budgetary process was a challenge.

Silva & Jayamaha (2012) sought to evaluate budgetary process of apparel industry in Sri Lanka and see whether budgetary process has significant impact on performance of such industry. Based on the data extracted from apparel industry's financial statements, correlation coefficients and regression analysis showed that budgetary process have significant associations with the organizational performance of apparel industry in Sri Lanka. This confirms that efficient apparel companies maintain sound budgetary process which contributes to higher levels of organizational performance hence a positive relationship.

A survey conducted by Ambetsa (2004) of budgeting practices by commercial airlines, operating at Wilson airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in preparation of the budget together with lack of top management support. All enterprises make plans using budget, some in a systematic and formal way, while others in an informal manner, but still have some form of budgeting and budgetary control practice. Therefore the issue is not whether to prepare a budget, but rather how to do it effectively.

Gacheru (2012) in her study on the effect of budgetary process on budget variances in PBOs in Kenya sought to determine the relationship between budgeting process and budget variances in Kenyan PBOs. Based on the population of 6,075 she used a sample

of 20 to collect data and descriptive data analysis and concluded that budget preparation, control and implementation significantly influence budget variance.. Ade (2012) sought to accomplish the following objectives; determine the salient features of budgetary controls in state corporations, establish the human factors within budgetary controls, establish the process of budgetary control in public organizations, and determine the challenges affecting budgetary control. The relationship between budgetary control and financial performance was undertaken through carrying out a correlation analysis of the dependent and independent variables.

Karanja (2011) examined the effect of budgetary control process in Saccos with specific reference to SACCOs in Nyeri County. Descriptive research design was chosen because it enables the researcher to generalize the findings to a larger population. The population of this study was the 120 finance officers of SACCOs in Nyeri according to ministry of cooperative development and marketing 2011. From each stratum the study selected 30% of stratum population using simple random sampling method. Primary data is information gathered directly from respondents and for this study the researcher used questionnaires. The study concludes that finance and administration departments participated in budgetary control processes. Budgetary control processes are not intimately linked with considerations of labor controls. Participation of all the stakeholders makes the budgetary process too lengthy and time-consuming.

Ong'onge (2009) conducted a descriptive survey, using a population of 1,200 registered savings and credit Cooperative Societies (SACCOs) in Nairobi, a sample size of 40 SACCOs was selected using a simple random sampling method. Primary data was

collected using a semi-structured questionnaire. Descriptive statistics especially percentages were used to establish the budgetary process used by the SACCOs. The study found that budgets in SACCOs serve to aid control, aid both short and long term planning, communicate plans, and coordinate activities and also to evaluate performance. Majority of SACCOs used a combination of both top-down and bottom-up approach when preparing budgets.

2.5 Summary of Literature Review

The relationship between budgetary control and financial performance has been investigated for more than 3 decades. Studies have found positive, negative and no relationships. The general problem is that the literature presents inconsistent findings on the relationship between budgetary control and financial performance. The specific focus of this study is therefore to find out the relationship between budgetary control and financial performance of insurance companies in Kenya.

Budgetary controls in the insurance sector has rarely been studied in Kenya and regarding its features, its budget process and some of the challenges faced in implementing budgetary control. It has also been noted that most studies have used Net profit to measure financial performance. Using Net profit is not the best way to measure financial performance since different companies use different size of capital to invest thereby making comparison based on net profit difficult. The study was intended to plug the above said gaps.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was used in gathering data, analyzing data and reporting results. The research methodology refers to the research design that was used, population, Sample, data collection as well as data analysis. The research design addressed purpose of the research which was to establish well the relationship between budgetary control and financial performance, data was collected through a questionnaire from the management of the insurance companies. This chapter specifies the research design, population, sample size, data collection methods and data analysis.

3.2 Research design

The study used a descriptive survey study research design which aimed at examining the budgetary controls among insurance companies. A descriptive survey is usually concerned with describing a population with respect to important variables with the major emphasis being establishing the relationship between the variables. The advantage of this type of research design is that it is easy to understand as recommended by (Kothari, 2005). This design attempts to collect data from members of the population and describes existing phenomenon with reference to budgeting controls.

3.3 Population and Sample

The population of interest of this study was all the 44 insurance companies in Kenya licensed by IRA as at December 2014. The reasoning for studying all the insurance

companies is guided by Nachmias and Nachmias (2007) on the need for sampling who indicated that when the population is small, error of sampling increases and it is advisable to study the whole population.

3.4 Data collection

Hand delivery of physical copies of questionnaires was preferred. However, in cases where this was not possible due to the limited time and cost, questionnaires were administered through internet. Secondary data necessary for the computation of the ROA was collected from the audited financial statements filed with the regulators (IRA).

3.5 Data Analysis

Data was analyzed using SPSS since it is best suited for establishing quantitative association between variables. Linear regression was used to quantify the strength of the relationship between the independent variables (budgetary control) and the dependent variable (Financial performance). The equation used to establish the relationship was as given in the following section:

3.5.1 Analytical Model

The study used the following regression model

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

α - Constant (the financial performance without any budget control)

X_1 =planning (was measured as the percentage of the respondents who agreed that their company uses planning as a control tool)

X2 = Monitoring and control (was measured by the number of organizations which carries out the monitoring as a budgetary control tool)

X3 = participative budgeting (measured by the number of respondents who agreed that their organization carries out participative budgeting as a budgetary control tool).

The researcher also performed a correlation analysis on the independent variables to find out if they had significant relationship among them at 5% level. The purpose was to ensure that no multi co-linearity existed between the variables with the aim of including them in the multiple regression analysis as well as determining the ones that had significant influences on financial performance dimensions that will be used in the study.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter details the data findings, presentations and the interpretation of the results. The chapter is structured into several sections. This includes the introduction of the chapter, the background information of the Insurance companies such as the budgeting period of the companies, the frequency of reviews and approximate values of the budgets. There are also sections discussing the extent of use of budgetary controls and lastly a section on the relationship between budgetary controls and the financial performance.

4.1.1 Response Rate

The researcher collected secondary data and primary data from 44 Insurance companies. Table 4.1 shows the response rate of the study.

Table 4. 1 Response Rate

Questionnaires	Total numbers	Percentage	Response
Uncollected/unfilled	6	3%	Non response
Filled and collected	214	97%	Response rate
Total distributed	220	100	

The results shown in table 4.1 shows that 214 questionnaires were filled and collected out of the 220 distributed. This translates to a total response rate of 97%. According to

Mugenda and Mugenda (2003), a response of more than 70% was excellent for a study. Thus a response rate of 97% was considered good and reliable for the study.

4.2 Descriptive statistics

The following sections have discussed the background information of the insurance companies and the respondents who took part in this study.

4.2.1 Period covered by the overall Organization budget

The respondents were requested to indicate the duration of the overall budget for their respective insurance companies. The results are shown in figure 4.1.

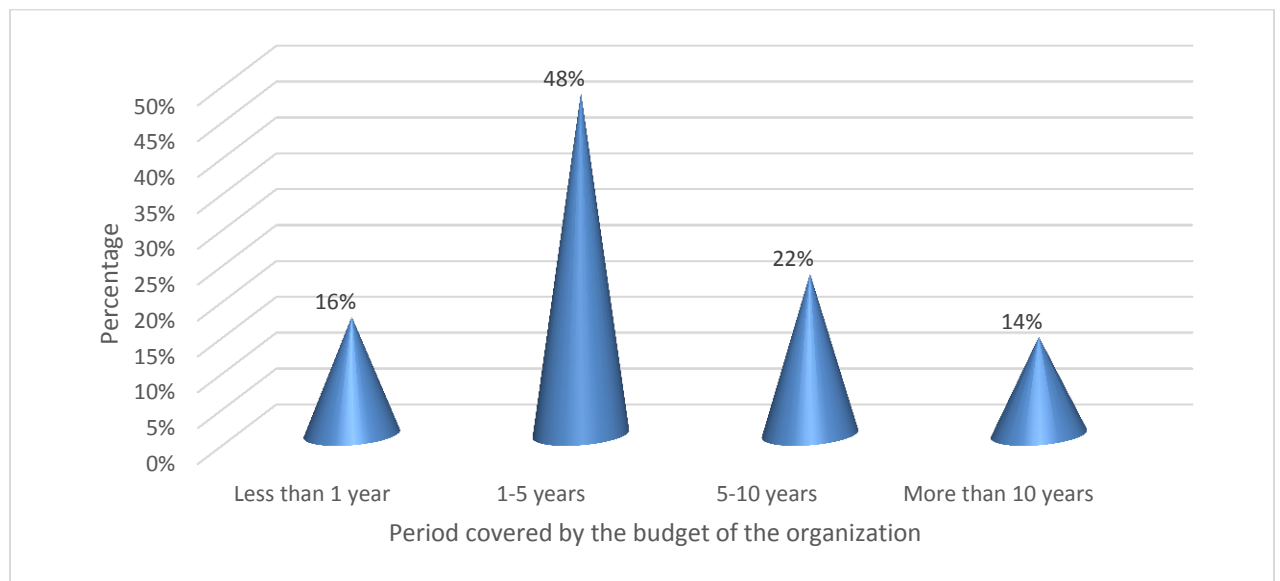


Figure 4. 1 Period covered by the overall Organization budget

Figure 4.1 presents the results on the period covered by the overall budgets of various Insurance companies. according to the results, most of the companies (48%) prepare budgets which cover a period ranging from 1-5 years, followed by those companies which prepare overall budgets covering 5 -10 years.

4.2.2 Frequency with which overall budget is reviewed

The respondents provide information on the frequency with which their companies were reviewing their budgets. The findings are provided in figure 4.2.

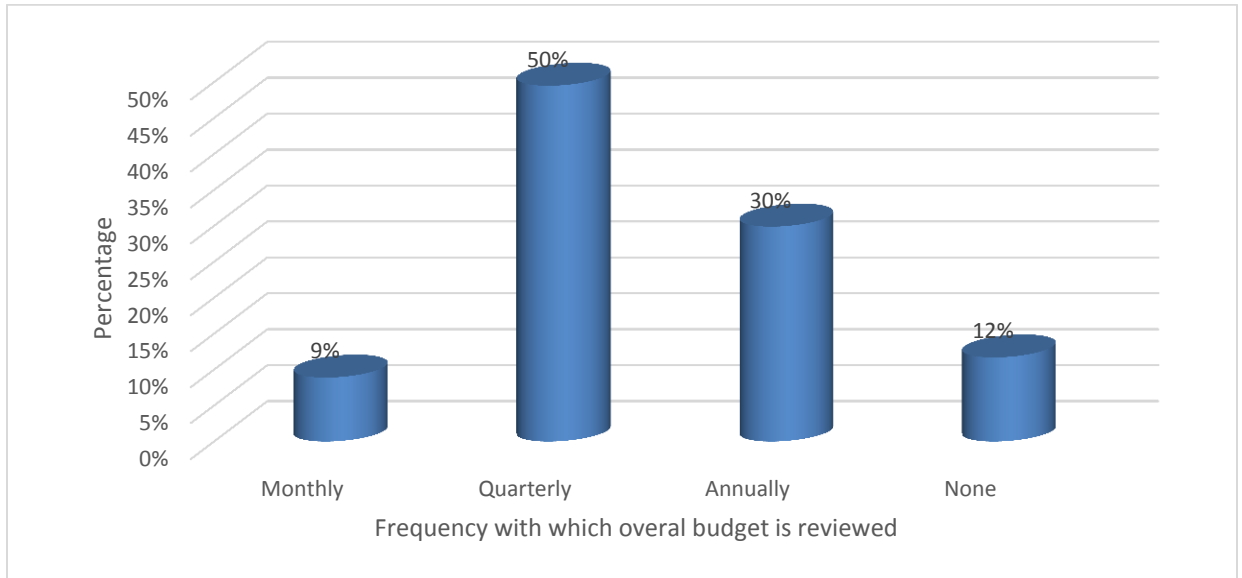


Figure 4. 2 Frequency with which overall budget is reviewed

The results in figure 4.2 shows that 50% of the companies represented by the respondents reviewed their budgets on a quarterly basis , followed by 30% of the companies who reviewed their budgets on annual basis. This shows that most of the companies reviewed their budgets after every quarter and a good number on annual basis.

4.2.3 Approximate budget revenue

The respondents were requested to provide information pertaining the budgets revenues estimates. The findings on the approximate values of the budget revenues for various companies are shown in figure 4.3.

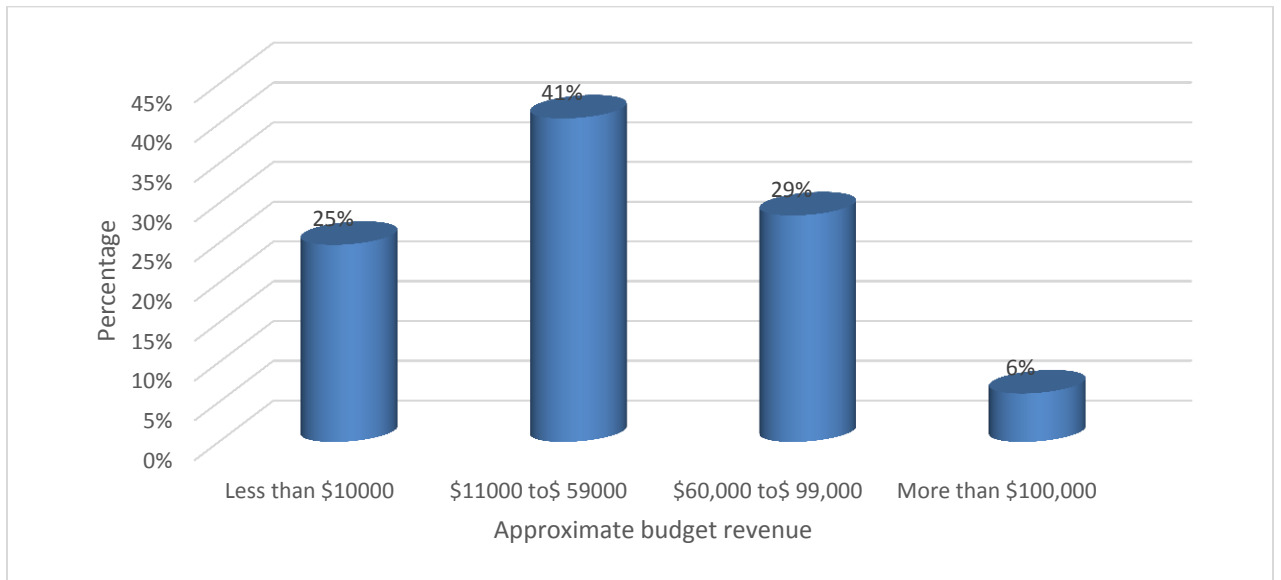


Figure 4. 3 Approximate budget revenue

Figure 4.3 shows that in most (41%) of the Insurance companies represented, their budget revenues were ranging between \$11,000 and 59, 000, followed by 29% of the companies whose budget estimates ranged between \$60, 000 and 99, 000 and thirdly 25% of the companies whose budget revenues were less than \$10, 000. The results show that most of the Insurance companies budgeted for revenues between \$11, 000 and \$99, 000.

4.2.4 Duration worked with the company

The researcher requested the respondents to indicate the duration of time they had worked with their current Insurance companies. The results on the duration of time spent with the companies are shown in figure 4.4.

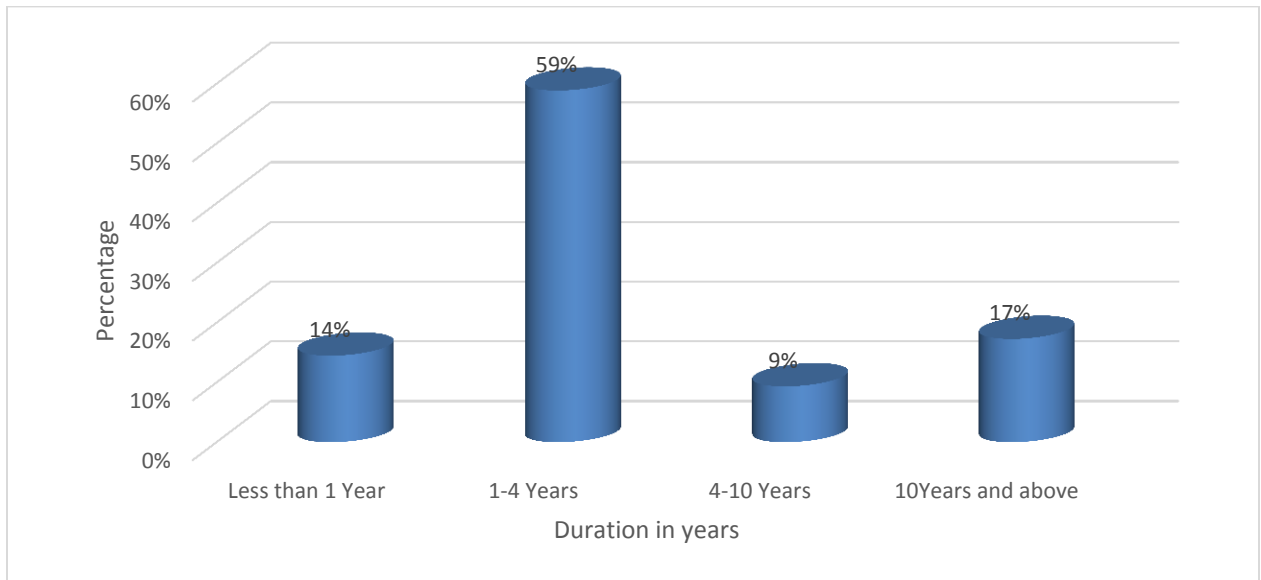


Figure 4. 4 Duration worked with the company

According to figure 4.4, majority of the respondents (59%) who took part in this study had worked with their current Insurance companies for periods ranging from 1-4 years. Approximately 17% of the respondents had worked with their companies for more than 10 years and 14% for less than 1 year. The above results imply that most of the respondents had good work experience with their current companies and thus could be relied upon to give credible information about their companies.

4.2.5. Budgetary control tools

The study employed descriptive statistics such as mean and standard deviation to analyze the data collected on budgetary control tools. The value of the mean was then used to derive meaning of the budgetary controls.

Table 4. 2 Budgetary control tools

Mean	Representing	Meaning/interpretation
Less than 1.40	Yes	Agree
Between 1.41 and 1.6	Neutral	Partially agreed
Above 1.60	No	Disagree

Table 4.2 provides a criterion used by the researcher in the interpretation of the data collected on budgetary tools. As shown in the table, values less than 1.40 was used to mean agree, between 1.40 and 1.60 meant partial agreements and a mean of more than 1.60 implied disagree.

4.2.6 Planning as a budgetary control tool

The first budgetary control tool studied was planning. The results on planning in insurance companies according to the respondents are shown in table 4.3.

Table 4. 3 Planning as a budgetary control tool

				Std.
	Min	Max	Mean	Dev
All departments/programs prepare budget plans prior to the budget year	1	2	1.30	.461
Our Budgets cover all the aspects of our Mission	1	2	1.35	.477
We set priorities for the coming year at budget/work plan meetings	1	2	1.35	.478
Our organization has Long term and short term Budget Plans ¹	1	2	1.38	.486
Whether budgeting, outcome goals/objectives are linked to programs	1	2	1.38	.487
Our budgets have clear goals and objectives	1	2	1.41	.492

Table 4.3 shows that on average, in most insurance companies, departments prepared their budgets before the budget periods (M=1.30), budgets covered aspects of company missions (M=1.35) and set priorities for subsequent years at work meetings (M=1.35). The findings further shows that most of the companies had both long term and short term budget plans (M=1.38) and budgeting outcomes were linked to programs. The study found some company budgets had clear goals and objectives while others did not have. The above findings point out that there existed some planning for the budgets in the insurance companies.

4.2.7 Monitoring and control

The second control tool which the study investigated was the monitoring and control systems in the companies as shown in table 4.4.

Table 4. 4 Monitoring and control

				Std.
	Min	Max	Mean	Dev
We have Budget Approval levels to check on spending	1	2	1.29	.454
Managers hold budget review meetings regularly to review performance	1	2	1.30	.459
Controls and approval is done by the head of departments	1	2	1.32	.467
Budget deviations are reported to management	1	2	1.35	.477
The deviations from the budget targets are frequently reported	1	2	1.37	.485
The costs of activities are always reviewed by the executive committee	1	2	1.38	.486
Budget performance evaluation reports are prepared regularly	1	2	1.39	.488
There is a regular follow up on budget plans by the budget committee/Departmental heads	1	2	1.39	.490
Managers always take timely corrective actions when adverse variances are reported	1	2	1.40	.490

On average, the respondents agreed that their companies had different budget approval levels to check on spending (M=1.29), managers reviewed performances regularly (M=1.30), controls and approvals were done by departmental heads (M=1.32), budget variances (M=1.35) and deviations from budget targets (M=1.37) were reported to the management. There was also agreement that costs of activities were reviewed by the executive committees (M=1.38), budget performance evaluation reports were prepaid regularly (M=1.39), there were regular follow ups of the budgets by the budget committees and managers took timely corrective actions when adverse variances were reported. The results show that companies had put in place some monitoring and control measures to safeguard the budgeting process.

4.2.8 Participative budgeting as a budgetary control tool

A third control process studied was the participative budgeting .The researcher collected information from the respondents on the nature of participation and levels of participation in the companies at budgeting preparations processes.

Table 4. 5 Participative budgeting as a budgetary control tool

				Std.
	Min	Max	Mean	Dev
I'm involved in the budget setting process	1	2	1.34	.475
Leadership and support is given to all the Subordinates throughout the budget by managers	1	2	1.37	.484
All departments are always involved in the budgeting process	1	2	1.38	.487
All the stakeholders to the budget are involved	1	2	1.38	.487

Approved Budgets are shared with all Departments	1	2	1.38	.485
Each department prepares a budget prior to the Overall budget	1	2	1.38	.486
We are sensitized on the budget control process	1	2	1.39	.488

Table 4.5 shows that respondents agreed that they took part in budget setting processes (M=1.34), leadership and support was given to all the subordinates throughout the budget by managers, all departments were considered in budgeting process (M=1.38) and all stakeholders were took part in budgeting process (M=1.38). Further, the respondents agreed that in their companies approved budgets were shared with all departments (M=1.38), each department prepared budget before the overall budget (M=1.38) and that they were sensitized on budget control processes (M=1.39). The results indicate that on average and in most of the companies the budget making process was participative.

4.2.9 Financial performance of the Insurance companies

The financial performance of the Insurance companies was measured by the use ROA (Return on Asset. This was calculated as follows.

$$ROA = \frac{\text{Net profits}}{\text{Total Assets of the company}}$$

The ROA was categorized into several levels as shown in table 4.6.

Table 4. 6 Rating on ROA

Rating of ROA	ROA
Poor	Below 0%

Somehow good	0.1-3 %
Good	3.1-10%
Very good	More than 10%

The table shows that, a return of less than 0% indicated poor return, a return of between 1-3% was somehow good, ROA of 3% and 10% was good and a return of more than 10% was very good.

4.2.10 Performance of the Insurance companies

The results on the performance of the Insurance Companies were summarized as shown in table 4.7.

Table 4. 7 Performance of the Insurance companies

Rating	Freq.	Percent
Somehow good	25	56.82
Good	12	27.27
Poor	5	11.36
Very good	2	4.55
Total	44	100

As shown in the table, majority of the companies performed somehow good with a ROA between 1 and 3% followed by those companies which had a ROA of between 3-10% . The above results show that most of the companies were doing well with only 11.365 of companies having recorded losses (ROA was negative).

4.3 Regression model

Regression was used to establish the effect of budgeting controls variables on the financial performance of the insurance companies.

Table 4. 8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.479 ^a	.229	.218	2.69510

a. Predictors: (Constant), participative budgeting, planning, Monitoring control

Table 4.9 shows a r square of 0.229. Thus the model summary shows that budgeting controls factors explained 22.9% Of the variations in the financial performance of the insurance companies. The remaining 77.1% is explained by other variables which are not in this model.

Table 4. 9 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	454.237	3	151.412	20.845	.000 ^b
1	Residual	1525.349	210	7.264		
	Total	1979.586	213			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), participative budgeting, planning, Monitoring and control

The ANOVA results show the significance of the model variables on the dependent variable. In this model the F statistic was $F(3, 210)=20.845$, $p=0.000$). This shows that the budgeting variables used in this model were significant predictors of the financial performance.

Table 4. 10 Coefficients

Model	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	-4.515	.894		-5.047	.000
Planning	2.129	.447	.291	4.766	.000
Monitoring & control	1.857	.429	.277	4.326	.000
Participative budgeting	.853	.402	.136	2.124	.035

Dependent Variable: Financial performance

The results shown in table 4.11 show the coefficients of the regression model. From the findings, all the variables had a p-value of less than 0.05. This indicates that the results portray a 95% confidence that they were not occurring by chance. This shows that each of the variables was significant predictor of the financial performance.

The regression model of the study was

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where

Y= financial performance of the company (ROA)

α =constant (level of performance when no control was taken into account)

X_1 =planning

X_2 =monitoring and control

X_3 =participative budgeting

B_i 's =the coefficient of the variables

ϵ =error term

From the above results, the resulting model of the study becomes,

$$Y = -4.515 + 2.129x_1 + 1.857x_2 + .853x_3$$

The resulting model means that absence of any budgetary control leads to a loss of 4.515 units of the financial performance of the companies. A unit increase in planning holding other factors constant would lead to an increase in financial performance by 2.129 and a unit increase in monitoring holding other factors constant would lead to an increase in financial performance by 1.857 units. Lastly a unit increase in participation during budgeting processes holding other factors constant leads to an increase in financial performance by 0.853 units. This shows that budgetary controls variables affect the financial performance of the insurance companies positively. The t statistics and p values for the variables $t=4.766$, $p<0.001$ for planning, $t=4.326$, $p<0.001$ for monitoring and control and lastly $t=2.124$, $p=0.035$ for participative budgeting. All the t statistics values were all greater than 1.96 and their respective p values were less than 0.05. This shows that the effect from the variables were statistically significant in influencing the financial performance of the companies.

4.4 Correlation analysis

Pearson correlation test was used to establish the direction and the strength of the relationship between the budgetary control variables and the financial performance of the companies.

Table 4. 11 Correlation test

		Performance	Planning	Monitoring	Participative
				control	budgeting
Performance	Pearson Correlation	1	.336**	.354**	.247**
	Sig.		.000	.000	.000
planning	Pearson Correlation	.336**	1	.119	.086
	Sig.	.000		.084	.209
Monitoring and control	Pearson Correlation	.354**	.119	1	.313**
	Sig.	.000	.084		.000
Participative budgeting	Pearson Correlation	.247**	.086	.313**	1
	Sig.	.000	.209	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4.8 shows that planning and financial performance of the companies had a positive and significant correlation ($r=.336$, $p=0.000$). Monitoring and control and performance were significantly positively correlated ($r=0.354$, $p=0.000$) and participation and performance also had a positive significant correlation ($r=0.247$, $p=0.000$). The results imply that planning, monitoring and participation in budgeting processes were positively correlated with performance of the companies. Thus an increase in any of the budgeting

processes corresponded to increase in performance. The correlation test also confirms that there exist no strongly correlated variables which could lead to multicollinearity in regression analysis which is covered in the subsequent section.

4.5 Interpretation and discussion of the findings

This study collected data from Insurance companies in Kenya. In this study most of the companies (48%) prepared long term overall budgets of between 1-5 years and some prepared budgets for 5–10 year's periods. This shows that most of the Insurance companies were doing long term budgeting. However, the budgets were reviewed in most of the companies (50%) on quarterly and annual basis. This shows that long term budgeting was subject to frequent reviews.

The budget revenues for the companies represented were high with 41% of the companies ranging between \$11, 000 and \$59, 000. This was followed by 29% of companies who had approximate budgets of between \$60, 000 to \$ 99, 000. Only a small percentage of 6% of the insurance companies had revenue budgets of more than \$100, 000. This shows that most of the revenue budgets for the companies were ranging between \$11000 and \$59,000.

The first budgetary control tool was the planning for the budget. The study found that on average companies planned long before the budgets were prepared. Also departments prepared budgets prior to overall budget preparations (M=1.30), budgeting considered missions of the companies (M=1.35) and budgets were set in work committees in good time before the annual budgets. Also companies had both long terms and short budgets

which linked budget outcomes with programs. This forecasting incorporates planning which in turn ensures effective budget implementation and success.

Secondly the study found that companies had put some monitoring and control measures in their process to control budgeting such as different approval levels on spending (M=1.29) regular review of budgets by managers (M=1.30), control by head of departments and reporting of budgets deviations to the management for timely corrective actions. There existed some executive committees in some companies to check on cost of activities, evaluation reports (M=1.39), regular follow ups of budgets by various people and taking timely corrective actions in case of anomalies. This shows that monitoring of budget has been wide, comprehensive and exhaustive.

Thirdly, the study found that there was participative budgeting in insurance companies. In this study, companies allowed people to participate in budgeting processes (M=1.34), managers support in budget making (M=1.38) and involvement of all department (M=1.38) and stakeholders during budget making. Further, approved budgets were shared out with all the departments (M=1.38) and sensitization of budget making processes among all stakeholders.

From the regressions test planning ($t=4.766$, $p<0.001$), monitoring ($t=4.326$, $p<0.001$) and participative budgeting ($t=2.124$, $p=0.035$) had t statistic values of greater than 1.96 and p values of less than 0.05. This indicates that the three variables were statistically significant in influencing the financial performance of the companies. Further, the value for the constant was -4.515 holding all factors constant implying that companies were making loses without budgetary control systems in place. The regression shows that

increase in planning holding other factors constant would lead to an increase in financial performance by 2.129 and a unit increase in monitoring holding other factors constant increases financial performance by 1.857 units. Lastly a unit increase in participation during budgeting processes holding other factors constant leads to an increase in financial performance by 0.853 units. The above results present a strong and reliable indication that budgetary controls affect the financial performance of organizations and companies.

The correlation test showed that there existed a positive and significant relationship between planning ($r=0.336$, $p=0.000$), monitoring ($r=0.354$, $p=0.000$) and participation ($r=0.247$, $p=0.000$) in budget making with financial performance of the companies. The regression analysis showed that budgetary controls affected the financial performance of the insurance companies.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the findings of the study. The chapter has sections on the summary of the findings, the discussions of the findings with the literature, conclusions of the study and recommendations. A section on limitations of the study and lastly provides suggested areas for further research.

5.2 Summary of the Findings

Primary data for this study was collected from respondents whose work experience with the companies was between 1-4 years for most of the companies and while others had more than 10 years' experience with the companies. This shows that they had good knowledge of the companies. The study sought to establish the relationship between budgetary controls and the financial performance of the insurance companies. Budgetary control is useful in organizations as it provides a forecast of revenues and expenditures (Churchill, 2001). To achieve this objective the researcher collected data from the 44 Insurance companies registered as per the IRA of Kenya 20124.

The study found that most of the companies prepared long term overall budgets of between 1-5 years and some prepared budgets for 5 – 10 years periods. This shows that most of the Insurance companies were doing long term budgeting. However, the budgets were reviewed in most of the companies on quarterly and annual basis. This shows that

long term budgeting was subject to frequent reviews. The budget revenues for the companies represented were ranging between \$11, 000 and \$59, 000 and \$60, 000 to \$ 99, 000.

The study found that companies had put in place budgetary control in areas such as planning for the budgets prior to the budgeting periods and ensuring that other departments too budgeted in advance. This was coupled with the fact that most of the companies budgeted for both long term and short term. Epstein and McFarlan (2011) argued that organizations could use budgetary control in forecasting techniques in order to plan and budget for the future. This is consistent with the findings of this study since most of the companies were found to make long term budgets which require a lot of forecasting.

The study found that companies had strong monitoring systems in place to control budgeting activities within companies which included measures to ensure that budgeting processes were fraud proof and well controlled. The study results tally with the thinking of Shizhen (2005) that budget control extends to include financial reporting, accounting records and source documentation, internal control, cost allowance and cash management and compliance frameworks.

Also there was significant high levels of stakeholder participation in budget, making. The study found that most of the responds had taken part in budgeting activities and that stakeholders were all considered when drawing budgets and the exercised was sensitized.

Fonjong (2007) show a positive link between budgetary controls and financial performance and have a good motivational impact by involving managers in the budgeting process and by providing incentives to managers to help achieve the business's goals and objectives. In this study, the correlation test found that there existed a significant direct relationship between planning, monitoring and participation in budget making with financial performance of the companies.

The regression has shown that budgetary controls affect the financial performance of the insurance companies. This is because controls help to reduce on costs and to achieve goals (Mathis, 1989). This agrees with Churchill (, 2001) who postulated that Control ensures that objectives as laid down in the budgets are achieved. Thus it helps to meet organizational targets and goals and the general performance of the firms.

5.3 Conclusions

The findings of the study and examination of the previous literatures on budgeting controls and financial performance provides some conclusive grounds on the relationship between the main control variables which include the planning, monitoring and participative budgeting. According to the stewardship theory as postulated by Donaldson and Davis (1991) motivation of CEO's in companies is not propelled by inner motives but by rather facilitative and empowering structures. Having a strong budgetary control system is a way of ensuring that an organization has good facilitative structures. Thus this study concludes the following

Planning for the budgeting processes in Insurance companies helps companies to increase their financial performance. The study found that some planning activities such as prior budgeting, timely budgeting, long term budgeting, short term budgeting and aligning budget targets with mission of the companies are some of the planning activities which help to make good budgets which enable to perform well in terms of financial performance. A study on budgetary control and organizational performance in government parastatals in Europe by Marcormick and Hardcastle (2011) found a positive relationship between budgetary control and organizational performance of government parastatals. This shows that budgetary controls are not only effective in insurance companies but also in other sectors including government parastatals.

The study concludes that better monitoring of budgets and budgeting activities helps to make fraud proof budgets which are effective and have high levels efficiency since there are less chances of wastages and losses. Such activities would include frequency of budget reviews, different levels of budget approvals and management checks among others.

The study also concludes that involvement of all stake holders in budget making helps to make efficient budgets which are efficient and effective. Activities such as allowing many people to take part in the process, including all departments and sharing of the approved budgets with everyone in the organization helps to make good budgets. This agrees with the Kenya Insurance Report (2015) that Insurance companies are drawing budgets that are making sure they satisfy their customers and are putting in stringent budgetary controls measures to ensure any deviation from the budgets are rectified with

immediate effect so as to ensure its financial performance is getting better and better each financial year.

Lastly, the study notes that budgetary controls have a direct relationship with the level of financial performance. Also the budgetary controls affect the level of financial performance of the insurance companies. This agrees with a study by Silva & Jayamaha (2012) who found that efficient apparel companies maintain sound budgetary process which contributes to higher levels of organizational performance. Thus there exist a positive relationship between budgetary controls and financial performance. This could be attributed to the fact that budget controls minimize cost and thus help to increase the profits of a firm.

5.4 Recommendations of the study

The study found that planning, monitoring and participative budgeting in insurance companies created some of the efficient and effective budgets which enabled insurance companies to achieve targets and make positive returns to the assets of the company. It is therefore recommended that management of insurance companies put efforts to ensure that planning, monitoring and active participation of everyone in budget making is adopted and sustained in companies with a view of ensuring that budgets made are timely, efficient and fraud proof.

The study found that lack of any budgetary controls mechanism in companies reduced the financial performance of companies by 4.515 units. This in turn influenced the financial performance of insurance companies negatively leading to losses which could lead into

crisis. It is thus recommended that policy makers make policies detailing the budgetary controls to be taken by each and every company as a way of safeguarding the company against losses.

5.5 Limitations of the study

This study is limited in scope on the performance measurement. The study used ROA as a measure of financial performance of the companies which may not be only measure of financial performance given that companies have different targets and set different goals.

The study used only three ways of budgetary controls which include planning, monitoring and control and participation. The three ways are not the only existing efficient ways of budgetary control.

The study limited to data from insurance companies only. This leaves out the rest of the sectors which deal with other businesses and thus some knowledge on how budgetary controls affects financial performance is very important.

The study only considered the systems and the processes used in budgetary controls. This leaves out the role of human function which includes the steps taken to ensure compliance of the budgetary control guidelines in the firms. A policy explaining stipulating on what employees should do is equally important to ensure that there exist strong budgetary controls in companies.

The study was limited to the size of the sampling used. The size is very small of only 44 companies and can only represent a small sector which is the private sector. It does not represent the larger proportion of firms including small, medium and large enterprises.

5.7 Suggestions for further areas of research

To deeply understand the relationship between budgetary controls and the financial performance of companies and organizations, the study suggests other similar studies to be done using different financial ratios and financial indicators other than ROA. This would overcome the limitations of the study and provide more knowledge or confirm the findings of this study.

The study has concentrated on only three ways of budgetary control in insurance companies which leaves out other possible ways of controlling the budgets. It recommended that another study be done on other methods of budgetary control to unearth more information on the subject.

The study recommends another study to be done in other sectors so as to generate an all-inclusive view of the relationship between budgetary control and the financial performance of the companies including other sectors as well.

There is a need for another study to be done on the role of human capital and workforce in managing controls in budgeting. The effect of sensitization, training and maintaining ethical order are some of the human related factors which could as well be very important in budgetary controls.

A bigger study in terms of coverage, size and inclusion is desired to come up with generalizable findings on the link between financial performance and the budgetary controls so as help us understand the relationship across the industries.

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APPENDICES

Appendix 1: List of Insurance Companies

1. AAR Insurance Kenya
2. APA Insurance
3. Africa Merchant Assurance Company - AMACO
4. APA Life Assurance
5. AIG Kenya Insurance Company
6. British-American Insurance Company (Kenya)
7. Capex Life Assurance Company
8. CIC Insurance Group
9. Continental Reinsurance
10. Corporate Insurance Company
11. Direct line Assurance Company
12. East Africa Reinsurance Company
13. Fidelity Shield Insurance Company
14. First Assurance Company
15. GA Insurance
16. Geminia Insurance Company
17. ICEA LION General Insurance Company
18. ICEA LION Life Assurance Company
19. Intra Africa Assurance Company
20. Invesco Assurance Company

21. Kenindia Assurance Company
22. Kenya Orient Insurance
23. Kenya Reinsurance Corporation
24. Liberty Life Assurance Kenya Limited
25. Madison Insurance Company Kenya
26. Mayfair Insurance Company
27. Mercantile Insurance Company
28. Metropolitan-Cannon Insurance Kenya
29. Occidental Insurance Company
30. Old Mutual Life Assurance Company
31. Pacis Insurance Company
32. Pan Africa Life Assurance
33. Phoenix of East Africa Assurance Company
34. Pioneer Assurance Company
35. Resolution Insurance Company
36. Takaful Insurance of Africa
37. Tausi Assurance Company
38. Heritage Insurance Company
39. Jubilee Insurance Company Limited
40. Monarch Insurance Company
41. Trident Insurance Company
42. UAP Insurance Company

43. UAP Life Assurance

44. Xplico Insurance Company

Appendix 2: Study Questionnaire

Dear Sir/Madam,

Dear respondent, I am conducting a study on the relationship between Budgetary Control and the financial performance of Insurance Companies in Kenya as part of my study at the University of Nairobi. As one of the respondent, your involvement is very important to this study. This questionnaire is solely for academic purposes. The answers you give will not be shared with any person or institution. Your participation is highly appreciated.

Thank you in advance.

Yours faithfully,

Kinyua Faith Kaguri

PART A: GENERAL QUESTIONS (Please tick in the appropriate box provided).

1. What period does your overall organization Budget Cover? (a) Less than 1 year () (b) 1-5 years () (c) 5 and above years () (d) More than 5 years. ()
2. How often is it reviewed? (a) Monthly () (b) Quarterly () (c) Annually () (d) None ()
3. What is your approximate annual budget revenue? (a) Less than \$10000 (b) \$11000 to\$ 59000 (c) \$60,000 to\$ 99,000 (d) More than \$100,000
4. How long have you worked for the organization (a) Less than 1 Year () (b) 1-4 Years () (c) 4-10 Years () (d) 10Years and above ()

PART B: PLANNING

Please respond to the following statements by indicating whether you (1) Agree or (2) Disagree with the activities.

1. Our organization has Long term and short term Budget Plans1 () 2 ()

2. Our budgets have clear goals and objectives 1() 2()

3. Our Budgets cover all the aspects of our Mission 1() 2()

4. Whether budgeting, outcome goals/objectives are linked to programs 1() 2()

5. We set priorities for the coming year at budget/work plan meetings. 1() 2()

6. All departments/programs prepare budget plans prior to the budget year 1() 2()

PART C: MONITORING AND CONTROL

Please respond to the following statements by indicating whether you (1). Agree (2) Disagree with the activities.

1. Managers hold budget review meetings regularly to review performance 1()
2()

2. We have Budget Approval levels to check on spending 1() 2()
3. Controls and approval is done by the head of departments 1 () 2()
5. The costs of activities are always reviewed by the executive committee1 () 2 ()
6. Budget performance evaluation reports are prepared regularly.1 () 2()
7. Budget deviations are reported to management 1() 2()
8. The deviations from the budget targets are frequently reported1 () 2()
9. Managers always take timely corrective actions when adverse variances are reported
1() 2()
10. There is a regular follow up on budget plans by the budget committee/Departmental
heads 1() 2()

PART D: PARTICIPATIVE BUDGETING.

Please respond to the following statements by indicating whether you agree or disagree with the activities.

1. I'm involved in the budget setting process 1() 2()
2. We are sensitized on the budget control process 1() 2 ()
3. All the stakeholders to the budget are involved 1() 2 ()

4. All departments are always involved in the budgeting process 1() 2()

5. Approved Budgets are shared with all Departments 1() 2()

6. Leadership and support is given to all the Subordinates Throughout the budget by managers 1() 2()

7. Each department prepares a budget prior to the Overall budget 1() 2()