

**A SURVEY OF BUDGET IMPLEMENTATION PROCESS IN KENYAN
COMMERCIAL BANKS**

PRESENTED BY

GEORGE OTOTO

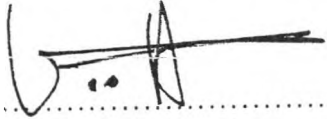
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILMENT FOR THE REQUIREMENTS OF MASTERS OF BUSINESS
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DECLARATION


This management research project is my original work and has never been presented for a degree in any other University.

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This management research project has been submitted with my approval as University supervisor

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DEDICATION

This work is dedicated to all whose efforts made my academic dream alive.

My parents Beldina Ototo and the late Musa Ototo for the discipline and encouragement; the late grandpa Boniface Orwa for lending an academic “walking stick” at a young age; late Esther Otieno for being adoring sister who advised that I should read books .

Thank you and May the almighty God bless you abundantly.

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This kind of serious work could not have been a reality without the assistance of many people. My supervisor Mr.Odipo, lecturer accounting department, for his scholarly assistance, constructive criticism, guidance, patience and self sacrifice that saw me through this project;

I equally place on record my appreciation to all the respondents who despite their tight schedules, still sacrificed their time to complete the questionnaires;

To my MBA colleagues for challenging me in many occasions and their valuable contribution that enabled me sail through the course. Interacting and associating with you has gone along way in bringing the best out of me.

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There are many more who contributed in any form and whose list may be endless to publish; I assure you, I am for ever grateful.

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To all of you, may our dear Lord richly bless you.

ABSTRACT

Budget generally refers to a list of all planned expenses and revenues. It is a plan for saving and spending. According to Flamholtz, (1983), Budgets are financial blueprints that quantify a firm's plans for a future period. Budgets require management to specify expected sales, cash inflows and outflows, and costs; and they provide a mechanism for effective planning and control in organizations. The budget is a standard against which the actual performance can be compared and measured. A budget is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods.

The study used a census survey design. The strength of a census survey is that it is a representation of a whole population. The target population for this study involved all the 45 head offices of commercial banks in Kenya. The researcher used both primary data and secondary data to carry out research. Primary data were from questionnaires and interviews issued to the targeted population. Secondary data was gathered from annual reports, books, journals and other previous research works. The data acquired from the questionnaire was coded and analysed through Statistical Package for Social Sciences (SPSS) and the secondary data was analysed through content analysis.

The study found out that the process of budget implementation is generally effective, also representatives from different platforms are involved in the process, the execution of the process is fast and efficient, the process attracts opinions and few complaints have been experienced, the budgetary implementation procedures and the decision makers are fair at all levels of the organization and the process has encouraged operational assessment in all platforms of the organization.

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DEFINITION OF TERMS

Budget - (from French baguette, purse) a budget is an organizational plan stated in monetary terms. Budgets are financial blueprints that quantify a firm's plans for a future period. Budgets require management to specify expected sales, cash inflows and outflows, and costs; and they provide a mechanism for effective planning and control in organizations (Flamholtz, 1983).

Commercial bank: is a type of financial intermediary and a type of bank. It is a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits

Evaluation: is systematic determination of merit, worth, and significance of something or someone using criteria against a set of standards.

Implementation: it is the realization of an application, or execution of a plan, idea, model, design, specification, standard, algorithm, or policy.

Plan: is typically any procedure used to achieve an objective. It is a set of intended actions, through which one expects to achieve a goal.

Procedure: is a specified series of actions or operations which have to be executed in the same manner in order to always obtain the same result under the same circumstances

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Budget generally refers to a list of all planned expenses and revenues. It is a plan for saving and spending. According to Flamholtz, (1983), Budgets are financial blueprints that quantify a firm's plans for a future period. Budgets require management to specify expected sales, cash inflows and outflows, and costs; and they provide a mechanism for effective planning and control in organizations. The budget is a standard against which the actual performance can be compared and measured.

A budget is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods. In other terms, a budget is an organizational plan stated in monetary terms. The purpose of budgeting is, therefore to provide a forecast of revenues and expenditures i.e. construct a model of how our business might perform financially speaking if certain strategies, events and plans are carried out and enable the actual financial operation of the business to be measured against the forecast.

The literature on budget practices focuses on the relevance and applications of budgets to large, complex and manufacturing organizations and less on services and small organizations. Additionally, most of the studies on budgeting mainly focus on the publicly listed firm sector and less on the non-listed sector. Furthermore, most studies report on practices in advanced countries. The reasons for this scenario may be that the budget preparation is frequently a time consuming exercise, and it involves many people in various departments of the firms. The size of a firm and its complexity of operations generally influence the nature of budgeting it should adopt. For example, giant

organizations, such as General Motors, Philips Petroleum, Unilever, and Texas Instruments should have more complex and sophisticated systems as compared to medium and small organizations. Their budget systems serve as a means of integrating the numerous divisions in addition to being planning and control tools. Budgets in the organizations serve multiple roles of planning, evaluation, coordination, communication, and decision-making. Participation in budgeting is another important issue because it reflects the degree of consensus, an important aspect of management style.

Budget, however, cannot function itself without implementation of which the process/procedure thereto plays an integral part. The feedback on budget implementation valuation as a measure of its performance forms is as important as planning itself and make a complete whole; planning, implementation and evaluation. It is this evaluation on budget implementation that is used to measure management performance by the shareholders and other stakeholders. A study by Joye and Blayney (1990) found that budget variances were used by 93 percent of respondents for setting goals and evaluating performance by Australian firms. Therefore, feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing.

Budgets being standard for performance are, hence, also used to evaluate managerial performance (Srinivasan, 1987). Similarly, Douglas (1994) used a case study approach and found that budgeting implementation process places a high importance on the budget-to-actual comparison for performance evaluation purposes both at the corporate and subsidiary levels. Anderson (1993) also supported this view, stating that in most US companies the development of budget is still used as the main performance measurement system.

1.1.1 Budget Implementation in Kenya's Commercial Banks

Budgeting is a vital tool in organizations for directing activities and employees' efforts towards the organization's common objectives (Covaleski *et al.*, 2003). For example, budgeting requires the organization to engage in systematic operational planning for the near future and to consider how to best allocate its limited resources among the organization's various operating units. Budgeted results (in terms of, for example, revenues, costs, or units of production) communicate to employees the organization's expectations regarding their job performance, which is ultimately evaluated based on some comparison of actual versus budgeted results. Key players in organizational budgeting are operating unit managers, who are involved both in preparing their unit's budget and ensuring the unit's activities are carried out in accordance with the budget. Because of managers' close association with the budget and budgeting, characteristics of the organization's budgetary system will influence their attitudes and behaviors (Kenis, 1979; Merchant, 1981; Covaleski *et al.*, 2003).

A commercial bank is a type of financial intermediary. Commercial banking is also known as business banking. It is a bank that provides current accounts, savings accounts, and money market accounts and that accepts time deposits. Commercial bank also refers to a bank or a division of a bank primarily dealing with deposits and loans from corporations or large businesses. Commercial banking may also be seen as distinct from retail banking, which involves the provision of financial services direct to consumers. Many banks offer both commercial and retail banking services. In Kenya there are currently 45 commercial banks registered by the Central Bank of Kenya (CBK) (CBK, December 2008).

1.2 Statement of the Problem

A budget is an aid to the co-ordination and implementation of a plan of action. In addition to instilling the discipline of systematic planning into the organization, the budgeting system provides a two-way channel of communication for the various echelons of the organizational hierarchy. This two-way communication capability (top-down and bottom-up), effective not only in implementation process but the entire budget planning, is directly linked to the iterative nature of the budgetary process through which the technical and financial feasibilities of planned actions are assessed (Joye and Blayney, 1990).

Most studies on budget implementation practices have been conducted in the advanced countries. The study by Cheung (1986) into the Hong Kong situation of 35 managers revealed that operating budgets were widely used in planning and implementation. Pike's (1982) longitudinal survey of 150 manufacturing companies from UK, reports on broad trends in the use of budgets. Lyne's (1988, 1992) surveys on 13 UK companies covered the issues relating to the managerial uses of budgetary information, the extent of participation by managers in setting their budgetary targets, and the sources of pressure to meet these budgetary targets. Chun (1996) replicated Lyne's study, with a larger sample of companies from Malaysia. He reported Malaysian user-groups views on the role of budgets, budget pressure and participation, which were similar to Lyne's findings. However, in developing countries, few studies have been done on budget implementation procedures. In Kenya as a case, the few studies that have been done have been too general to elicit the full processes that commercial banks and other companies in general undergo during budget implementation necessitating this study, a knowledge gap, which it wants to fill. Previous studies have not focused on budget implementation processes for commercial banks in Kenya. Ndiritu (2007), for instance, researched on effectiveness of cash budgeting in public institutions: A case study of Telkom Kenya. Kadondi (2002) did

a survey of capital budgeting techniques used by companies listed at the NSE. Muleri (2001) conducted a survey of budgeting practices among the major British Non-governmental organizations in Kenya and Simiyu (1980) studied the problems of budgeting and motivation at the supervisory level in manufacturing firms in Kenya. Wamae (2008) looked at the challenges of budgeting at national social security fund while Odongo (2008) studied employees' attitudes towards budgeting process among large manufacturing firms in Nairobi. Mawathe (2008) researched on the challenges of cash budget implementation: A case of commercial banks in Kenya. No known research study has concentrated on budget implementation process for Kenyan commercial banks. This study seeks to bridge this gap in knowledge by determining factors that influences budget implementation process for Kenyan commercial banks.

The study will answer the following questions in addressing the objectives of the study:

- i. What are the budget implementation processes in Kenyan commercial banks?
- ii. In what place do commercial banks in Kenya place budgeting?
- iii. How big is the variance between planned budget and implemented budgets in Kenyan commercial banks?

1.3 Objectives of the Study

1.3.1 General Objective

To survey budget implementation process in Kenyan commercial banks

1.4 Significance of the Study

Banks- the study will provide a more efficient forecast of revenues and expenditures i.e. construct a model of how business might perform financially speaking if certain

strategies, events and plans are carried out. The actual financial operation of the business can be measured against the forecast. The study being an appraisal of the budget implementation process, findings and recommendations of which will be of great value to the management of the commercial banks in Kenya for it will advise them on the way they should implement the budgets they plan in order to reduce variances between planned and implemented budgets.

Academician-The study will also be invaluable to the academician and researchers in Kenya for it will provide a base upon which secondary material on budget implementation will be drawn. The study will also provide good literature on budget implementation.

Government- this study will assist the government in assessment of banks performance thus can be able to formulate new banking policies for better operations.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews previous work in regard to budgeting and other related concepts. The chapter commences with theoretical review and move into second section where empirical review is captured. The concept of budget implementation is addressed into details in the third section and the chapter concludes with an outline of conceptual framework.

2.2 Theoretical Framework

A budget is a detailed plan outlining the acquisition and use of financial and other resources over some given time period. The annual budget is commonly referred to as the "master budget". It has three principal parts: the operating budget, the cash budget and the capital expenditure budget. It is driven by the sales forecast (Horngren, 1981). It has been noted that a sales budget for a company serves as a limit to be observed in establishing production budgets, selling and administrative budgets, cash budgets and budget plans (Moore and Jaedlicke, 1976).

The budget plays a key role in an organization. It moves the organization from an informal reaction method of management to a formal controlled method of management (Morse *et al.*, 1984). It can also act as a motivator and communicator, as well as for functional co-ordination and performance evaluation (Dominiak and Louderback, 1988; Wolk *et al.*, 1988). Anthony *et al.*, (1992) lists four uses of a budget; first; to fine-tune the strategic plan. Second, to help co-ordinate the activities of the several parts of the organization; third, to assign responsibilities to managers; and last, to obtain a

commitment that is a basis for evaluating a manager's actual performance.

According to Garrison (1988) there are four major advantages of budgeting. First, it gives planning top priority; second, it provides managers with a way to finalize their planning efforts; third, it overcomes potential bottlenecks before they occur; and last, it coordinates the activities of the entire organization by integrating the plans and objectives of the various parts.

KPMG International (2004) conducted the "Global Basel II survey 2003: eight questions on the new Basel Accord." The survey represents 294 financial institutions from 38 countries. The main findings of this survey are: considering the implementation time frame until 2007, banks seem to be behind schedule; Basel seems to be accepted as a driver for the improvement of credit rating systems and processes quality; capital optimization seems to be secondary; and the main obstacles are the lack of internal resources and cost constraints together with a lack of availability of data and inflexibility of IT systems.

In addition to these results KPMG International (2004) reported some interesting statistical results: 50 per cent of respondents have a budget of less than US\$1 million allocated to the Basel project; approximately 50 per cent of participants are still in the pre-study or assessment phase; 70 per cent of participants are not further than the phase of systems modelling; less than 20 per cent have started the implementation for credit risk, and less than 10 per cent for operational risk; less than 10 per cent have started the testing and validation phase, which is one of the key phases of the overall project and one that often proves difficult to complete; and 60 per cent of the participants see the timing of the implementation as the main cause for concern.

Rowe *et al.*, (2004) examined bank capital management in the light of Basel II, concluding that the final form of the Capital Accord is not the core implementation issue

but rather the ability to have an institution's data well organized and centrally accessible to perform and document the necessary calculations. Rowe *et al.* (2004) also believe that addressing the data issue properly will allow banks to leverage their Basel II efforts to improve their fundamental risk management processes and not just pour money into regulatory compliance alone. Rowe *et al.* consider an integrated view on risk measurement and capital determination as a key policy for financial institutions to adopt.

Lastra (2004) investigates risk-based capital requirements and their impact upon the banking industry: She concludes that Basel II has significant economic and structural consequences that cannot be underestimated. Basel II will lead to a substantial redistribution of capital requirements. She adds that capital regulation has become a prominent feature of banking regulation and a major strategic theme for bank management. However, Lastra emphasizes that banks need to pay special attention to some crucial issues. The first of these is cost: "Basel II is costly to implement, complex to understand and prescriptive in its numerous recommendations." The second issue is operational risk, introduced for the first time in Basel II: there will be a capital charge against this type of risk. The third issue is bank consolidation, where Basel II appears to see the benefit of larger and more sophisticated banks. Small or unsophisticated banks facing an increase in their capital charges could be bought by more sophisticated banks. The fourth issue is procyclicality, which refers to the factors that exacerbate the swings in the economic cycle, increasing volatility.

Wilson (2004) conducted a case study on Barclays' Basel II preparations. This case study was based on the author's experience in Barclays Bank on the preparations required for successful implementation of the new Basel II Accord. He concludes that there is still a long way to go. He also adds in his conclusion: Its next steps are still important. To be successful, it needs to understand its likely capital requirements under the options available to it. It can learn from the Pillar I process and get involved with the regulator in

the Pillar II debate. And it should be sure to get a grip on the implementation issues, and maximize all the advantages from its chosen approach.

Ernst & Young (2006) conducted a global Basel II survey. They surveyed banks around the globe on the status of their Basel II capital adequacy preparations. The online survey polled 307 individuals' at large banks around the world. The questions covered areas from compliance to cost. Respondents were asked how significant an impact Basel II would have on compliance with supervisory requirements and on risk management. Respondents were also asked about education on Basel II, and the expected benefits, cost and challenges of Basel II implementation. The main findings of this survey are: respondents still need significant education about the implications of Basel II; 89 per cent believe banks with robust risk infrastructure will have a competitive advantages over others; 70 per cent of respondents agree that portfolio risk management will become more active; 85 per cent of respondents believe that economic capital will guide some, if not all, product pricing; 90 per cent of respondents agree that Basel II will result in more comprehensive risk information and a better understanding of risk in their banks; 75 per cent of respondents think Basel II will have a positive impact on timelines and quality of risk information, both at portfolio and transaction levels; respondents predict a substantial increase in implementation costs; and embedding Basel II in credit risk business processes represents one of the important challenges for the implementation.

2.3 Empirical review

2.3.1 Importance of Budgetary Procedures to the Managers

In light of managers' often unfavorable reactions to their budget, it is perhaps fortunate for organizations that managers react also to the procedures by which this budgetary outcome is determined. Specifically, managers are concerned with how fair the procedures are, both in terms of formal budgetary procedures fairness as well as

budgetary procedures implementation fairness. Formal budgetary procedures fairness addresses how well the organization's authorized structural budgetary procedures comply with the manager's criteria for what is proper. Budgetary procedures implementation fairness addresses the extent to which budgetary decision makers, such as the manager's immediate supervisor, carry out the formal budgetary procedures in a way that is consistent with the manager's criteria for what is proper. Staley *et al.*, (2003) indicates that managers often have stronger reactions toward the fairness of the organization's budgetary procedures than they do toward the favorability or fairness of their unit's budget.

2.3.2 Criteria for fair budgetary procedures

How do managers assess whether or not their organization's formal budgetary procedures and budgetary decision makers' implementation of those procedures are fair? Staley *et al.*, (2003) has identified the elements of formal budgetary procedures such as; Formal budgetary procedures should provide managers with an adequate opportunity to voice their opinions regarding budgetary decisions affecting their unit; it should contain provisions that allow managers to appeal budgetary decisions affecting their unit; a formal procedure ensures that budgetary decisions affecting the managers' unit incorporate accurate information and that it should be applied in a consistent fashion across units and from period to period.

Little *et al.*, (2002) also suggested that for fair budget implementation procedures the elements such as: Budgetary decision makers should treat managers with kindness and respect, and show concern for manager's rights when implementing budgetary procedures; the budgetary decision makers should give sincere consideration to opinions that managers have voiced regarding their unit's budget. This criterion does not require that budgetary decision makers necessarily incorporate the managers' budgetary opinions into the budget (e.g. give managers the budgetary resource distribution they requested). If

their budgetary input is rejected, however, managers desire evidence that decision makers took this action only after genuine deliberation and thought; they should also provide managers with clear, timely, and adequate explanations of the reasons for their budgetary decisions. This practice may be a particular concern of managers whose budgetary opinions are not incorporated into their unit's budget as it may provide evidence that decision makers did, in fact, give sincere consideration to the managers' budgetary input before rejecting it. Finally the budgetary decision makers should suppress biases that favour one unit over another when implementing budgetary procedures.

2.3.3 Reactions to fair budgetary procedures

Organizational commitment, which is an attitude toward the organization as a whole, addresses the strength of a manager's identification with and involvement in the organization (Mowday *et al.*, 1982). Trust in supervisor, which is an attitude toward the immediate supervisor, represents the willingness of a manager to be vulnerable to the actions of the supervisor based on the expectation that the supervisor will perform future actions important to the manager (Mayer *et al.*, 1995). Commitment and trust are two of the most frequently-studied criterion variables in organizational behavior research and are important because they, in turn, have been shown to be associated with other positive employee reactions such as reduced turnover and absenteeism, greater organizational citizenship behaviour, for instance helping coworkers, improved job motivation and performance, higher job satisfaction, and lower job stress (Ketchand *et al.*, 2001). Research indicate that formal budgetary procedures fairness and budgetary procedures implementation fairness have a positive influence on both organizational commitment (Staley *et al.*, 2003) and trust in supervisor (Magner *et al.*, 1995).

A behaviour that is of particular concern in an organizational budgeting setting is the extent to which managers try to incorporate slack into their unit's budget (Yuen *et al.*, 2004). When managers are involved in budgeting, they have a tendency to try to

intentionally bias the process so as to make their unit's budgeted performance results easier to attain and/or to secure a greater resource distribution than can be justified given the unit's contributions to the organization (Van der Stede, 2000). Such behavior is driven by self-interest because, as discussed earlier in this paper, a favorable budgetary outcome in terms of relatively easy-to-attain budgeted performance results or a large budgetary resource distribution can lead to greater material and psychological rewards for the manager. From the organization's standpoint, however, budgetary slack may lead to a suboptimal allocation of resources between units and, ultimately, undermine the extent to which the organization meets its objectives (Nouri, 1994). Little *et al.*, (2002) indicates that fair formal budgetary procedures and fair implementation of these procedures can each play an important role in reducing managers' propensity to create budgetary slack. Little *et al.*, (2002) have also found that both forms of budgetary procedures fairness have a positive effect on other aspects of managers' behavior, including job performance and helping coworkers.

2.3.4 Two forms of budgetary procedures fairness working together

While formal budgetary procedures fairness and budgetary procedures implementation fairness each trigger positive reactions on the part of unit managers, these effects are not always merely additive. More specifically, Little *et al.*, (2002) has found that the two forms of budgetary procedures fairness sometimes work together such that managers have particularly positive reactions (e.g. particularly high job performance or particularly low propensity to create budgetary slack) when their budgetary environment includes both fair formal procedures and fair implementation of those procedures.

In explaining this interaction between formal budgetary procedures fairness and budgetary procedures implementation fairness, managers believe that both forms of budgetary procedures fairness must be present in order for the overall fairness of the budgetary process to be maximized. Managers are likely more familiar with the way in

which their supervisor and other budgetary decision makers implement formal budgetary procedures than they are with specific structural aspects of the procedures. Moreover, managers are likely to view budgetary decision makers' implementation behavior as having a more direct personal impact on them than do the formal procedures. However, managers also recognize that budgetary decision makers' implementation behavior is done in the context of, and is constrained by, the nature of the formal budgetary procedures. Therefore, even if decision makers exhibit fair budgetary behavior such as being kind and respectful and providing explanations of their budgetary decisions, managers will still have less positive reactions when they perceive the accompanying formal budgetary procedures to be unfair as compared to fair: They will be concerned that budgetary decision makers, regardless of their implementation behavior, will be unable to fully neutralize the negative effects of unfair formal budgetary procedures (Little *et al.*, 2002).

2.3.5 Fair budgetary procedures reduce negative reactions to unfavourable budgets

As noted above, managers often have unfavorable perceptions of their unit's budget and react to this condition with relatively negative attitudes and behaviours. Furthermore, because of factors such as resource scarcity and the egocentric bias of managers, organizations are often limited in their ability to set budgets that managers will react to in a positive manner. In light of this situation, an important quality of both forms of budgetary procedures fairness is that they can reduce the extent to which managers react negatively to their current budget. More specifically, Magner *et al.*, (1995) indicates that even when managers receive an unfavorable budget, they may have less negative reactions if they believe that the budgetary procedures are fair as compared to unfair. Brockner & Wiesenfeld, (1996) concluded that an interaction between the fairness of decision-making procedures and the favourability of decision outcomes is one of the most common findings in the general organizational fairness literature. The potential for fair

budgetary procedures to reduce program managers' reactions to their current budget may be due to information that such procedures convey about managers' ability to realize long-run benefits, as discussed in the next section.

2.3.6 Why fair budgetary procedures are important to managers

The fact that formal budgetary procedures fairness and budgetary procedures implementation fairness have positive effects on managers' attitudes and behaviors indicates that fair budgetary procedures are important to managers. Tekleab *et al.*, (2005) have proposed and provided support for the view that managers value fair budgetary procedures because such procedures provide assurance that the managers can trust their organization and budgetary decision makers to provide them with valued material and psychological benefits over the long-run. A detailed presentation of our arguments follows.

Regarding budgetary procedures implementation fairness, when budgetary decision makers carry out formal budgetary procedures through, for example, showing interpersonal sensitivity and providing clear and adequate explanations for their budgetary decisions, managers are likely to view such treatment as a signal that they are valued members of the organization, which will provide them with psychological benefits such as enhanced self-esteem. Such treatment also indicates to managers that budgetary decision makers have goodwill toward and mean well by them, which provides assurance that decision makers will take care to provide the managers with their fair share of material benefits such as favorable budgets and consequent rewards. Gilbert and Malone, (1995) the fundamental attribution error by which people tend to attribute the behavior of others to their relatively enduring personality traits, motives, and attitudes (i.e. their "disposition") rather than to situational causes, managers will be inclined to view the way that decision makers implement formal budgetary procedures as stable over time (Brockner, 2002). Therefore, if managers perceive that decision makers are currently

implementing formal budgetary procedures in a fair manner, they will infer that the decision makers will continue to implement the procedures fairly in the future. Thus, managers will trust budgetary decision makers to provide them with material and psychological benefits over the long-run. To sustain their beneficial relationship with budgetary decision makers and thereby realize these expected future benefits, managers will reciprocate for the fair implementation of budgetary procedures through improved organization-directed attitudes and behaviors, and will be relatively insensitive to the favorability of their unit's current budget.

2.4 The Concept of Budget Implementation

Budget implementation or execution of the budgets is an activity that takes place throughout the financial year and is the cutting edge of the budgets, it involves all branches of the management unlike the more technical and selective participation of officials in budget formulation (Ramakrishnan, 1997).

The primary concern during the budget implementation process is to ensure the fulfilment of the financial and economic aspects of the budget. The financial tasks include; spending the amounts for the purposes specified, maximising savings and avoiding lapses or rush of expenditures during the end of the year. The economic tasks on the other hand are; ensuring that the physical targets of programmes and projects are achieved and the macro-economic aspects of the budget such as borrowing and deficit levels are also achieved. In managing budget implementation one of the key areas of focus is the revenue and expenditure flow pattern.

2.4.1 Budget implementation procedures

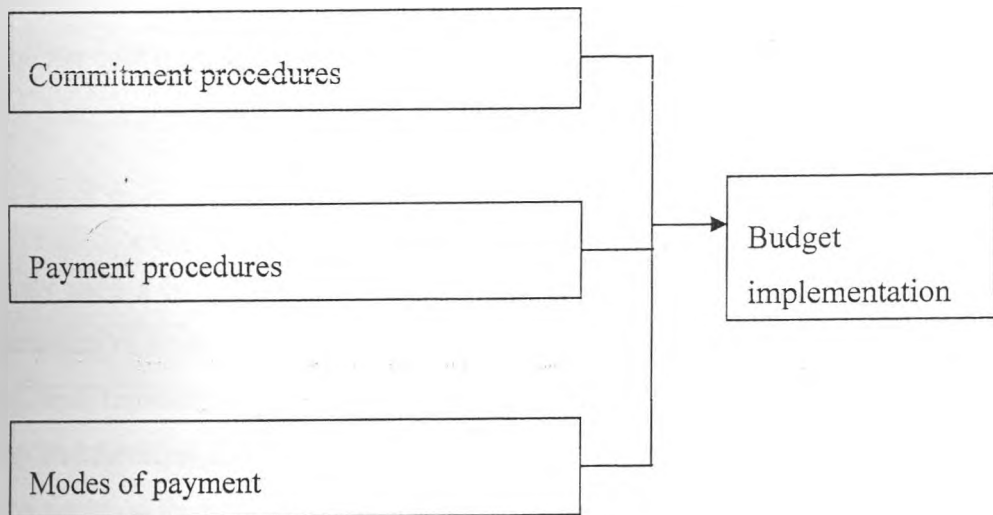
Premchand (1994) states that implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available.

This framework, he further states, should include the following; identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate. The budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work namely;

- (a) An allocation system under which expenditure is controlled by release of funds,
- (b) Supervision of the acquisition of goods and services to ensure value for the money spent,
- (c) An accounting system that records firm transactions and provides a framework for an analysis of their implications, and
- (d) A reporting system that permits a periodic appraisal of the actual implementation of policies.

2.4.2 Conceptual framework

Figure 2.1: Conceptual framework



Independent variable

Dependent variable

Source: The researcher, 2009

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter addresses the research methodology. Specifically the chapter deals with the research design, population of the study, data collection method, and data analysis.

3.2 Research Design

The study used a census survey design. The strength of a census survey is that it is a representation of a whole population. Census surveys are used when population of study is small and representation of every unit of study is essential. This study suited this scenario and therefore the appropriate study design is a census survey. For the case of this study we focus on the budget implementation in Kenyan commercial banks.

3.3 Target Population

The target population for this study involved all the 45 head offices of commercial banks in Kenya. Three respondents were considered from every head office; all chief finance officers of the 45 commercial banks were studied. This gave a total of 45 respondents for this study.

3.4 Data Collection

The researcher used both primary data and secondary data to carry out research. Primary data were from questionnaires and interviews issued to the targeted population. Secondary data was gathered from annual reports, books, journals and other previous research works. The questionnaires were personally administered by the researcher. Staff members were interviewed directly and orally in their workstations. The questionnaires

were considered in cases where the respondent may not be accessible. Secondary data was collected from books in the library and previous research and also from organization records like minute books and their website.

3.5 Data Analysis

The data acquired from the questionnaire was coded and analysed through Statistical Package for Social Sciences (SPSS) and the secondary data was analysed through content analysis. The data was presented in tables while the results were presented in tables, pie charts and graphs.

3.6 Ethical Issues

The researcher sought permission from the top management of the organization such as the bank headquarters' to undertake the study. The researcher also got a letter from his university to conduct a research into the organization through a question for his study. The researcher maintains confidentiality at all times. The information gathered was only used for academic requirement and the information given by the respondent will not be disclosed to the third party.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the research. From the study population target of 45 respondents, 40 respondents responded and returned the questionnaire, constituting 88.8 % response rate.

4.2 Analysis and interpretations

On the respondents' designation, the study found that the respondents were in varying designations such as chief finance officer, assistant general manager (finance), chief accountants, deputy chief accountants, finance managers and managers.

On the length of time in the current position; the study also sought to find out the respondents duration of work in the current position. From the study, the respondent's duration of work in the current position in years ranged from 8 months to 17 years. This was a clear indication that the respondents were well versed with the budget implementation process in the commercial bank industry in Kenya.

Table 4.1: Age of the respondent

	Frequency	Percent
Below 25 years	5	12.5
25 to 35 years	15	37.5
36 to 45 years	12	30.0
Above 45	8	20.0
Total	40	100.0

Source, Author (2009)

On the age of the respondents, the study found that most of the respondents were of the age between 25 to 35 years as shown by 37.5% of the respondents, followed by 30.0% of the respondent who were of the age between 36 to 45 years, 20.0% were of the age of above 45 years and 12.5% of the respondent whose age was below 25 years.

Table 4.2: Rating factors with regard to the budget implementation process

Factors	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
The process is generally effective	0	0	0	9	31	4.8
Representatives from different platforms are involved in the process	0	0	1	14	25	4.6
The budgetary implementation procedures and the decision makers are fair at all levels of the organization	0	4	5	11	20	4.2
The execution of the process is fast and efficient	0	0	4	30	6	4.1
The process has attracted opinions and few complaints have been experienced	0	0	8	26	6	4.0
The process has encouraged operational assessment in all platforms of the organization	0	4	5	11	20	4.2
The process is generally effective	0	0	0	9	31	4.8

Source, Author (2009)

The findings in the table 4.2 show the level of agreement of respondents with regard to the budget implementation process in their organization. From the findings, the majority of the respondents strongly agreed that the process of budget implementation is generally effective as shown by a mean score of 4.7 and also representatives from different platforms are involved in the process as shown by a mean score of 4.6. Further, majority of the respondents agreed that the execution of the process is fast and efficient as shown by a mean of 4.2, the process has attracted opinions and few complaints have been experienced and as shown by a mean score of 4.1, the budgetary implementation procedures and the decision makers are fair at all levels of the organization and the process has encouraged operational assessment in all platforms of the organization as shown by a mean score of 3.9 in each case.

Table 4.3: Whether proposed budget match with the implemented budget

	Frequency	Percent
Yes	26	65.0
No	14	35.0
Total	40	100.0

Source, Author (2009)

The findings in the table 4.3 revealed that most commercial banks had their proposed budget matching with implemented budget as indicated by 65% of the respondents, while 35% of the respondent indicated that proposed budget did not match with implemented budgets.

Table 4.4: Reflection of all organization transaction in the elements of the budget

	Frequency	Percent
Yes	33	82.5
No	7	17.5
Total	40	100.0

Source, Author (2009)

The respondents were also requested to give their opinion on whether all the elements in the budget reflect the transactions of the organization. From the findings in the table 4.4, the majority of the respondents as indicated by 82.5% felt that all the elements in the budget reflect the transactions of the organization, while 17.5% were of the opinion that in their banks all the elements in the budget do not reflect the transactions of the organization.

Table 4.5: Major variation between planned and the implemented budget

	Frequency	Percent
Yes	10	25.0
No	30	75.0
Total	40	100.0

Source, Author (2009)

From the findings in the table 4.5, the majority of the respondents as shown by 75% reported that there did not experience major variations between the planned and the implemented budget, while 25% of the respondents reported that they experienced major variations between the planned and the implemented budget.

Table 4. 6: Changes in the budget for the last 12 months in operation

	Frequency	Percent
Yes	12	30.0
No	28	70.0
Total	40	100.0

Source, Author (2009)

The findings in the table 4.6 revealed that most banks did not have changes in their budget for the last 12 months of operation as indicated by 70% of the respondents, while 30.0% of the respondent indicated that their banks had changes in their budget for the last 12 months in operations.

Table 4.7: Governmental influence on the budget

	Frequency	Percent
Yes	5	12.5
No	35	87.5
Total	40	100.0

Source, Author (2009)

The respondents were also requested to give their opinion on whether their banks budget had governmental. From the findings in the table 4.7, the majority of the respondents as indicated by 87.5% felt that their budget did not have governmental influence, while 12.5% were of the opinion that their budget had some governmental influence.

Table 4.8: Presence of lots of errors in the budget

	Frequency	Percent
Yes	2	5.0
No	38	95.0
Total	40	100.0

Source, Author (2009)

From the findings in the table 4.8, the majority of the respondents as shown by 95% reported that their budgets did not incur a lot of errors, while 5% of the respondents reported that that their budget incurred a lot of errors. On the role of the budget variances in setting up of goals in the organization performance, the study established that variance

helped in setting up budget, making necessary adjustment to the proposed budget and evaluation of control cycle, availing of more time in reviewing variances and budget exercise should also get adequate time allocation

Table 4.9: Evaluating the organization budget upon the statements

	Poor	Neutral	Good	Very good	Excellent	Mean
The budget performance in the organization	0	0	1	1	38	4.9
Budget applicability in service delivery	0	0	1	14	25	4.6
Evaluate the budget annual out comes	0	0	3	5	32	4.7
How about the budget implementation process	0	0	0	4	36	4.9
Performance of the budgetary planning committee	0	1	1	2	36	4.8

Source, Author (2009)

The findings in the above table 4.9 show the level of evaluating the organization budget upon the statements. From the findings, the majority of the respondents rated the following statement as excellent, they include the budget performance in the organization and the budget implementation process as shown by a mean of 4.9, performance of the budgetary planning committee as shown by 4.8, evaluation of the budget annual out comes as shown by a mean score of 4.7 and budget applicability in service delivery as shown by a mean score of 4.6.

Table 4.10: Periodicity of applicable implemented budget

	Frequency	Percent
Thee months	3	7.5
Half a year	8	20.0
One year	25	62.5
More than one year	4	10.0
Total	40	100.0

Source, Author (2009)

The respondents were also requested to indicate the length of time period that the budget plan was applicable. From the findings in the table 4.10, the majority of respondents reported that the budget was applicable in their company for one year as shown by 62.5%, 20% said the budget was applicable for a period of half an year, 10% of the respondents said the budget was applicable for a period of more than one year, while 7.5% of the respondents reported that the budget was applicable for a period of three months.

4.3 Summary of findings

The findings are that the study targeted mostly the finance officers and the accountants who had stayed in the bank for enough duration. There is a general consensus that the process of budget implementation is effective. Representatives are drawn from different platforms perhaps to create consensus and ownership of the budget implementation process. The study also established that budgetary implementation procedures and the decision makers are fair at all levels of the organization and the process has encouraged operational assessment in all platforms of the organization. The implemented budget was found to match the proposed budget to a large extent. Variations and changes of the budget in a span of 12 months were found minimal perhaps an indication of stability and

accuracy in planning of bank operations. The budget implementation and execution was found not to be influenced by government. The budget application was set on average time duration of one year so as to assess its effect on the company's service delivery.

CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following discussions, conclusions and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to obtain responses on budget implementation process in Kenyan commercial banks.

5.2 Summary of findings

On the respondents general information the designations were chief finance officer, assistant general manager (finance), chief accountants, deputy chief accountants, finance managers and managers. The respondents have been in that current position for a range 17 years to 8 months. The age of the respondents ranged from the 25 to 35 years as shown by 37.5% of the respondents, followed by 30.0% of the respondent who were of the age between 36 to 45 years, 20.0% were of the age of above 45 years and 12.5% of the respondent whose age was below 25 years.

The factors that regarded to the budget implementation process are that the process of budget implementation is generally effective as shown by a mean score of 4.7 and also representatives from different platforms are involved in the process as shown by a mean score of 4.6. Further, majority of the respondents agreed that the execution of the process is fast and efficient as shown by a mean of 4.2, the process has attracted opinions and few complaints have been experienced and as shown by a mean score of 4.1, the budgetary implementation procedures and the decision makers are fair at all levels of the organization and the process has encouraged operational assessment in all platforms of

the organization as shown by a mean score of 3.9 in each case.

The researcher found out that most commercial banks had their proposed budget matching with implemented budget as indicated by 65% of the respondents, while 35% of the respondent indicated that proposed budget did not match with implemented budgets. The respondents' opinions on whether all the elements in the budget reflect the transactions of the organization. Majority of the respondents as indicated by 82.5% felt that all the elements in the budget reflect the transactions of the organization, while 17.5% were of the opinion that in their banks all the elements in the budget do not reflect the transactions of the organization. On the major variations between planned and the implemented budget are 75% reported that there did not experience major variations between the planned and the implemented budget, while 25% of the respondents reported that they experienced major variations between the planned and the implemented budget.

Most banks did not have changes in their budget for the last 12 months of operation as indicated by 70% of the respondents, while 30.0% of the respondent indicated that their banks had changes in their budget for the last 12 months in operations. The respondents gave their opinion on whether their banks budget had governmental. Majority of the respondents as indicated by 87.5% felt that their budget did not have governmental influence, while 12.5% were of the opinion that their budget had some governmental influence. Presence of lots of errors in the budget 95% reported that their budgets did not incur a lot of errors, while 5% of the respondents reported that that their budget incurred a lot of errors. On the role of the budget variances in setting up of goals in the organization performance, the study established that variance helped in setting up budget, making necessary adjustment to the proposed budget and evaluation of control cycle, spending of more time in reviewing variances and budget exercise should also get adequate time allocation.

Evaluating the organization budget upon the statements, majority of the respondents rated

The following statement as excellent, they include the budget performance in the organization and the budget implementation process as shown by a mean of 4.9, performance of the budgetary planning committee as shown by 4.8, evaluation of the budget annual outcomes as shown by a mean score of 4.7 and budget applicability in service delivery as shown by a mean score of 4.6. The respondents were also requested to indicate the length of time period that the budget plan was applicable. From the findings in table 4.10, the majority of respondents reported that the budget was applicable in their company for one year as shown by 62.5%, 20% said the budget was applicable for a period of half an year, 10% of the respondents said the budget was applicable for a period of more than one year, while 7.5% of the respondents reported that the budget was applicable for a period of three months.

3 Discussions

From the study, the process of budget implementation is generally effective, also representatives from different platforms are involved in the process, the execution of the process is fast and efficient, the process has attracted opinions and few complaints have been experienced, the budgetary implementation procedures and the decision makers are fair at all levels of the organization and the process has encouraged operational assessment in all platforms of the organization.

The study revealed that most commercial banks had their proposed budget matching with implemented budget. It was also revealed that all the elements in the budget reflect the transactions of the organization. The study further revealed that most of the banks did not experience major variations between the planned and the implemented budget. It was also established by the study that most banks did not have changes in their budget for the last months of operation.

From the findings of the study, it was established that budget did not have governmental

influence and that banks did not incur a lot of errors in their budgets. On the role of the budget variances in setting up of goals in the organization performance, the study established that variances helped in setting up budgets, making necessary adjustment to the proposed budget and evaluation of control cycle, availing of more time in reviewing variances and budget exercise should also get adequate time allocation

On the level of evaluating the organization budget upon the statements, the study established that; the budget performance in the organization, the budget implementation process, performance of the budgetary planning committee, evaluation of the budget annual out comes and budget applicability in service delivery were excellent .The study also established that budgets were applicable in their bank for one year, half a year, more than one year and a period of three months.

5.4 Conclusions

From the study, the researcher concluded that the process of budget implementation is generally effective, also representatives from different platforms are involved in the process, the execution of the process is fast and efficient, the process attracts opinions and few complaints have been experienced, the budgetary implementation procedures and the decision makers are fair at all levels of the organization and the process has encouraged operational assessment in all platforms of the organization.

The researcher concludes that commercial banks had their proposed budget matching with the implemented budget and that all the elements in the budget reflect the transactions of the organization. The researcher also concludes that budget did not have governmental influence and that banks did not incur a lot of errors in their budgets. The researcher further concludes that the budget performance in the organization, the budget implementation process, performance of the budgetary planning committee, evaluation of

the budget annual out comes and budget applicability in service delivery were excellent .

5.5 Recommendations

From the findings and conclusions, the study recommends that in order to make the budget implementation process effective in commercial banks in Kenya, the role of the budget variances in setting up of goals in the organization performance should be considered when proposing budgets.

It is also recommends that proposed budgets should be used properly in order to ensure that organization's resources are utilized efficiently and within the proposed budget as much as possible. The study also recommends that proposed budgets should be prepared in such a way that everybody who is required to use it will be able to understand it without any difficulties i.e. simplicity in budgeting.

5.6 Suggestion for further study

This study has led to identification of areas that requires further research. Further study should be carried out on other firms like the Insurance sector or Micro Finance Institutions on the budget implementation and execution. Also further research should be carried out on the effectiveness of the budget implementation on the achievements of the companies strategic planning.

5.7 Limitations of the Study

The study was carried out under limited resources in terms of time and finances. The researcher could expand the sample population to be more inclusive but owing to limited resources this did not happen at the moment. This problem however was expected to be addressed by the methodology and instruments to be employed by the researcher.

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APPENDICES

Appendix I: Questionnaire

SECTION A: DEMOGRAPHICS

1. What is your position in the organization
2. For how long have you served in your current position
4. What is your age bracket?

Below 25 []

25-35 []

36-45 []

Above 45 []

SECTION B:

In general, how much do you agree or disagree with each of the following statements in regard to the budget implementation process in the organization. Please indicate the degree to which you agree or disagree 1= strongly disagree/strongly agree=5

- | | 1 | 2 | 3 | 4 | 5 |
|---|-----|-----|-----|-----|-----|
| i) The process is generally effective | [] | [] | [] | [] | [] |
| ii) Representatives from different platforms are
involved in the process | [] | [] | [] | [] | [] |

- iii) The budgetary implementation procedures and the decision makers are fair at all levels of the organization [] [] [] [] []
- iv) The execution of the process is fast and efficient [] [] [] [] []
- v) The process has attracted opinions and few complaints have been experienced [] [] [] [] []
- vi) The process has encouraged operational assessment in all platforms of the organization [] [] [] [] []

SECTION C:

The researcher would like to know how big the variance between planned budget and the implemented budgets is. In this section the respondent is required to tick where appropriate, either yes or no (Y/N) on the statements given.

Y N

- i) Does the proposed budget match with the implemented budget? [] []

- ii) Do all the elements in the budget reflect the transactions of the organization? [] []

- iii) Do you experience major variations between the
planned and the implemented budget? [] []
- iv) Are there changes in the budget for the last 12 months
in operation? [] []
- v) Does the budget have governmental influence? [] []
- vi) Do you incur a lot of errors in the budget? [] []

What is the role of the budget variances in setting up of goals in the organization performance?

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SECTION D:

I. The researcher would like to know how you regard budgets in your bank. Generally how do you evaluate the organization budget upon the statements given? Scale 1=poor and 5=excellent

- | | 1 | 2 | 3 | 4 | 5 |
|---|-----|-----|-----|-----|-----|
| i) The budget performance in the organization | [] | [] | [] | [] | [] |

- ii) Budget applicability in service delivery
- iii) Evaluate the budget annual out comes
- iv) How about the budget implementation process
- v) Performance of the budgetary planning committee

II. Specify the periodicity of an applicable implemented budget. Tick where applicable

- Three months
- Half a year
- One year
- More than one year

Appendix II: List of commercial banks in Kenya

1. African Banking Corporation
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. CFC Bank
7. Charterhouse bank
8. Chase bank
9. Citibank
10. City Finance bank
11. Co-operative bank of Kenya
12. Commercial Bank of Africa
13. Consolidated bank
14. Daima bank (Statutory)
15. Development bank of Kenya
16. Diamond Trust bank

17. Dubai bank
18. EABS bank
19. Euro Bank
20. Equatorial Commercial bank
21. Equity bank
22. Family bank
23. Fidelity Commercial
24. Fina bank
25. Giro commercial bank
26. Guardian bank
27. Habib A.G.Zurich
28. Habib bank
29. Imperial Bank
30. Investment and Mortgages bank
31. K-Rep bank
32. Kenya Commercial bank
33. Kenya Post Office Savings Bank

34. Middle East bank
35. National bank of Kenya
36. National Industrial Credit bank
37. Oriental Commercial bank
38. Paramount Universal bank
39. Prime Bank
40. Southern Credit bank
41. Stanbic bank
42. Standard Chartered bank
43. Trans-National bank
44. Victoria Commercial bank
45. Eco Bank

(Source: Central Bank of Kenya, 2008)