

**THE CHALLENGES OF BUDGETARY PRACTICES AMONG
SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN KENYA**

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Fulfilment Of The Requirements For The Award Of Masters Of
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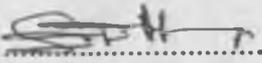
October 2009

DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

ONG'ONG'E, LENARD MENYA

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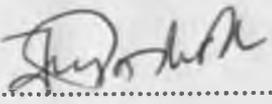
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The research project has been submitted with my approval as a university supervisor

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DEDICATION

This has been dedicated to my wife Florence Achieng Menya and our children

IN MEMORY OF

My late parents Joseph Ong'onge Simba and Wilkister Aroko

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I would like to acknowledge the following persons whose contributions facilitated the completion of this project. First, I thank the Almighty God for the gift of life and for giving me the skills, knowledge and energy to be able to complete this paper.

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ABBREVIATIONS

CEO	Chief Executive Officer
ICA	International Cooperative Alliance
SACCOs	Savings and Credit Cooperative Societies
ZBB	Zero Based Budgeting

ABSTRACT

The study had two objectives. The first objective was to examine the budgetary practices of Savings and Credit Cooperative Societies in Kenya. Secondly, the study sought to determine the challenges of budgeting in Savings and Credit Cooperative Societies in Kenya. This research was a descriptive survey study. From 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 results were presented using tables, graphs and charts for ease of understanding.

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. The SACCOs prepare annual budgets covering 12 months. Majority of SACCOs involve the heads of various departments, managing directors and administrative heads. Majority of SACCOs also set specific benchmarks as a combination of monetary value and percentages. Most of the SACCOs also review their budgetary planning and control procedures and changes such as format and time are made during such reviews. The challenges include unqualified personnel who form part of the budgetary committees not being up to the task hence poor budgets made in the

process, insufficient budgets, bureaucracy in procurement procedures, and poor budget implementation.

The study recommends that all stakeholders, including the employees and members need to be involved in the budgetary process. The study also recommends that the committee members be trained on budgeting issues as it was noted that some of them are not qualified yet they are relied on for budgeting in the SACCOs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Cooperative Societies can be classified into two kinds: Agricultural (or farmers) Cooperatives or Savings and Credit Cooperative Societies (SACCOs) (Cobia, 1989). Agricultural Cooperative are usually an agricultural service Cooperative. There are two primary types of agricultural service Cooperatives, supply Cooperative and marketing Cooperative. Supply Cooperatives supply their members with inputs for agricultural production, including seeds, fertilizers, fuel, and machinery services. Marketing Cooperatives are established by farmers to undertake transformation, packaging, distribution, and marketing of farm products (both crop and livestock). Farmers also widely rely on credit Cooperatives as a source of financing for both working capital and investments (Cobia, 1989).

SACCOs are forms of Cooperative Societies whose core business is to encourage thrift and easy access to credit to their members. These Savings and Credit Cooperatives or SACCOs as they are popularly known, are active in urban, peri-urban and rural areas. They have enabled members to save and many have also accessed loans while ensuring that loan resources remain in the communities from which the savings were mobilized.

The Savings and Credit Co-operatives (SACCOs) like any other Co-operative Organizations are guided by the practices, philosophy, fundamental principles and values of the Co-operative Movement world over. SACCOs are not ends in themselves but means to an end in the Co-operative Movement. That's why they must operate alongside other types of co-operatives e.g. Producer and Marketing co-operatives (Cobia, 1989).

A good budget process is far more than the preparation of a legal document that appropriates funds for a series of line items. Good budgeting is a broadly defined process that has political, managerial, planning, communication, and financial dimensions. A good budget process is characterized by several essential features. A good budget process incorporates a long-term perspective, establishes linkages to broad organizational goals, focuses budget decisions on results and outcomes, involves and promotes effective communication with stakeholders, and provides incentives to management and employees. These key characteristics of good budgeting ensures that the budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals. A good budget process moves beyond the traditional concept of line item expenditure control, providing incentives and flexibility to managers that can lead to improved project efficiency and effectiveness (Ehrhart et al, 1999).

The budget process consists of several broad principles that stem from the definition and mission described above. These principles encompass many functions that cut across a organization. They reflect the fact that development of a budget is a political and Managerial process that also has financial and technical dimensions. The functions or activities covered by these principles generally are sequentially ordered, but they can often be performed concurrently to some extent. Moreover, information obtained from one activity or function can aid in achieving an earlier one. The process can be iterative, and is intended to be so. Some functions may also be accomplished by linkage to other processes rather than as an explicit part of a formal budget process. For example, developing broad goals and identifying the services that are needed to accomplish the goals could be part of a separate strategic planning process. As long as there is an appropriate linkage, these functions do not need to be a formal component of the budget process. The budget should be the centrepiece

of a thoughtful, ongoing, decision-making process for allocating resources and setting priorities and direction (Drury et al, 1993).

Bagdigen (2005) contend that there are various challenges that face companies in the budgeting and planning process. First, more than half of budgeting & forecasting time is spent on low-value activities, including data collection and consolidation, reviews, approvals, and report preparation. Second, the vast majority of companies are dependant on spreadsheets for all or a portion of their financial planning activities. Third, management & employee dissatisfaction with the current budgeting & planning process is high due to lack of granularity and lack of alignment with business strategy. Fourth, the strategic relevance of budgeting & planning is increasing over time. Lastly, closer links between operations and strategy is vital.

Performance of SACCOs can be measured using financial ratios. Financial ratios that have been used earlier in research to determine performance include return on assets, return on investment or return on sales. Such financial ratios are the measures that will be used to measure performance of SACCOs in Kenya. The roots of SACCOs are in the Co-operative movements. The earliest documented movement was in Rochdale, England in 1844. Later, it spread to Canada in 1901 and United States in 1908 (Goto, 2004). The Co-operative movement in Kenya started at the beginning of the twentieth century (Manyara, 2003). It was exclusively meant for the marketing of the settler community's agricultural produce. After independence, the government seized the opportunity to use the movement as a vehicle for socio-economic development. More specifically, co-operatives were established and developed as a means of improving the economic, social and cultural situation of persons of limited resources and opportunities as well as encouraging the spirit of initiative; increasing personal and national capital resources by encouragement of thrift and sound use of credit; contributing to the economy an increased measure of democratic control

of economic activity and equitable distribution of surplus; improving social conditions and supplementing social services in such fields as housing and where appropriate health, education and communication; helping to raise the level of general and technical knowledge of their members (Goto, 2004).

Over the years, Co-operatives have been involved in agricultural production and primary processing and marketing of agricultural and livestock commodities. In addition, they have served as a vehicle for mobilization of rural and urban savings, which are important sources of funding for productive activities. In Sessional Paper number 14 on Co-operative Development published in 1975, the government categorically stated its continued recognition and support of co-operatives as vital instruments for mobilizing the natural human and financial resources for national development. As late as June 2003 President Kibaki, in his Madaraka Day speech echoed the vital importance of co-operatives citing that it mobilized 40% of national savings. He was however quick to caution that some Cooperative Societies have been under-performing in recent times due to poor and inefficient management, corruption and lack of commercial ethics and restrictive legislation (Daily Nation Newspaper, 6th June. 2003)

Prior to 1997, the government supported Co-operative movements through direct assistance and subsidized services. This ceased when the new Cooperative Societies Act and Sessional Paper number 6 of 1997 on Co-operatives in a liberalized economy became effective. This involved the revision of the Cooperative Societies Act Cap 490. The Act was amended in 2004. Some functions like; approval of the budgets, capital expenditure and allowances; auditing, accounting and management systems were transferred from the ministry of Co-operatives to Cooperative Societies themselves. Co-operatives are now free enterprises, expected to compete with other private commercial entities in the market Bwibo (2003).

1.2 Statement of the problem

Kenya is a country where the co-operative movement has grown strong through the last decades. In order to help farmers with credit and saving facilities and marketing of their produce Cooperative Societies were formed already in the early 1970s. Such Institutions included Kenya Planters Cooperative Union, Agricultural Farmers Corporation, and Kenya Farmers Association. But as most of these institutions collapsed, Cooperatives have faced myriad challenges including competition and weak management structures (Manyara, 2003).

The way in which budgeting is done in organisations has received scholarly attention but none has been focused on SACCOs despite the tremendous role they play in the economy. Ideally, budgets in SACCOs are approved by the members at an Annual General Meeting after the Board presents the budget. Some of the SACCOs in Kenya have even approved budgets for 2010 and 2011 without taking into consideration environmental changes that may be fundamental to change the budget estimates. Budgeting among SACCOs may face various challenges ranging from politics, involvement of various stakeholders to expertise. It is therefore important to study the challenges that may influence budgeting among SACCOs in Kenya. A few studies have been done on challenges of budgeting (Bagdigen, 2005; Nirel and Gross, 1997). These studies were however done on the health sector and governments respectively.

1.3 Objectives of the study

The objectives of this study were:

1. To examine the budgetary practices of Savings and Credit Cooperative Societies in Kenya
2. To determine the challenges of budgeting in Savings and Credit Cooperative Societies in Kenya.

1.4 Importance of the study

Management of SACCOs

The study will be important to the management of SACCOs in Kenya as the findings will reveal whether the SACCOs in Kenya practice good budgetary practice.

Regulatory Agencies

The regulatory agencies and the government agencies responsible for SACCOs in Kenya will find this study a useful guide on the practice of budgeting among SACCOs by establishing the effect of sound budgetary practice on performance.

Scholars and Academicians

The scholars and other researchers interested in carrying out further studies in the same area will find the results of this study a useful reference material.

CHAPTER TWO

LITERATURE REVIEW

2.1 Cooperatives and Cooperative Societies in Kenya

The International Cooperative Alliance (ICA 2004) defines a Cooperative as "...an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise". A Cooperative is meant to embody the values of self-help, honesty, openness, self-responsibility, social responsibility, democracy, equality, equity, solidarity, mutual caring, efficiency, effectiveness, transparency and accountability. ICA identifies seven principles that ought to guide the formation, organization and activities of Cooperatives: (a) Voluntary and open membership (b) Democratic member control (c) Member economic participation (d) Autonomy and independence (e) Education, training and information (f) Cooperation among Cooperatives (g) Concern for Community (ICA, 2004)

Effectiveness in the principles leads to a number of benefits: entrepreneurs achieve economies of scale, bargaining power and capacity to invest in more advanced stages of the value chain including storage, processing, marketing and distribution of products and services. As transaction costs are reduced, relationships with commercial enterprises are built. In addition, as community institutions, Cooperatives devolve decision making to the community level, build social capital, nurture community spirit and pride (Reynolds 1998). Today governments expect Cooperatives to inform policy making and engage in advocacy while the Cooperatives themselves seek a more pronounced, active and permanent role in decision-making (Mercoiret 1999). The shared spirit of cooperation and empowerment leads to engagement in larger projects such as reconstruction of schools or health facilities.

The Co-operative Movement in Kenya may be traced to the period immediately after the country's independence. The movement is supposed to play an important role in wealth creation, food security and employment generation and hence participate in poverty alleviation. By 2007 the IMF reported that there were 11,200 registered Cooperative Societies country-wide. The membership is 6.1million and has mobilized domestic savings estimated at over Kshs. 125 billion. The Cooperatives have employed 300,000 people besides providing opportunities for self-employment. Indeed, a significant number of Kenyans, approximately 63% draw their livelihood either directly or indirectly from Cooperative-based enterprises (Republic of Kenya 2007; International Monetary Fund 2007; The Kenya High Commission in the United Kingdom 2007).

The policy objective of the Kenyan Cooperative movement is to spur sustainable economic growth by focusing on achievement of desired outcomes through strengthening of the movement, improving Cooperative extension service delivery, corporate governance, access to markets and marketing efficiency (International Monetary Fund 2007). The Cooperatives have an immense potential to deliver goods and services in areas where both the public and the private sector have not ventured (Verma 2004). In most cases Cooperatives are local institutions that address "local needs", employ "local talent" and are by "local leaders" either directly or through local branches.

The Cooperatives in Kenya are organized into service and producer Cooperatives (Goto, 2004). The producer Cooperatives' objectives are to promote the use of modern technology and contribute to national development through production. The service Cooperatives are responsible for procurement, marketing and expansion services, loan disbursement, sale of consumer goods and member education. The Cooperatives have made remarkable progress in agriculture, banking, credit, agro-processing, storage, marketing, dairy, fishing and housing. Service Cooperatives are the closest to communities and are organized on a

shareholder basis formed by individual members of organizations voluntarily working in a specific geographic area. For instance, primary level sugar cane farmers Cooperatives provide a collection point for the farmers' produce, negotiate the per ton cost of sugarcane.

2.2 Cooperative Principles and the Need for Strategy

Successful Cooperative service organizations generate income for their members through business transactions. Yet Cooperatives are also democratically controlled member service organizations governed by a set of principles which give them a special identity. Equality between members is regarded as important in maintaining group solidarity and is guaranteed through the one member one vote principle. Benefits are distributed according to each member's contribution. This helps to maintain a certain balance among members by limiting the profits which can be made by members simply by providing investment funds to the Cooperative. This system creates incentives for member loyalty and consequently strengthens the competitive position of the Cooperative (Rouse and Von Pischke, 1997). These principles shape the Cooperative identity and describe their ultimate goal of collective self-help, which has inspired Cooperative leaders and members throughout the world. The principles of Cooperatives are, however, different from those used by other private businesses such as corporations and create distinct problems for Cooperatives in raising capital. Financial strategies can strengthen a Cooperative's economic and social roles when they encourage members to patronise the Cooperative and become involved in democratic decision making in its business operations (ICA, 2004).

Over the past few decades, the promise of Cooperatives attracted many supporters that were not members of Cooperatives or that were not directly involved in the business of Cooperatives. These have included government departments and donors such as the United Nations Food and Agriculture Organization and the World Bank as well as development assistance agencies of

industrialised countries (Rouse and von Pischke, 1997). Support to Cooperatives has been provided in the form of money and technical assistance as well as special privileges and responsibilities. Privileges include special or exclusive rights to deal in certain goods or commodities, such as milk or certain grades of cloth; fixed prices that are favourable to Cooperatives or to their members; loans at low rates of interest; grants and tax benefits. Responsibilities have often included: processing, marketing or provision of goods and services as requested by the government or donor agency. However the results of this support have been mixed. Support has often led to dependency threatening the Cooperative's stability when there are changes in prices or in the degree of government or donor support. In many cases it has also undermined the Cooperative's financial and management independence, leading members to consider the Cooperative as belonging to the government or other agency rather than themselves (Rouse and von Pischke, 1997).

Cooperatives need to adapt to these new trends, finding ways to finance their operations and to continue to compete, while maintaining Cooperative principles and identity. Cooperatives which do not adapt, and continue to rely on the reducing privileges and financial support from external non-member sources will be increasingly unable to compete with other, more efficient types of business (Cobia, 1989). Cooperatives can increase the financial returns to their members only through business transactions. Typical transactions include members' delivery of produce to the Cooperative for processing or marketing, or purchase of inputs and materials from their Cooperative. SACCOs on the other hand extend loans to their members. Member loyalty is essential for maintaining a strong and successful operation - the basis for a sound Cooperative business. Promoting increased member patronage should be a key element in the Cooperative's new strategy.

Cooperatives that pay little attention to serving their members are unlikely to survive against the competition. In order to improve services, the Cooperative must first be sure what the members want - what are their needs and priorities? Perhaps the Cooperative no longer provides a service that members want, or perhaps the same service is provided better or more cheaply elsewhere. Members are more likely to make use of a Cooperative if it provides responsive services at competitive prices (Cobia, 1989). To be successful, a Cooperative needs at least to maintain its volume of member transactions. With increased competition, it can do this only through continual improvements in services while maintaining competitive prices. Improved service may mean expanding the range of services offered to members or improving the delivery of existing services.

Among the issues to consider in maintaining member loyalty is prompt payment to members for produce delivered. Cooperatives may also consider offering credit, both to keep existing members and to attract new ones. For example, a marketing or food processing Cooperative may provide advance payments to its members during the growing season to be repaid after the sale of the crop delivered to the Cooperative. Input supply Cooperatives may provide goods on credit, to be repaid after harvest. Prompt payment and provision of credit are of course possible only when the Cooperative has funds to advance to members (Rouse and von Pischke, 1997).

In a competitive market, members will increasingly seek providers who serve them best. As member service-oriented businesses, Cooperatives should lead the way in providing the services they need, when they need them. To be competitive, Cooperatives have to offer efficient services at attractive prices. Increased efficiency means reducing or minimizing costs while maintaining or improving quality. This can be achieved in a number of ways. First, it can be realised through better management and use of existing facilities, equipment, finance, procedures and people. Many Cooperatives have reduced their costs

significantly through improved management. Management training programmes can help to improve the efficient use of available resources. General member education is also important so that democratic control is exercised intelligently in ways that are consistent with efficient operations and long-run sustainability. Technical skills training may also help to ensure equipment and facilities are operated as efficiently as possible (ICA, 2004).

Secondly, it can be realised through purchase of new or more efficient equipment. Replacing old technology with improved technology can contribute to efficiency and reduce costs. More efficient equipment can increase the rate, volume or quality of output, or reduce the quantity of inputs used per unit of output. It may also reduce the amount of labour needed per unit of output, allowing an increase in production for the same labour requirement. However purchase of new equipment is worthwhile only if the returns to the business are higher than the cost of the equipment (since the cost of the new equipment has to be repaid by higher turnover and income to the Cooperative).

Businesses that cannot purchase more efficient technology because it is too expensive are likely to face increased competition from those with the funds to purchase it (Rouse and von Pischke, 1997). Those that are able to purchase improved technology but unable to manage it so that it produces increased returns to the Cooperative, are also unlikely to be competitive. Similarly, the Cooperative needs to ensure that it will have sufficient demand for increased or improved production to justify the costs of the new equipment.

2.3 Approaches to Budgeting

There are three major approaches to coming up with budgets for any home, small business, or larger company: the traditional method of budgeting is known as bottom-up budgeting, though many businesses and corporations, are moving

towards more top-down budgeting, particularly during times of fiscal stress (Walther, 2009).

2.3.1 Traditional Budgeting

Some entities follow a top-down mandated approach to budgeting. These budgets will begin with upper level management establishing parameters under which the budget is to be prepared. These parameters can be general or specific. They can cover sales goals, expenditure levels, guidelines for compensation, and more. Lower-level personnel have very little input in setting the overall goals of the organization. The upper-level executives call the shots, and lower-level units are essentially reduced to doing the basic budget calculations consistent with directives. Mid-level executives may color the budget process by refining the leadership directives as the budget information is passed down through the organization (Walther, 2009).

One disadvantage of the top-down approach is that lower-level managers may view the budget as a dictatorial standard. Resentment can be fostered in such an environment. Further, such budgets can sometimes provide ethical challenges, as lower-level managers may find themselves put in a position of ever-reaching to attain unrealistic targets for their units (Nolan, 2005). On the positive side, top-down budgets can set a tone for the organization. They signal expected sales and production activity that the organization is supposed to reach. Some of the most efficient and successful organizations have a hallmark strategy of being "lean and mean." The budget is a most effective communication device in getting employees to hear the message and perform accordingly (Walther, 2009).

Traditional budgeting is under attack on the grounds that its processes are fundamentally flawed (Nolan, 2005). Critics charges that current budget

practices discourage examining project outcomes in favor of automatically continuing existing projects, discourage policy analysis in favor of legislative micromanagement, and are too tolerant of bureaucracy and waste. They allege that budgets fail in their mission of reviewing the past and planning for the future.

Budget processes always benefit from reconsideration because, at the very least, reconsideration improves people's understanding of the difficulty of the process (Pierre, 2007). Participants and observers agree that budgeting in organisations is less satisfactory, in process and in outcome, than in previous years. Hard times always make for hard budgets, but many feel that in recent years, the process itself has been to blame, particularly because of its traditional focus on line-item control and incremental budgeting (Pierre, 2007).

Traditionally, budgets have focused on controlling expenditures. Control is expressed in written budgets through "line items"--statements allocating so much money for a specific expense. Where written budgets focus on line items, managers tend to do so as well. Line-item budgeting tends to be incremental--previous appropriations are increased or decreased by small increments over time. This approach is likely to take previous policies and projects for granted, and discourages rigorous or fundamental review of priorities, project effectiveness, or service outcomes (Nolan, 2005).

These practices are under attack because they are said to foster a business-as-usual approach to organisations at a time when the public is challenging how organisations operate, questioning their efficiency and effectiveness, and expressing distrust of management itself. Line items focus on what money buys (an input) rather than on the service that is provided (an outcome). With growing concern about how well corporations function, many people contend that the traditional focus on line-item budget and incremental change neglects

outcomes so much that the budgeting process itself is an impediment to effectively delivering projects. Critics contend that line-item budgeting does not do enough to take project results into account (Fanning, 1998).

Manages throughout the organizations are revising budget procedures to emphasize performance and results. This activity goes under many names: outcome-based budgeting, performance budgeting, zero based budgeting, activity based budgeting and sometimes project budgeting. The terms are confusing because in current use they overlap but do not mean exactly the same things. In general, though, the present trend is to reshape budget processes to reward efficient, effective projects and to encourage re-modelling projects that cannot meet specific goals. This kind of budgeting is called performance-based budgeting (Nolan, 2005).

Performance-based budgeting calls for a revolution in how organizations are governed. It focuses on setting goals, designing the strategies needed to meet the goals, and measuring how well they are met. Future funding decisions should focus on project effectiveness, not on the preservation of existing projects and levels of spending. This approach requires that budgeting be directed at project rather than at specific line items, that the goals of those projects be laid out in measurable terms, and that performance review becomes central to budget decisions. There is widespread enthusiasm for performance budgeting in the organizations, and some organizations have implemented some elements, especially the goal-setting and the greater attention to performance measurement.

Critics of proposed reforms suggest two reasons why it is so hard to change traditional budgeting methods: traditional budgeting meets more expectations about the process better than any proposed reform, and reforms will not solve the problems that reformers have identified. Proposals for reform focus on

particular unsatisfactory results from the existing process and recommend ways to improve those results. But they may fail to consider how many conflicting expectations the budget process has to meet (Nolan, 2005).

A budget process that is expected to do so many disparate things will work worse as more specific formulas and expectations are loaded onto it. Budgeting, he argues, should not be made responsible for all of the aims of firms. Traditional budgeting has responded fairly well to the conflicting demands made upon it because it builds upon previous agreements and commitments. It does not reopen every question and it does not try to do too much. Planning, evaluating, and accounting are activities that can proceed effectively without being central to the budget. For budget processes not to be overloaded, they should continue to focus on narrow, not broad, purposes. Thus, traditional budgeting survives because of its lack of rigorous method (Pierre, 2007).

2.3.2 The Bottom-Up Approach

The bottom-up participative approach is driven by involving lower-level employees in the budget development process. Top management may initiate the budget process with general budget guidelines, but it is the lower-level units that drive the development of budgets for their units. These individual budgets are then grouped and regrouped to form a divisional budget with mid-level executives adding their input along the way. Eventually top management and the budget committee will receive the overall plan. As you might suspect, the budget committee must then review the budget components for consistency and coordination. This may require several iterations of passing the budget back down the ladder for revision by lower units. Ultimately, a final budget is reached (Walther, 2009).

The participative budget approach is viewed as self-imposed. As a result, it is argued that it improves employee morale and job satisfaction. It fosters the "team-based" management philosophy that has proven to be very effective for

modern organizations. Furthermore, the budget is prepared by those who have the best knowledge of their own specific areas of operation. This should allow for a more accurate budget; in any event, it certainly removes one of the primary excuses that is used to explain why a particular budget was not met (Fanning, 1998)

On the negative side of the equation, a bottom-up approach is generally more time consuming and expensive to develop and administer. This occurs because of the iterative process needed for its development and coordination. Another potential shortcoming has to do with the fact that some Managers may try to "pad" their budget, giving them more room for mistakes and inefficiency (Nolan, 2005).

2.3.3 Zero Based Budgeting

The popularity of zero-base budgeting (ZBB) is partly due to its name. It appeals to many people who are concerned with public budgeting because, according to one standard definition, it requires "the review of all budget requests from point zero, without assuming that any existing project should continue". Although the original goals of ZBB have proved elusive, in a modified form it has become a widely used budgeting tool (Fanning, 1998).

In the organizations where it continues to exist in some form, ZBB is hard to separate from the widespread practice of expecting agencies to evaluate the impact of changes in funding on operations. This is a useful technique. It provides valuable information both when state resources are expanding and when cuts are needed, and assists policymakers to break with the tradition of incrementalism. Even more important in the budget climate of recent years, the process makes it possible to avoid across-the-Board cuts by emphasizing the effects of different cuts on services.

2.4 Empirical Studies

Many theoretical studies examine the role of capital budgeting procedures within the organization. The main assumption in almost all of these studies is that capital budgeting procedures are used to overcome agency conflicts within the organization. The Board represents the investors and therefore must ensure that their capital is invested in the right projects. The CEO, who is the agent in charge of the projects, often has more information about the potential projects and their productivities, and his incentives to invest are not always the same as those of the shareholders. Jensen (1993) provides evidence that supports the Managerial tendency to over-invest. Thus, based on this theoretical literature, it seems plausible that the Board should establish capital budgeting procedures to overcome this conflict.

In almost all of these theories, the role of the principal is to control the allocation of capital to the agent, by, for example, setting allocation rules such as high hurdle rates or fixed budgets. However, besides these allocation rules, the models make predictions that we can test. Some of the models predict other roles that the principal should play in the allocation process. In Harris and Raviv (1996, 1998), the principal audits capital requests, and can tell whether the project is profitable. In this context, the principal would play an active auditing role if the auditing costs are not high and the agency costs are high. When the costs are high, or when the benefits of auditing are low, then the principal will not audit requests and instead, will allocate a fixed amount to the CEO. We expect high the largest benefits from auditing when there are few potential projects and the firm has internal resources to invest (Jensen 1986). In this case, the cost of investing in the bad projects is the highest and requires internal capital budgeting mechanisms to discipline the CEO.

Harris and Raviv (1996, 1998) also predict that the allocation process should include an initial spending limit, and that the principal neither investigates nor

checks this limit. The agent should only request funds from the principal when he needs more than that spending limit. The reason is that for a low amount of capital, the agent's incentives to invest do not differ from those of the principal. Thus, only for higher request does the agent need to be subject to audit.

Marino and Matsusaka (2004) present an agency model which explains when the principal should delegate the investment decision to the agent. In their setting, the principal cannot audit the profitability of the projects but it can monitor the amount of spending. The principal expects more profitable projects to require more capital. An agency problem arises because the agent wants to invest also in non-profitable projects. In order to convince the principal that the project is profitable, the agent has to lie and to ask for more capital than actually needed for the project. Investing too much in a non-profitable project is suboptimal both to the principal and to the agent, but, if monitored, the agent has no choice but to request more than he wishes. Thus, when the agent's incentives are to lie, it is better to delegate the investment decision to the agent because it reduces spending. Marino and Matsusaka argue that the agent has incentives to lie in routine projects, but not in non-routine projects. Therefore, the principal should delegate the investment decision in routine projects and to control the allocation of capital in non-routine projects.

Antle and Eppen (1985) argue that when firms face lower auditing costs, then the resulting capital allocation will be higher. The reason is that the principal can audit more frequently and therefore does not need to ration as often. However, Harris and Raviv (1996) argue that the resulting capital allocation can be either higher or lower. Therefore, we wish to explore whether firms invest more when they establish committees. We form hypothesis 4 based on the prediction of Antle and Eppen. Refuting this hypothesis will be consistent with Harris and Raviv (1996).

Bagdigen (2005) analysed the accuracy of budget forecasting in Turkey. Data was based on 23 years' forecasted and materialized general budget revenues and outlays, from 1981 to 2003. One sample statistics, tabulated, and one sample t tests were applied to find out the accuracy of forecasting and the results showed that there were statistically significant forecast errors and this significance, especially, indicated biases towards under-forecasting of outlays and over-forecasting of revenues. Thus, one of the challenges of budgetary process is in the forecasting.

Nirel and Gross (1997) examined the challenges in implementing a budget holding programme for primary care clinics. The research findings were based on a four-year evaluation of the programme, which involved a longitudinal case study conducted with multiple research tools: in-depth interviews, a staff survey, and an analysis of relevant documents. The study found that there were challenges in implementing four programme components namely allocation of fixed budgets, establishment of an information system, incentives, and expansion of decision making authority. There were also challenges in introducing organisational change, and challenges related to staff satisfaction with the programme.

2.5 Conclusions

This chapter has presented the literature on budgeting. The chapter has presented a discussion on the cooperative movement in Kenya, the cooperative principles and the need for strategy, the types of budgets, and the empirical review of literature on budgeting.

The empirical literature regarding challenges in budgetary process is still minimal as far as private sector organisations are concerned. From the literature analysed above, it can be inferred that the challenges emanate from the formulation

process up to the implementation stage. Since the process can be political, this poses a challenge to the whole process. The fact that there is no much literature available on the issue and the fact that no such study has been locally done in Kenya motivates the present study. Thus, the present study seeks to fill in this gap by focusing on SACCOs in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This was a descriptive survey study. The method was appropriate for the study as it allowed the researcher to find the challenges of budgetary practice among SACCOs.

3.2 Population and sample

The information obtained from the Ministry of Cooperative Development and Marketing indicates that there were 1,200 registered savings and credit Cooperative Societies (SACCOs) in Nairobi (Ministry of Cooperative Development and Marketing, 2009). The population for the study was therefore 1,200. In order to select a sample size, a simple random sampling method was used. A list of the 1,200 SACCOs was taken and the names arranged alphabetically. Numbers from 1 to 1,200 were then assigned to the names. Then, random tables were used to select the firms to be used in the study. The first four digits of the random table formed the number of SACCO to be chosen. Any number greater than 1,200 was ignored until a desired sample of SACCOs was selected. Nairobi was selected because of the fact that it was possible to easily collect data from them as the researcher was based in Nairobi.

Mugenda and Mugenda (2003) contend that a sample should be at least 30 respondents. The desired sample for the study was 40 respondents from 1,200 SACCOs in Nairobi. This was deemed representative of the population. Thus, random tables were used to select SACCOs until the 40th was reached.

3.3 Data collection

Primary data was collected using a semi-structured questionnaire.

The questionnaires collected data regarding budgetary practices among SACCOs. The respondents were managers of the SACCOs selected for the study (or their appointees). One manager from the SACCO, especially the managing director (or his appointee) was selected for the study. The questionnaire had both closed ended and open ended questions. The questionnaires were administered using drop and pick later method.

3.4 Data Analysis

The data was checked for completeness, coded and analysed using descriptive analysis with the aid Statistical Package for Social Sciences (SPSS). Descriptive statistics especially percentages were used to establish the budgetary process used by the SACCOs. The content analysis was used especially to determine the challenges of budgeting in SACCOs. The results were presented using tables, graphs and charts for ease of understanding.

3.4 Data reliability and Validity

To ensure data validity and accuracy, the researcher conducted a pilot test with a few SACCOs not in the final survey. The results of the pilot survey were used to modify the data collection instruments for final survey.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the results of the data analysis. The researcher distributed 40 questionnaires to 40 SACCOs. After the data collection period, 35 questionnaires were collected and found usable. These were then coded and entered into the SPSS for analysis. The response rate was therefore 87.5%. This is considered a higher response rate hence the results can be reliably applied for all SACCOs in the population.

4.2 Characteristics of the sample

The study found that all the respondents in the study were in managerial positions with various titles such as general managers, administrators and senior accountants. In terms of their gender, the study revealed that 74% were male while the remaining 26% of the respondents were female. This shows the variance in terms of gender in the management teams of SACCOs in Kenya. Thus, majority of those in the management teams are male. These results are summarised and presented in Table 1.

Table 1: Gender

	Frequency	Percentage
Male	29	74
Female	9	26
Total	35	100

From the findings majority 74% of the respondents are male while the least 26% are female. This is also shown in the pie chart below

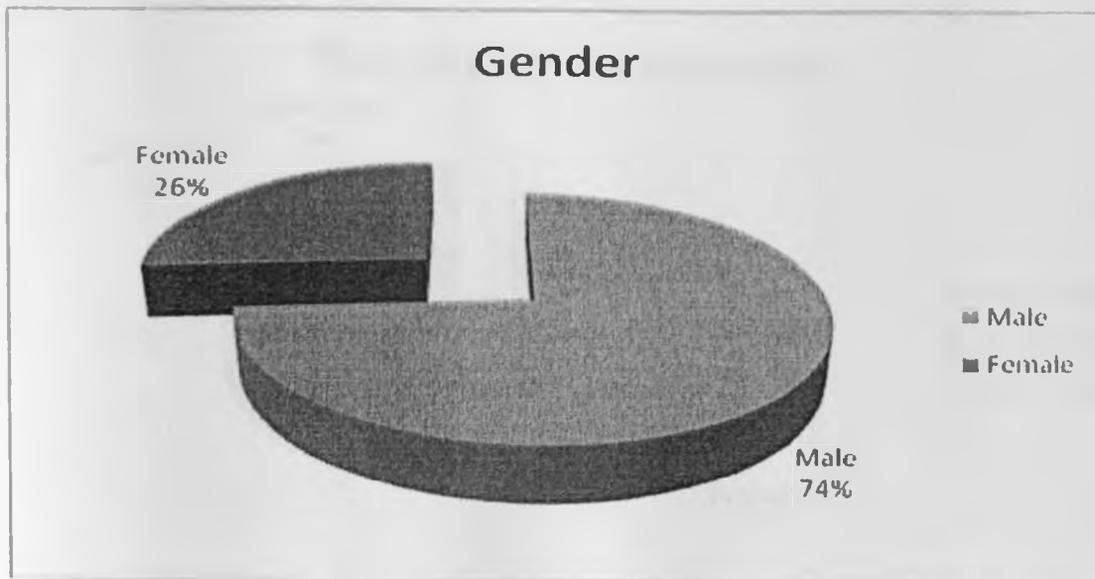


Table 2: Number of employees

	Frequency	Percentage
Below 100	29	82
Below 200	3	9
Above 200	3	9
Total	35	100

The study also found that in terms of the number of employees, 82% had less than 100 employees, 9% had less than 200 employees but more than 100 employees while the remaining 9% had more than 200 employees but less than 300. these results are summarised and presented in Table 2 and the pie chart below explains further.

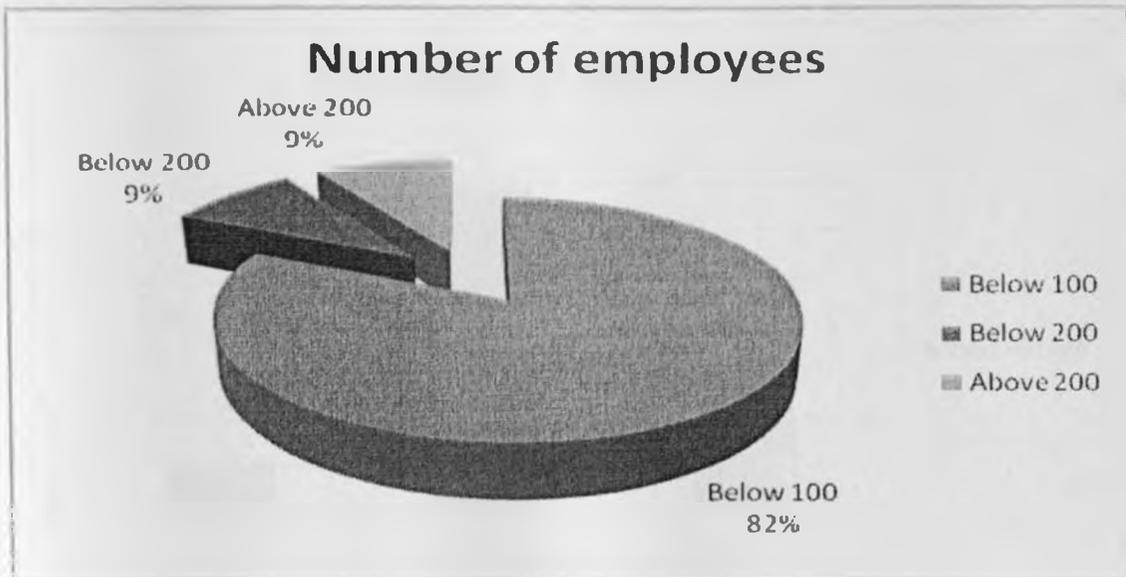


Table 3: Number of branches

	Frequency	Percentage
None	4	11
10 or below	24	69
Above 10	7	20
Total	35	100

It was also noted that in terms of the number of branches each of the SACCOs had, 11% had no branch other than the head offices, 69% had 10 or less while the remaining 20% had more than 10. The highest number recorded was 104 branches. These results are shown in Table 3. The bar graph below explains the same

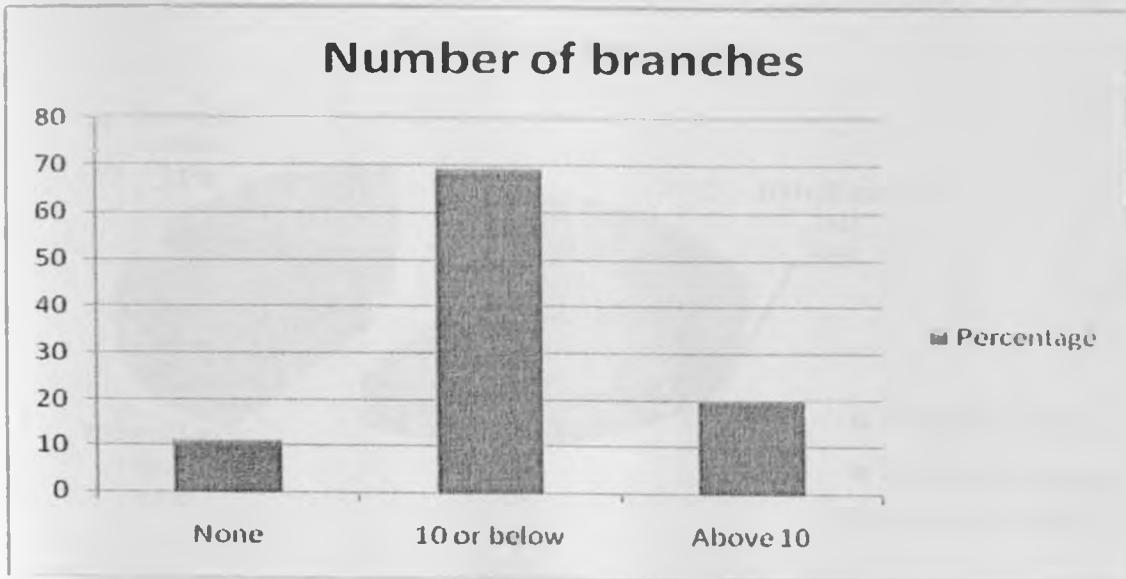
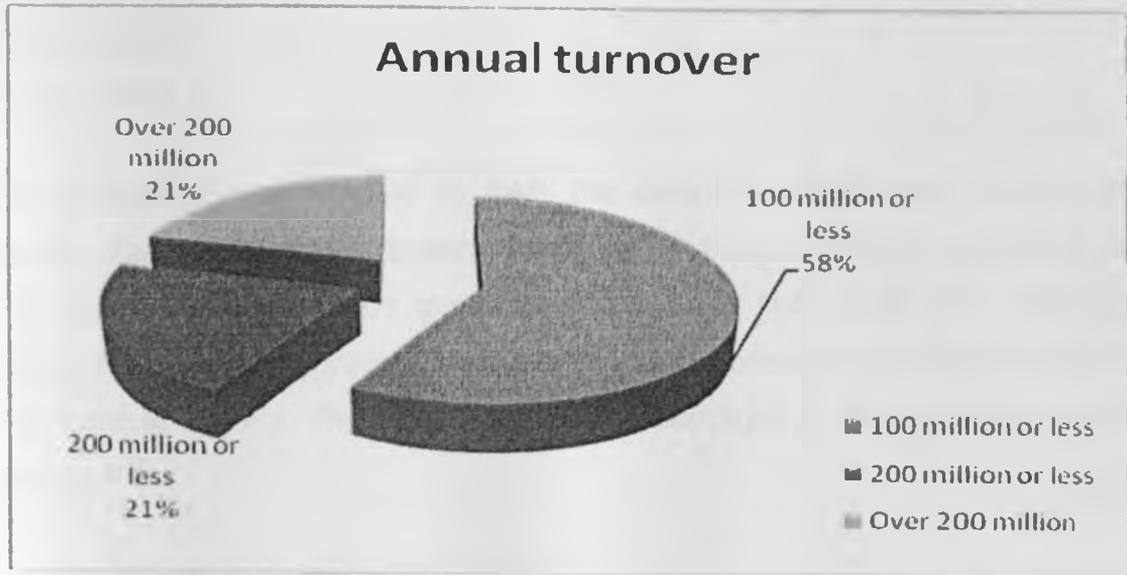


Table 4: Annual turnover

	Frequency	Percentage
100 million or less	16	58
200 million or less	6	21
Over 200 million	6	21
Total	28	100

On their annual turnover, the study revealed that 58% had an annual turnover of 100 million or less, 21% had an annual turnover of 200 million or less while the remaining 21% had an annual turnover of over 200 million. These results are shown in Table 4. The pie chart below explains the same.



4.3 Budget Preparation and Planning

Table 5: Reasons for budgeting

	Strongly disagree	Moderately disagree	Neither agree nor disagree	Moderately agree	Strongly agree
To aid control	0	0	0	37	63
To evaluate performance	0	0	0	20	40
To aid long-term planning	0	9	0	54	37
To aid short-term planning	0	0	17	37	45
To motivate Managers	17	17	31	17	17
To communicate plans	0	0	12	34	54

To coordinate the operation	0	0	20	43	37
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The respondents were asked to mark the extent to which they agreed with various statements as the reasons for preparing budgets in their organisations. The responses were to be given on a five-point likert scale from 'strongly disagree' to 'strongly agree'. The results of the responses were analysed and are presented in Table 5. The table shows the percentages on each of the extent of agreements.

As shown in table 5, 37% of the respondents moderately agreed that budgets were used to aid control while 63% strongly agreed that they were used to aid control. The results also show that 20% moderately disagreed that budgets were used to evaluate performance while the remaining 60% strongly agreed.

The study also found that 54% of the respondents moderately agreed that budgets were used to aid long-term planning while 37% strongly agreed so. It was also noted that 37% of the respondents moderately agreed that budgets were used for aiding short-term planning while 45% strongly agreed that they were used to aid short-term planning.

The study also revealed that 34% of the respondents did not think that budgets were used to motivate managers, 31% were neutral while another 34% agreed that budgets were used to motivate managers. The study further found that 12% of the respondents were neutral on whether budgets were used to communicate plans while the remaining 88% agreed that they were used to communicate plans.

4.4 Information used when setting budgets

Table 6: Information used when setting budgets

	Strongly disagree	Moderately disagree	Neither agree nor disagree	Moderately agree	Strongly agree
Previous years actual results	0	9	9	0	83
In-house market analysis	0	9	20	54	17
Industry statistics/indicators	0	9	9	29	54
Local economic conditions	0	9	20	46	26
National economic indicators	9	26	20	9	37
Previous years budgeted figures	9	9	0	9	74

The study also found that 20% of the respondents were neutral on whether budgets were used to coordinate operations while 80% agreed that they were used for coordination purposes.

The respondents were also asked to state the extent to which they agreed or disagreed on the kind of information that was used when setting up budgets. The results are summarised in Table 6.

4.5 Budgeting approaches used

Table 7: Budgeting approaches used

	Strongly disagree	Moderately disagree	Neither agree nor disagree	Moderately agree	Strongly agree
Bottom-up approach	9	19	9	62	0
Top-down approach	9	44	0	0	47
Combination	9	0	0	63	28

The results reveal that 83% of the respondents agreed that they use previous year's actual results. The results also show that 71% of the organisations used in-house market analysis while 83% used industry statistics/indicators. It was also noted that 72% of the respondents also agreed that local economic conditions were used while 46% agreed that they used national economic conditions. Further, the study revealed that 83% of the SACCOs used previous years' budgeted figures.

The study was also managed to determine the methods used to come up with the budgets. From the results summarised and presented in Table 7, it was noted that 62% of the SACCOs agreed that they use bottom-up approach while only 47% agreed that they use top-down approach when preparing budgets. It was also noted that 91% of the SACCOs agreed that they use a combination of methods to prepare their budgets.

4.6 Use of zero-based budgeting

Table 8: Use of zero-based budgeting

	Frequency	Percent
Very low extent	6	20.7
Moderate extent	10	34.5
Mildly high extent	6	20.7
very high extent	7	24.1
Total	29	100.0

The study also sought to establish the extent to which the SACCOs used zero-based budgeting as a method of budgeting. This is a method in which all expenses must be justified for each new period. The results are shown in Table 8. As shown, 21% agreed to a very low extent, 35% agreed to a moderate extent, 21% agreed to a mildly high extent while 24% agreed to a very high extent. Thus, it may be noted that majority of the respondents agreed that zero-based budgeting is used by some SACCOs.

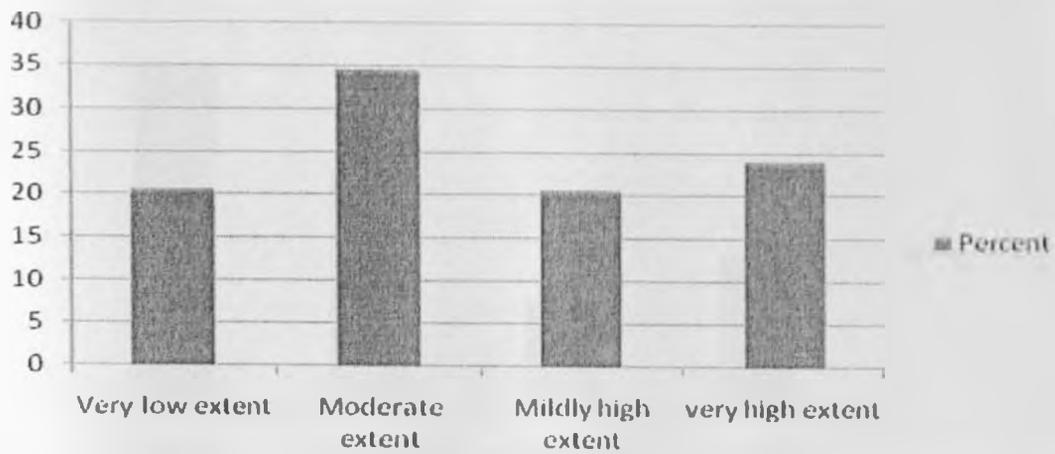
4.7 Periods covered by budgets

Table 9: Periods covered by budgets

	Frequency	Percent
12 months	35	100
Total	35	100

From the results in Table 9, it was noted that 100% of the respondents agreed that their budgets covered 12 months. Thus, the budgets for all of the SACCOs are annual budgets. The same information is well illustrated in the bar graph below.

Use of zero-based budgeting

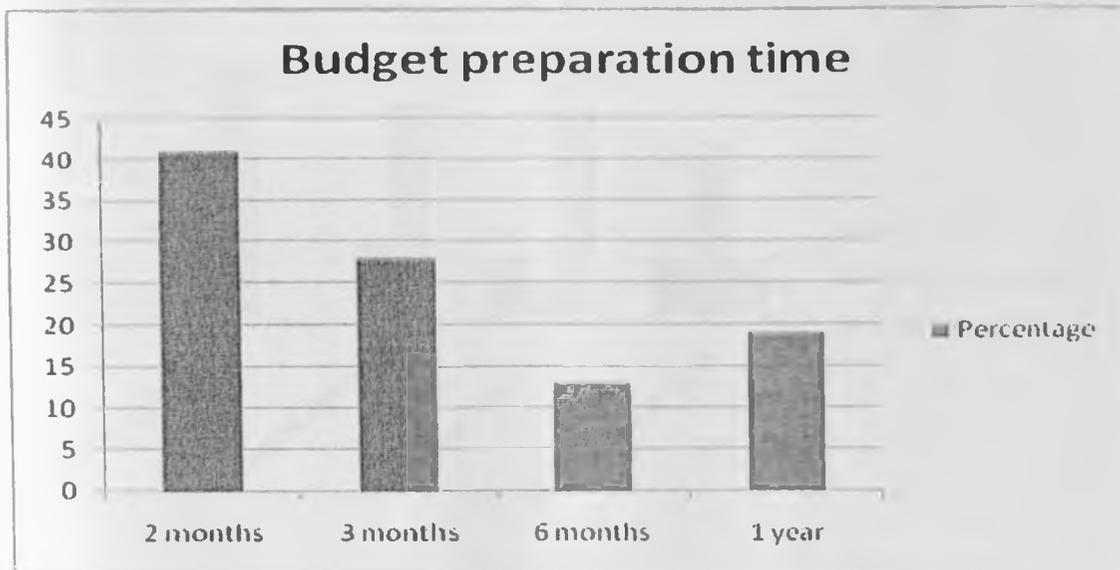


4.8 Budget preparation time

Table 10: Budget preparation time

	Frequency	Percentage
2 months	13	41
3 months	9	28
6 months	4	13
1 year	6	19
Total	32	100.0

The study also found that 41% of the SACCOs prepared their budgets 2 months in advance, 28% prepared their budgets 3 months in advance while 13% prepared their budgets 6 months in advance. Further, it was found that only 19% of the SACCOs prepared their budgets 1 year in advance. These results are shown in Table 10 with a bar graph interpretation

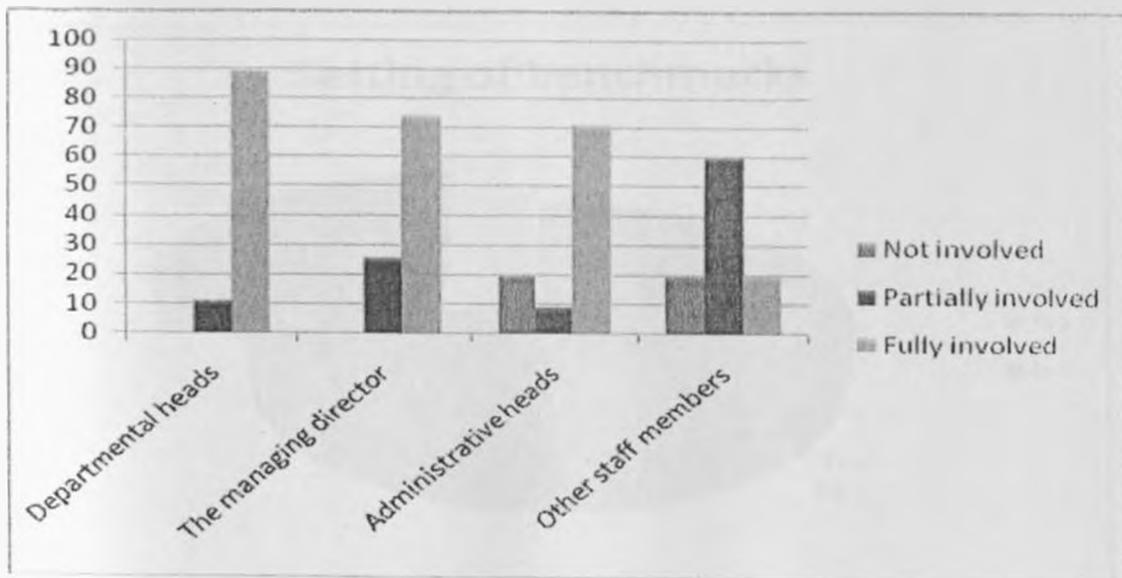


4.9 Involvement in budgeting

Table 11: Involvement in budgeting

	Not involved	Partially involved	Fully involved
Departmental heads	0	11	89
The managing director	0	26	74
Administrative heads	20	9	71
Other staff members	20	60	20

The respondents were also asked to state the extent to which various members of the organisation were involved in the budgeting process. As shown in Table 11, 89% agreed that departmental heads were fully involved while 11% said that they were partially involved. Further, 26% of the respondents said that the managing directors were partially involved while 74% said that they were fully involved. It was also noted that 20% of the SACCOs did not involve the administrative heads, 9% partially involved them while 71% fully involved the administrative heads. Lastly, the study noted that 20% of the SACCOs fully involved other staff members, 60% partially involved them while 20% never involved other staff members. The bar graph has the same details



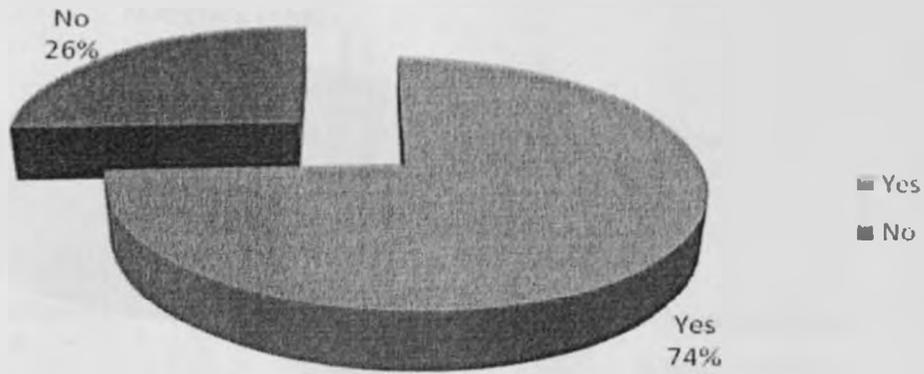
4.10 Setting of the Bench Marks

Table 12: Setting of benchmarks

	Frequency	Percentage
Yes	26	74
No	9	26
Total	35	100

The respondents were also asked to state whether the organisations set specific benchmarks for investigating budget variance. As shown in Table 12, 74% agreed that their organisations set specific benchmarks while 26% disagreed. The pie chart below has the same information

Setting of benchmarks



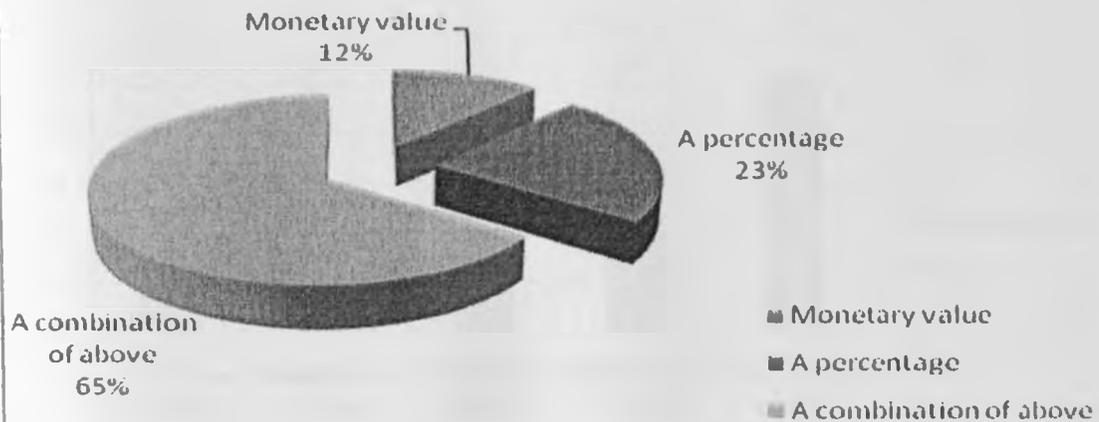
4.11 Type of Bench Mark

Table 13: Type of benchmark

	Frequency	Valid Percent
Monetary value	3	12
A percentage	6	23
A combination of above	17	65
Total	26	100.0

On what base of the benchmarks were, the study found that 12% used monetary value, 23% used a percentage while the remaining 65% used a combination of monetary value and percentages. The pie chart below gives the same information

Type of benchmark



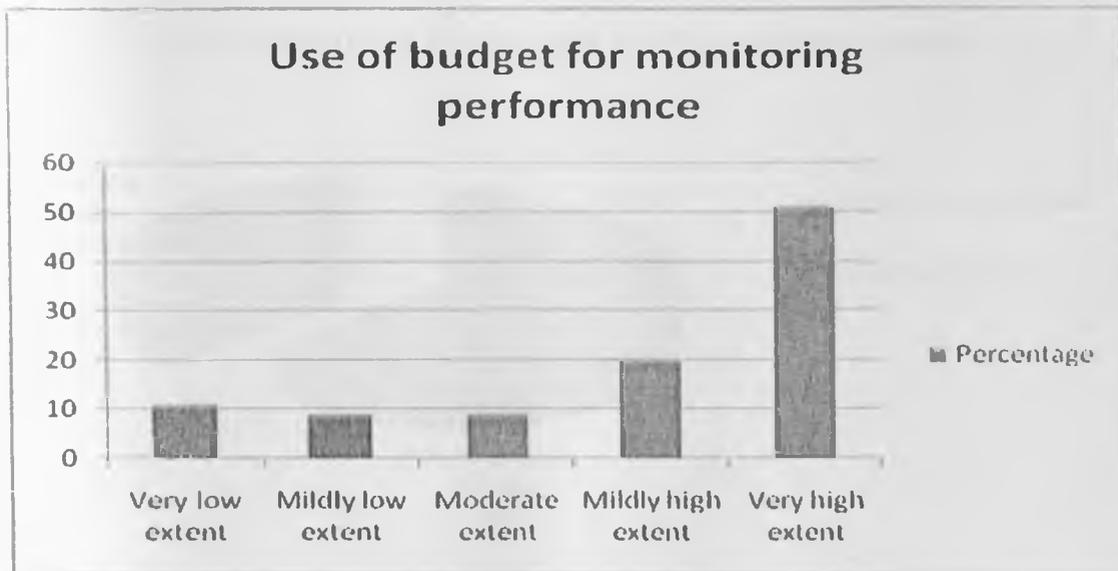
4.12 Use of budget for monitoring performance

Table 14: Use of budget for monitoring performance

	Frequency	Percentage
Very low extent	4	11
Mildly low extent	3	9
Moderate extent	3	9
Mildly high extent	7	20
Very high extent	18	51
Total	35	100

The respondents were asked to state the extent to which their organisations use budget to monitor performance. From the results in Table 14, it was noted that 11% use it for monitoring to a very low extent, 9% to a mildly low extent, 9% to a moderate extent, 20% to a mildly high extent, and 51% to a very high extent.

The bar graph below explains the same



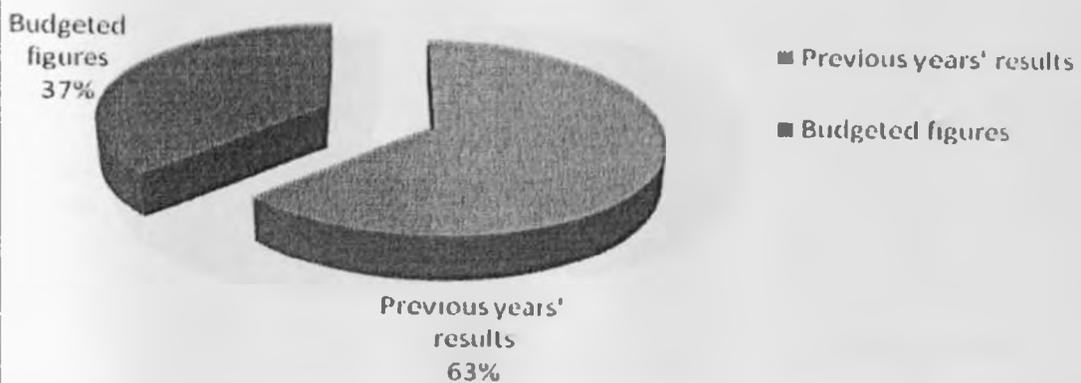
4.13 Performance measure comparisons used

Table 15: Performance measure comparisons used

	Frequency	Percent
Previous years' results	22	62.9
Budgeted figures	13	37.1
Total	35	100.0

The respondents were also asked to state what performance measure comparisons were used by the organisations. As shown in Table 15, the results indicate that 63% of the SACCOS used previous years' results while the remaining 37% used budgeted figures. These results indicate that majority of the organisations used previous years' results as performance comparison measures.

Performance measure comparisons used



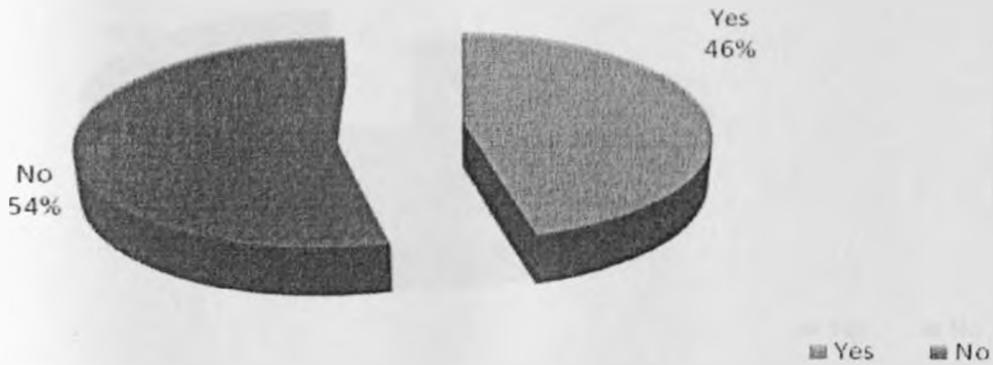
4.14 Use of flexible budgets

Table 16: Use of flexible budgets

	Frequency	Percentage
Yes	16	45.7
No	19	54.3
Total	35	100.0

On whether the organisations used flexible budgets, the study found that 46% of the SACCOs used flexible budgets while the remaining 54% did not use flexible budgets. The pie chart illustrates the same

Use of flexible budgets



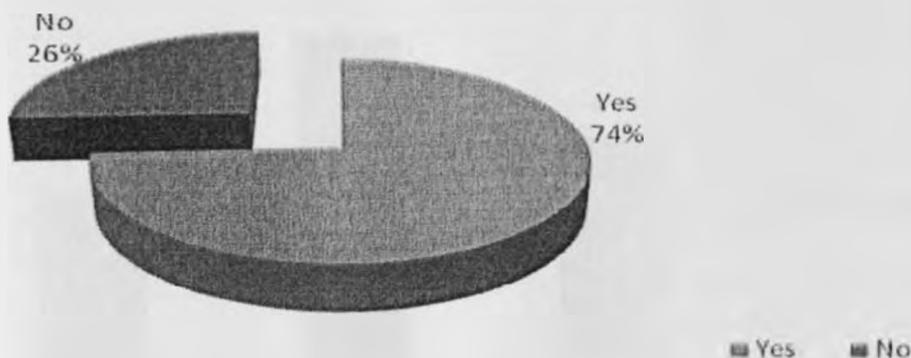
4.15 Review of budgetary planning and procedures

Table 17: Review of budgetary planning and procedures

	Frequency	Percent
Yes	26	74.3
No	9	25.7
Total	35	100.0

The respondents were asked to state whether their organisations review their budgetary planning and control procedures. The results as shown in Table 17 indicate that 74% agreed that they review the budgetary planning and control procedures while 26% disagreed. The same information is put in form of a pie chart as shown below

Review of budgetary planning and procedures

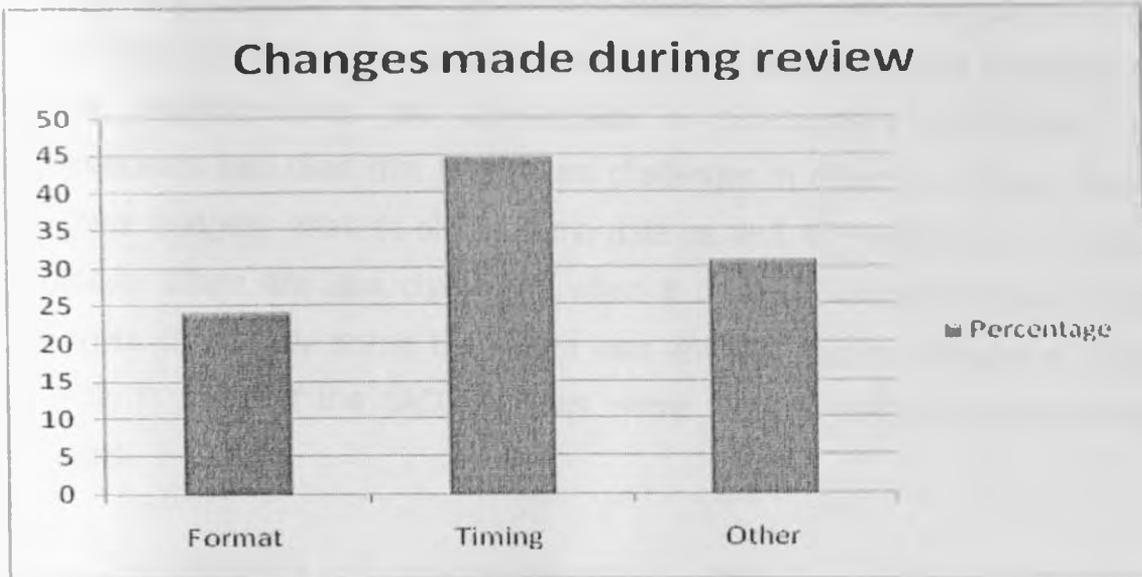


4.16 Changes made during review

Table 18: Changes made during review

	Frequency	Percentage
Format	7	24.1
Timing	13	44.8
Other	9	31.0
Total	29	100.0

The respondents were also asked to state the changes made during review. The results in Table 18 show that 24% change the format, 45% change the timing while 31% change other things in the budget. The same is expressed in the bar graph below



4.17 Use of Committees and Manuals

Table 19: Use of Committees and Manuals

	Strongly disagree	Moderately disagree	Neither agree nor disagree	Moderately agree	Strongly agree
Budget committees	0	17	11	37	34
Budget manuals	17	26	11	37	9

The respondents were also asked to state the extent to which they agreed or disagreed that their organisations use either budget committees or budget manuals. The results shown in Table 19 indicate that 71% agreed that they use budget committees while 46% agreed that they used budget manuals to prepare the budgets.

On what other challenges the SACCO face in budgeting, the study found that one of the challenges was that the personnel involved in the budgeting process were

mostly not qualified in the field. This includes the board members and the committee members. Some also asserted that the budgets are not sufficient. The other challenge was the bureaucracy in procurement procedures. The respondents also cited that there were challenges in collection of data used to prepare budgets, analysis of the same data as well as performance of market surveys. There are also challenges when it comes to implementation of the budgets. The study noted that there was unwillingness to follow the budget strictly in some of the SACCOs. Thus, some SACCOs spend way beyond the budget.

The other challenge was noted as competition within the sector as many SACCOs sprung up. Some also complained of the fact that only a few members are entrusted with budget preparation. There were also issues of the budget being pegged on income which is constrained most of the time hence the budget becomes insufficient.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of research findings, conclusions of the study and the recommendations for policy and practice. The chapter also presents a suggestion on what areas need further attention from scholars.

5.2 Summary of findings

The study found that all the respondents in the study were in managerial positions with various titles such as general managers, administrators and senior accountants. Majority of those in the management teams are male. The study also found that 82% of the SACCOs had less than 100 employees, 9% had less than 200 employees but more than 100 employees while the remaining 9% had more than 200 employees but less than 300.

It was also noted that 11% of the SACCOs had no branch other than the head offices, 69% had 10 or less while the remaining 20% had more than 10. On their annual turnover, the study revealed that 58% had an annual turnover of 100 million or less, 21% had an annual turnover of 200 million or less while the remaining 21% had an annual turnover of over 200 million.

The reasons for preparing budgets in the SACCOs were given as aiding control (100%), evaluating performance (80%), aiding long-term planning (91%), aiding short-term planning (82%) and motivating managers (34%). The study further found that 88% of the respondents agreed that budgets were used to communicate plans and 80% agreed that they were used for coordination purposes.

On the kind information used to set up budgets, the study found that 83% of the SACCOs used previous years' actual results, 71% of the organisations used in-house market analysis while 83% used industry statistics/indicators. It was also noted that 72% used local economic conditions while 46% used national economic conditions to set up budgets. Further, the study revealed that 83% of the SACCOs used previous years' budgeted figures.

It was noted that 62% of the SACCOs used bottom-up approach budgeting while 47% used top-down approach when preparing budgets. It was also noted that 91% of the SACCOs used a combination of methods to prepare their budgets. The study also found that zero based budgeting was used to a low extent in 56% of SACCOs while it was used to high extent in 45% of the SACCOs surveyed. .

It was noted that all the budgets for SACCOs cover a 12 month period. The study also found that 41% of the SACCOs prepared their budgets 2 months in advance, 28% prepared their budgets 3 months in advance while 13% prepared their budgets 6 months in advance. Further, it was found that only 19% of the SACCOs prepared their budgets 1 year in advance.

The study found that 89% of SACCOs fully involved departmental heads involved in the in the preparation of budgets while 11% partially involved them. Further, 26% of the SACCOs partially involved the managing directors while 74% fully involved them. It was also noted that 20% of the SACCOs did not involve the administrative heads, 9% partially involved them while 71% fully involved the administrative heads. The study noted that 20% of the SACCOs fully involved other staff members, 60% partially involved them while 20% never involved other staff members.

The study also found that 74% of SACCOs set specific benchmarks while 26% do not. On what base of the benchmarks were, the study found that 12% used monetary value, 23% used a percentage while the remaining 65% used a combination of monetary value and percentages.

It was noted that the use of budgets for monitoring purposes was high in majority of the SACCOs (71%). 63% of the SACCOs used previous years' results while the remaining 37% used budgeted figures as performance measurement indicators. On whether the organisations used flexible budgets, the study found that 46% of the SACCOs used flexible budgets while the remaining 54% did not use flexible budgets. The results indicate that 74% agreed that they review the budgetary planning and control procedures while 26% disagreed. On what changes were made during review, the study found that 24% change the format, 45% change the timing while 31% change other things in the budget. The results also revealed that 71% of the SACCOs used budget committees while 46% used budget manuals to prepare the budgets.

On what other challenges the SACCO face in budgeting, the study found that one of the challenges was that the personnel involved in the budgeting process were mostly not qualified in the field. This includes the board members and the committee members. Some also asserted that the budgets are not sufficient. The other challenge was the bureaucracy in procurement procedures. The respondents also cited that there were challenges in collection of data used to prepare budgets, analysis of the same data as well as performance of market surveys. There are also challenges when it comes to implementation of the budgets. The study noted that there was unwillingness to follow the budget strictly in some of the SACCOs. Thus, some SACCOs spend way beyond the budget. The other challenge was noted as competition within the sector as many SACCOs sprung up. Some also complained of the fact that only a few members are entrusted with budget preparation. There were also issues of the budget being pegged on income which is constrained most of the time hence the budget becomes insufficient.

5.3 Conclusions

The study had two objectives. The first objective was to examine the budgetary practices of Savings and Credit Cooperative Societies in Kenya. From the findings, it can be concluded 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. The budgets are not prepared to motivate managers in SACCOs. These results coincide with the empirical results on the motivation for preparing budgets.

The study also concludes that the kind of information used in preparing budgets in SACCOs were majorly previous years actual results, industry statistics, previous years' budgeted figures, local economic conditions and in-house market analysis. It was also clear from the results that majority of SACCOs used a combination of both top-down and bottom-up approach when preparing budgets. The study further concludes that zero-based budgeting is not a common practice among the SACCOs. This is expected as the budgeting in such organisations are based mainly on past results with a few modifications.

The SACCOs prepare annual budgets covering 12 months and most of these budgets vary in terms of the period they are prepared before the actual budget time. A few prepare budgets one year in advance while majority prepare budgets just about 2 months before the budget period. During budget preparation, majority of SACCOs involve the heads of various departments, managing directors and administrative heads. Other staff members are partially involved in the whole process. Majority of SACCOs also set specific benchmarks are a combination of monetary value and percentages. Most of the SACCOs also review their budgetary planning and control procedures and changes such as format and time are made during such reviews. The budget committees are responsible for preparation of budgets in SACCOs. Thus, it can be concluded that

the practice for SACCOs is more or less the same as that of other private organisations as far as budget preparation is concerned.

Secondly, the study sought to determine the challenges of budgeting in Savings and Credit Cooperative Societies in Kenya. The challenges include unqualified personnel who form part of the budgetary committees not being up to the task hence poor budgets made in the process, insufficient budgets, bureaucracy in procurement procedures, and budget implementation challenges. The study noted that there was unwillingness to follow the budget strictly in some of the SACCOs. Thus, some SACCOs spend way beyond the budget. Competition is also a challenge in the industry.

5.4 Limitations

The major drawbacks/limitations researcher encountered were mainly in the field work and they include:

a. Financial

The researcher was financial constrained as the amount required to facilitate the research could not be raised within a reasonable time to complete the research work as per schedule.

b. Data collection

This was a serious challenge to the researcher since the interviewees could not answer the questions in the questionnaire on their own as they required guidance from the researcher. Because of this the response was not one hundred percent as was earlier expected.

5.5 Policy Recommendations

The study has shown how budgeting is done among SACCOs in Kenya and also the challenges that SACCOs face in budgeting. Thus, the study recommends that all stakeholders, including the employees and members need to be involved in

the budgetary process. The budgeting process should be participative so that the SACCO members can own the budget and help towards its achievement.

The study also recommends that the committee members be trained on budgeting issues as it was noted that some of them are not qualified yet they are relied on for budgeting in the SACCOs. This needs to start from the recruitment stage by ensuring that only those that are qualified are employed so that the budgeting process can have the necessary expertise required.

5.6 Suggestions for further research

There is need to study the relationship between budget committee composition and quality of budgets in SACCOs. This will help reinforce the fact that expertise in the field of accounting or finance or training in budgeting is important for ensuring quality of budgets in organisations.

Future studies also need to cover other regions in Kenya as this research only covered the Nairobi region hence those SACCOs based in other regions were left out.

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APPENDICES

Appendix 1: Research Questionnaire

SECTION A: GENERAL INFORMATION

1. What is your designation?

.....

2. Please mark your gender.

Male ()

Female ()

3. How many employees does the SACCO have?

.....

4. How many branches does the SACCO have?

.....

5. What is your average annual turnover?

.....

SECTION B: BUDGET PREPARATION AND PLANNING

6. There are various reasons for budgeting in organisations. To what extent do you agree that the following are the reasons for budgeting in your organisation?

1 means strongly disagree

2 means moderately disagree

3 means neither agree nor disagree

4 means moderately agree

5 means strongly agree

Reasons for budgeting	1	2	3	4	5
To aid control					
To evaluate performance					
To aid long-term planning					
To aid short-term planning					
To motivate Managers					
To communicate plans					
To coordinate the operation					

7. Various institutions used different information to assist them in setting up budgets. To what extent do you agree that the following information is used when setting up budgets in your organisation?

1 means strongly disagree

2 means moderately disagree

3 means neither agree nor disagree

4 means moderately agree

5 means strongly agree

Information used when setting budgets	1	2	3	4	5
Previous years actual results					
In-house market analysis					
Industry statistics/indicators					
Local economic conditions					
National economic indicators					
Previous years budgeted figures					

8. When setting up budgets, organisations use various methods to come up with the budgets. They can use bottom-up approach, the top-down approach, a combination of bottom-up and top down (hybrid approach), and other methods they deem appropriate. The bottom-up approach is where individuals from the lower levels are involved in the budgeting process. Top-down approach is where the budgeting process begins at the top and the budget is given for implementation to the lower divisions. As regards the budgeting process in your organisation, to what extent does your organisation use the two budgeting approaches?

- 1 means strongly disagree
- 2 means moderately disagree
- 3 means neither agree nor disagree
- 4 means moderately agree
- 5 means strongly agree

Budgeting approaches	1	2	3	4	5
Bottom-up approach					
Top-down approach					
Combination					
Other (specify)					

9. Zero-based budgeting is a method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a "zero base" and every function within an organization are analyzed for its needs and costs. To what extent does your organisation use zero-based budgeting?

- Very low extent ()
- Mildly low extent ()
- Moderate extent ()
- Mildly high extent ()

Very high extent ()

10. What period do your budgets cover?

12 months ()

6 months ()

3 months ()

11. How far in advance are budgets made before the budgeting period?

1 month ()

2 months ()

3 months ()

4 months ()

5 months ()

6 months ()

1 year ()

12. To what extent are the following members of the organisation involved in the budgeting process?

Member	Not involved	Partially involved	Fully involved
Departmental heads			
The managing director			
Administrative heads			
Other staff members			

13. Does your organisation set specific benchmarks for investigating budget variance?

Yes ()

No ()

If yes, what is the base of the benchmark?

Monetary value ()

A percentage ()

A repeat of an adverse variance ()

A combination of above ()

14. To what extent does your organisation use budget to monitor performance?

Very low extent ()

Mildly low extent ()

Moderate extent ()

Mildly large extent ()

Very large extent ()

15. What performance measure comparisons are used by your organisation?

Previous year's results ()

Budgeted figures ()

Inter-SACCO comparisons ()

The balanced scorecard ()

16. Does your organisation use flexible budgets?

Yes ()

No ()

17. Does your organisation review its budgetary planning and control procedures?

Yes ()

No ()

If yes, what changes are made during review?

Format ()

Timing ()

Other (specify) ()

.....

.....

18. To what extent does your organisation use the following when budgeting?

1 means very low extent

2 means low extent

3 means neither large nor low

4 means large extent

5 means very large extent

	1	2	3	4	5
Budget committees					
Budget manuals					

19. What other challenges does the SACCO face in budgeting?

.....
.....
.....
.....
.....
.....
.....
.....
.....

End of Questionnaire