EFFECT OF CHALLENGES OF BUDGET PREPARATION AND IMPLEMENTATION ON BUDGET VARIANCE OF NON GOVERNMENTAL ORGANIZATIONS IN KENYA: A CASE STUDY OF WORLD VISION INTERNATIONAL

MURIUKI FAITH MUKAMI

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.

2012

DECLARATION

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

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

Muriuki Faith Mukami

D61/75993/2009

This project has been submitted with my approval as the University of Nairobi Supervisor

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

Dr. Kisaka Sifunjo

Department of Finance and Accounting,

School of Business,

University of Nairobi

DEDICATION

This project is dedicated to my loving parents, sisters, brother and friends Martha, Catherine, Josephine, Mary, Eva, Moses, John, James and Gachora for the inspiration and support they gave me throughout my MBA studies.

ACKNOWLEDGEMENT

My sincere gratitude goes to the Lord Almighty for the gift of life, exceedingly grace and favour in making this dream become a reality.

Special thanks goes to my supervisor, Dr. Kisaka Sifunjo, for his professional guidance, patience, time and his valuable insights.Much appreciation to my moderator (Mr.Ondigo) and the chairman of the department of finance and accounting Dr.Aduda for their professional recommendations on my research proposal.

I am also deeply indebted to my parents Obadiah Muriuki and Nancy Muriuki who toiled day and night to lay my academic foundation. To my Sisters, Brother and Doris my Niece I say big thank you for inspiring me to this level and for enduring love and patience "you have filled my life with hope!"

My special appreciation goes to my friends James, Moses, John, Catherine, Mary, Eva, Josephine, Martha and Gachora who encouraged me and stood with me during the whole process of my study. Profound thanks to my employer, World Vision International for allowing me to study. Special thanks goes to my supervisors at work place Christopher, Bernadette and Mulei for being very supportive during the entire period of my study. To World Vision staff i highly appreciate your acceptance to fill in and return the questionnaires I administered to you. Without this information the completion of this project would not have been possible.

ABSTRACT

A budget is a management's plan, in structured form, which projects the desired outcome of financial activity for a specific set of resources, for a fixed period. Budgeting is a means for facilitating the process by which resources are acquired, allocated, and utilized in the achievement of organizational objectives.

The objective of the study was to determine the effect of challenges of budgeting on budget variance. To achieve this objective, the research was conducted through a case study since it provides focused and valuable insights to phenomena that may be vaguely known and less understood. Self-administered drop and pick questionnaires were distributed among the target employees as the main data collection method. Descriptive analysis was used mainly to summarize the data collected.

The process of budgeting is great challenges to many organizations yet those who embrace it reap from its tremendous benefits. Budgets are too often proposed, discussed, accepted, and forgotten. Variance analysis looks after-the-fact at what caused a difference between plan and actual. Good management looks at what that difference means to the organization. After a budget has been set, its usefulness lies in the review procedures which compare actual results against the budget.

The study found that budget variances occur because forecasters are unable to predict the future with complete accuracy hence an organization could have either favourable or unfavourable variance. The concept of variance is intrinsically connected with planned and actual results and effects of the difference between those two on the performance of the entity or organization. Further, it found that there is a positive relationship between the challenges of budget preparation and implementation and the budget variance as reflected by the coefficients in the model $Y= 3.009-0.177X_1+0.502X_2+0.041X_3-0.798X_4+0.161X_5+0.992$. The study recommends that budgets should be shared with all the stakeholders to enhance ownership and accountability. In addition, organizations should adopt a proper monitoring and review of the budgeting process; this will ease implementation hence reducing variance.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATION

IT	**:**	Information Technology
MCS	**:**	Management Control System
NGO	**:**	Non Governmental Organization
NO	**:**	National Office
PO	**:**	Performance Based
PPBS	**:**	Planning Programming Budgeting System.
SO	**:**	Support Offices
UK	**:**	United Kingdom
USA	**:**	United States of America
WVI	**:**	World Vision International

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A budget is a management's plan or blueprint, in structured form, which projects or anticipates the desired outcome of financial activity for a specific set of resources, for a fixed period, usually one year. Omolehinwa (1998) defined a budget as a plan of dominant individuals in an organization expressed in monetary terms and subject to the constraints imposed by the participants and the environments, indicating how the available resources may be utilized, to achieve whatever the dominant individuals agreed to be the organization's priorities.

The process of preparing and agreeing a budget is a means of translating the overall objectives of the organization into detailed, feasible plans of action. Morgan (1997) opines that the budget has grown beyond a financial tool. It is above a managerial tool; in essence, it is the best tool for making sure that key resources, especially performance resource are assigned to priorities and to results.

Budget variance is the difference between a budgeted figure and an actual figure. A periodic measure used by governments, non-governmental organizations, corporations or individuals to quantify the difference between budgeted and actual figures for a particular accounting category. A favourable budget variance refers to positive variances or gains; an unfavourable budget variance describes negative variance, meaning losses and shortfalls. Budget variances occur because forecasters are unable to predict the future with complete accuracy. As a result, some variance should be expected when budgets are created. In budgeting a variance is the difference between a budgeted, planned or standard amount and the actual amount incurred. The concept of variance is intrinsically connected with planned and actual results and effects of the difference between those two on the performance of the entity or organization. In order to evaluate managerial performance, it is necessary to have some form of standard against which measures of performance can be assessed. Budget variance is a good measure of managerial performance. Ideally, this involves considerations of both effectiveness and efficiency. Thus, for this type of activity; the most that can sensibly be done is to set standards for outputs (i.e. goals, objectives, targets) and to determine appropriate schedules for the inputs that are deemed necessary for task performance.

Budgetary data may play an important role in performance evaluation, because a budget can be used to represent standards of both effectiveness and efficiency. Data on actual performance may be used, by comparison with the budget standard, to evaluate certain dimensions of managerial performance. Despite the fact that a budgetary system may not be designed primarily as a means of performance evaluation, there is evidence that it will almost inevitably be used for this purpose, whether formally sanctioned or not (Ridgway 1996 and Hofstede 1998), as it provides what is often the only quantitative measure of managerial performance.

The past decade has seen many non-governmental organizations establish result oriented or performance based budgeting. The emphasis on results or performance in the budget process reflects a new belief that non-governmental organizations accountability should focus on what non-governmental organizations does with the money it spends, rather than just how it controls expenditure (Osborne and Gaebler, 1992).

The focus of this study is on evaluation of budget variance as a managerial performance, because this is both an important organizational function often served by accounting information and one which is of central importance to the individual manager being evaluated. It is therefore likely that the use made of budgetary information in variance analysis will have a considerable impact upon manager’s reactions to such information and upon their subsequent performance. Attention was directed primarily to the effects produced by the differential use of budget information.

Over the past years, NGOs have seen an unprecedented growth despite the various interventions that have taken place in addressing community needs. However, unlike in other kind of sectors, some NGOs have performed very well in terms of donor and beneficiaries accountability whereas others have performed very poorly. The research seeks to establish the effects of the challenges of budget preparation and implementations on budget variance. NGOs are structured non-governmental organizations operating in environment well suited to the use of budgetary control as it is the key requirement during funding negotiation with donors. Whereas several studies (though in different sectors and areas of research) have been conducted, most of them have been conducted in Western and Asian countries. This study, by contrast, looks at effect of challenges of budget preparation and implementation on budget variance in Kenyan set up and particularly in NGOs. The study focuses on WVI as a case study in order to provide an in-depth understanding in addition to providing focused and valuable insights to the phenomena.

1.2 Statement of the Problem

There is a dearth of research involving budgeting practices in developing countries. Most studies on budget practices have been conducted in the advanced countries (Anderson and Lanen, 1999).One of the most investigated antecedent organizational characteristic in management accounting research is environmental uncertainty (Chenhall,2003; Luft and Shileds,2003). Most budgeting studies focus on the positive relation between participation and its effects, such as its impact on better budgets and decision making (Parker and Kyj, 2006; Nouri and Parker, 1998).

"How do we strengthen our ability to assess and improve our government's budget?" This question is increasingly being asked by members of non-governmental organizations (NGOs) around the world, particularly in developing countries or countries new to democracy. The NGOs have realized that their ability to advance their goals — whether these are to combat poverty or to strengthen democratic practices — was enhanced if they develop a capacity to undertake budget analysis. In World Vision each National Office (NO) should establish goals and objectives for ministry by preparing a longer term (for instance three-year) management plan and a detailed one-year operating plan and budget. Budgets should be based upon plans and strategic priorities. Negotiation of budget commitments with Support Offices (SO) should be within the strategic priorities of the partnership and the region. Budgets reflect plans and should not be changed unless plans change significantly. Actual expenses should be shown as variances from the budget.

Literature has supported the claim that budgeting is a means for facilitating and enabling the process by which resources are acquired, allocated among subunits, and consumed in the achievement of organizational objectives (Anthony, 1995; Swieringa & Moncur, 2003; Bruns & Waterhouse, 2001).Trentin, (2004) suggest that non-governmental organizations might have very good plans but fail to implement them fully therefore depriving any benefits from budgets. Effective implementation of budgets enables a firm to effectively and efficiently utilize its resources (Hongren, 2003). The past decade has seen many non-governmental organizations establish a result oriented or performance based (PB) budgeting approach. The emphasis on result or performance in the budget process reflects a new belief that donors accountability should focus on what organization does with the money it spends, rather than just how it controls such expenditure (Osborne and Gaebler, 1992).

Gachithi (2010) did a study to investigate the challenges facing budget implementation in Public institutions, a case study of the University of Nairobi. The research concluded that the university budget preparation procedures are not efficient especially because lower level staff do not take ownership. Mawathe (2008) did a study to investigate the challenges of budget implementation in the Banking Sector Industry in Kenya. The research conclusion was that there were enormous challenges in budget implementation in the sector. Muthinji (2009) also did the study on budget implementation in public sector, a case study of Commission of Higher Education. The study concluded that the budget implementation and controls was a big challenge within public sector.

The current research literature has unfilled gaps about budget variance. Within the last decade, most academic studies have focused on understanding budgeting with regard to tools, techniques, processes and control. The literature has not given much emphasis on effect of budgeting challenges on budget variance. Further, most of the literatures are from profit making non-governmental organizations of developed countries whose organization's strategy approach is different from that of Kenya. Thus there is dearth of literature focusing on challenges of budgeting in NGOs. No study clearly shows a link between budgeting challenges and budget variance. This study is based upon the need to enquire on the aspect of relationship between challenges faced during budget formulation and implementation and budget variance in the Kenya environment. Non-Governmental Organizations was chosen due to its uniformity in the modes of budget preparation. Therefore, the study seeks to answer the question what is the effect of challenges experienced during budget preparation and implementation on budget variance in World Vision International?

1.3 Objective of the Study

To determine the effects of challenges of budget preparation and implementation on budget variance in World Vision International.

1.4 Importance of the Study

This study was of great importance to the various groups of the society. The results of this study are important in that they may enlighten Non-Governmental organizations' management on the efficiency and effectiveness of budget preparation and implementation and recommend measures for improvement to enhance management performance. It may also help them in planning and controlling the implementation of projects and ensure efficient utilization of resources.

The study provides useful basis upon which further studies on budgeting in Non-Governmental organizations could be conducted. It will add to the body of knowledge in the finance discipline. It will also provide useful information to the stakeholders of the NGOs. The list includes Donors, Communities and Government. The community is the targeted beneficiary of funds raised through various donors to address community needs. It is therefore important for them to understand their role and responsibility in the budgeting process. It will also be useful to the Government in getting to understand the contribution of the NGOs to the economy.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature related to effects of challenges of budget preparation and implementation on budget variance. It provides a deeper understanding of the research topic. The literature has been compiled from various sources ranging from books, journals and internet. The areas given consideration include; Section 2.2 Measures of Managerial Performance, Section 2.3 Theoretical Literature, Section 2.4 Budget Theories, Section 2.5 Empirical Literature, Section 2.5 Challenges of budget preparation and implementation and section 2.6 Summary.

2.2 Budget Variance as a Measure of Managerial Performance

Budget variance is the difference between a budgeted figure and an actual figure. A periodic measure used by governments, non-governmental organizations, corporations or individuals to quantify the difference between budgeted and actual figures for a particular accounting category. A favourable budget variance refers to positive variances or gains; an unfavourable budget variance describes negative variance, meaning losses and shortfalls. Budget variances occur because forecasters are unable to predict the future with complete accuracy. As a result, some variance should be expected when budgets are created. The concept of variance is intrinsically connected with planned and actual results and effects of the difference between those two on the performance of the entity or organization.

It is common for large non-governmental organizations to have numerous budgets. These may, for example, be divided by sector, branch, or department. When this is the case, there is a possibility that there can be numerous budget variances. Once a budget is established, one of the main financial tasks for the operations or support manager is to explain variances between actual performance and the budget. Rarely does life work out exactly according to budget. Any large organization, and most others, will require managers to review and explain any variances on the budget variance report. It is generally a requirement that managers prepare an explanation for variances to finance and administration. Thresholds for reporting vary by organization, but they usually consist of a combination of variance and percent. Creating a sensible, well-documented budget provides for better explanations of variances. Detailed, accurate explanations demonstrate credibility to administration.

Budgets are too often proposed, discussed, accepted, and forgotten. Variance analysis looks after-the-fact at what caused a difference between plan vs. actual. Good management looks at what that difference means to the organization. After a budget has been set, its usefulness lies in the review procedures which compare actual results against the budget. Variance analysis is the process of examining in detail each variance between actual and budgeted/expected/standard to determine the reasons why budgeted results were not met.

Budgetary data may play an important role in the evaluation of manager's performance. This is because budget can be used to represent standards of both effectiveness and efficiency. Data on actual performance may then be used, by comparison with the budget standard, to evaluate certain dimensions of managerial performance. Despite the fact that a budgetary system may not be designed primarily as a means of performance evaluation, there is evidence that it almost inevitably be used for this purpose, whether formally sanctioned or not (Ridgway,1996 and Hofstede,1998) as it provides what is often the only quantitative information relating to managerial performance.

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control, leadership and staffing. According to Cook (1998), feedback is generally positively associated with budget performance. Feedback focuses on the extent to which employees have achieved expected levels of work during specified time period. Budgets being a standard for performance are also used to evaluate managerial performance (Srinivasan, 1987). Similarly, Douglas (1994) used a case study approach and found that budgeting places a high importance on the budget-actual comparison for performance evaluation purposes both at the corporate and the subsidiary levels. Anderson (1993) also supported this view, stating that in most US non-governmental organizations, the development of budget is still used as the main performance, measurement system. To implement an effective performance measurement system, the appropriate types of measures must be developed, and they must meet the criteria for good measure. The key of measure for this study is budget variance (the difference between budget and actual performance).

2.3 Theoretical Literature

Budgeting is no new thing in the history of mankind; it is an age long exercise. It is used for virtually all human activities. Most prominent, in an organized economic, social, and political system, the role of budgeting cannot be ignored. Non-governmental organizations' owners and managers for instance need to budget their resources, which may include everything from raw materials to human resources to facilities and to make the best and most profitable use of what they have to work with. Recent surveys show just how valuable budgets can be (Horngren *et al.*, 2008; Dugdale & Lyne, 2006; Anand *et al.*, 2004) advocates of budgeting claim that the process of budgeting forces a manager to become a better administrator and puts planning in the fore-front of the manager's mind. Many seemingly healthy non-governmental organizations have died because managers could not identify problem in advance or because they failed to monitor and adjust budgets to changing conditions (Horngren *et al.*, 2008)

There are divergent views on the usefulness of budgets. The proponents of budgeting have argued that budgets have several important roles. Blocher et al., (2002), in his study argued that budgets help allocate resources, coordinate operations and provide a means of performance measurement. Clarke and Toal (1999) too, were for the opinion that budgeting is essential and can, for example be incorporated as part of the financial component of the balanced score card. Although with a widespread use, the budget is far from being the optimal management control system (Hansen, Otley and Van der Stede, 2003). Several criticism and dissatisfaction towards the budget have grown during the last decades (Libby and Lindsay, 2003).Non-governmental organizations that operates under rapidly shifting market conditions can make little use of the budget. Further, the budget is accused of being too time consuming to establish in relation to the benefits it is aimed to contribute with (Hansen et al 2003).In the article “Practice development in budgeting: an overview and research perspective” by Hansen et al (2003) they refer to Bescos et al (2003) who describes that according to survey of French non-governmental organizations, non-governmental organizations that operate under unpredictable circumstances are most dissatisfied with budgets. Although budgets can be a useful control tool for non-governmental organizations operating in stable environments, Hansen et al (2003) state that for most organization budgets are not useful.

An effective management control system (MCS) solves an organization’s need to plan and consider how to confront future potential risks and opportunities by establishing an efficient system of control, a detector of variances between organizational objectives and performance (Anthony & Govindarajan, 2007). Budgets are considered to be the core element of an efficient control process and consequently vital part to the umbrella concept of an effective MCS (Davila & Foster, 2007, Puxty & Lyall, 1989). “As a forward looking set of numbers, budgets project future financial performance which enables evaluating the financial viability of a chosen strategy” (King Clarkson & Wallace, 2010, p. 41). In most non-governmental organizations this process is formalized by preparing annual budgets and monitoring performance against budgets. Budgets can further influence the behavior and decisions of employees by translating organization objectives, and providing a benchmark against which to assess performance (Sandino, 2007). Kaplan and Cooper (2005) even considered such operational planning as the backbone of management.

The past decade has seen many non-governmental organizations establish result oriented or performance based budgeting. The emphasis on results or performance in the budget process reflects a new belief that non-governmental organizations accountability should focus on what non-governmental organizations does with the money it spends, rather than just how it controls expenditure (Osborne and Gaebler, 1992). In looking at budget structure, it is apparent that non-governmental organizations have gradually moved from line itemized budget to a medium term program budget and finally to a budget with performance based elements in it-a progression that mirror development (Ammons,2002). Performance budgeting (PB) aims to improve the effectiveness and efficiency of organization by linking the funding of non-governmental organizations to the results they deliver. It uses systematic performance information (indicators, evaluations, program costing etc) to make this link. The impact of performance budgeting may be felt in improved prioritization of expenditure, and in improved service effectiveness and/or efficiency (Robinson, 2007).

Result oriented or PB budgeting has been gradually adopted as a key reform in developing and developed countries alike. Examples include Australia and Malaysia (Xavier, 1998), Organization for Economic Co-operation and Development countries (Shad, 1998), Commonwealth countries (Kaul, 1997), and Singapore (Jones, 1998). The reform is adopted so as to transform organization budgeting systems from an input and output orientation to an output and outcome orientation, introducing new result oriented accountability into non-governmental organizations. “The use of performance measurement in budgeting means changes in non-governmental organizations’ operations, personnel, structures and even cultures” (Wang, 2000).These changes are designed to alter how budgets are developed, who does what in the budgetary process, and how the budgets influences those allocating or receiving money through it. Through such influences, it is argued, the reforms focus organization officials on result and performance, with new result-oriented accountability relationships and incentives. Ammons (2002) asserts that accountability for performance measurement is powerful and persuasive.

2.4 Budget Theories

2.4.1 Agency Theory

Agency theory is a relationship that exists where one party acts on behalf of another. In budget a slack relation exists where Managers intentionally participates to create slack, while others argue that mangers through anticipation reduces the slack in their budgets. The relationship between budgetary participation and budget slack has been equivocal in the literature of management accounting. Budgetary slack has been singled out as one of the primary unsolved problems in budgetary control (Hongren, 1982). Budgetary slack is defined as the difference between the appropriated budget and the true minimum cost

(Moene, 1986). In a slack budget, (Young, 1995) proposed that a slack is the amount by which subordinates understate their productive capability when selecting work standards against which the performance was evaluated. In these perspectives, slack is the intentional underestimation of revenues and productive capabilities and/or overestimation of costs and resources in the budget and second, that slack is dysfunctional (Merchant, 1985).

Agency theory based researchers have argued that participation merely provides the opportunity for subordinates to insert slack to their budget. Thus, agency theory predicts a positive participation-slack relation. (Murray, 1990) argued that individuals who participate feel less of a need to incorporate slack in their budget estimates and accordingly will tend to propose more difficult tasks.

2.4.2 Budgetary Incremental Theory

Reddick (2003) argues that literature on budgetary decisions in the public sector is dominated by the theory of incrementalism and its various meanings. This theory suggests that policy makers use the rule of the thumb in order to deal with technical complexity of expenditure decisions. The nature of these simple decision rules has been investigated by studies of budgeting in International Organizational, National Governments, State and Local Governments. A recent application of incrementalism at the sub national level was an examination of local government expenditure in the United Kingdom (UK). The people who design the budget are concerned with relatively small increments to an existing base denoted as a fair share. It follows that budgeting is incremental to the extent that it results in marginal change in expenditure. Evidence of substantial annual shifts in spending would counts as evidence of non-incremental budgeting. Incrementalism has two core attributes-marginality and regularity in outputs.

2.4.3 Cognitive Evaluation Theory

This theory suggests that when looking at task, we evaluate it in terms of how well it meets our need to feel competent and in control. If we think we are able to complete a task, we are intrinsically motivated to complete the task, requiring no further external motivation. Where a person has a stronger internal locus of control, they believe the environment or others have a greater influence over what they do. Budgets create a sense of responsibility over manager in-charge of a department or section. The feeling of being in control, of the outcome of the results of a department due to accomplishment of budget targets can be a source of motivation and thus improvement of performance.

This theory suggests that they are actually two motivations: intrinsic and extrinsic that corresponds to two kinds of motivators. Intrinsic motivator includes achievements, responsibility and competence. These are motivators that come from the actual performance of the task or job. Extrinsic motivators include pay, promotion, feedback and working conditions. These motivators are things that come from the person's environment and are controlled by others. Intrinsically motivated individuals perform for their own achievements and satisfaction. If they come to believe that they are doing some job because of the pay or the working condition or some other extrinsic reason they begin to loose motivation.

2.5 Empirical Literature

Budgeting systems are universal and have been considered an essential tool for financial planning. These systems are meant to organize and encourage the performance of non-governmental organizations (Abernethy and Brownell, 1998).

Budgeting no doubt is a veritable tool for planning, controlling, coordinating evaluating, directing, communicating and aiding decision making, but the whole process is not perfect altogether. For some years now, there has been movement against budgetary process.

As a result, budgeting has evolved leading to the development of techniques like: Activity based budgeting, performance budgeting; value budgeting, process reengineering; balanced score card, Zero based budgeting, IT based budgetary process, and planning programming budgeting system(PPBS) etc.

According to Dugdale & Lyne (2006), there are series of articles in management accounting, calling for non-governmental organizations to replace budgets with a range of indicators and techniques. They see the use of budgets as part of a performance contract, as a pernicious practice, claiming that it leads to numerous problems which include; meeting only the lowest targets, using more resources than necessary, making the bonus-whatever it takes, spending what is in the budget and providing inaccurate forecasts. A study of Blansfield (2002) of 250 respondents in the US, found that only 14 percent of non-governmental organizations have a fully integrated planning process that combines long term and operational planning, performance measures and reporting.

A study by Weisenfeld and Tyson (1999), in a sample of 68 US Managers from non-governmental organizations, found that budgeting and variance analysis can be positive tools, if the accounting information, communication process is functioning appropriately. A total of 90 percent of the respondent indicated that variances were a good way to measure their performance.

Horngren *et al.*, (2008) state that, recent surveys show just how valuable budgets can be. They assert that, a study of more than 150 non-governmental organizations in North America listed budgeting as the most frequently used cost management tools, and it was also the tool with the highest value to the organization. In the same book, Horngren *et al.*, (2008) also point out that the result of a survey carried out in the same place (North America) shows that most managers still agree that budgeting, correctly used has significant value to management. They reported that over 92% of the 150 non-governmental organizations in North America use budget and remarked budgeting as the top among the top three cost management tools.

Muthinji (2009) did a study on budget implementation in Public Sector, a case study of Commission of Higher Education. He noted that budgets are used widely in the future financial forecasting, in controls and as a means of performance appraisal. Mawathe (2008) did a study to investigate the challenges of budget implementation in the banking sector in Kenya. He noted that in order to enhance performance, budgets should be reviewed periodically to ensure that programs are implemented effectively. Melek (2007) did a study of budget participation on managerial performance via organizational commitment. He conducted a study on the top 500 firms in Turkey. The results of this study provided a number of contributions to managerial accounting literature by improving understanding of budget participation and organizational commitment affecting managerial performance.

2.6 Challenges of Budget Preparation and Implementation

Implementation is an activity that takes place throughout the financial year and is a critical point for any organization to perform. Many problems have bedevils the NGOs Budgeting. As such, they have not been able to meet their obligations of bringing the gains of lives transformation. The following are challenges of budget preparation and implementation;

2.6.1 Unskilled Manpower

Majority of NGOs today are manned by personnel's who do not possess the requisite leadership and managerial skills to deliver the gains of society transformation. The principle of education qualifications are not been followed and as such, made the NGOs the dumping ground for illiterates (Powell, 2003).In recent time, training outlays are typically treated as expenses rather than investments (Hope and Frazer, 2003).

2.6.2 Lack of Community Participation

The level of participation by the targeted community is highly limited especially the NGOs located at the rural areas. The reason is attributed to high illiteracy level and the poverty rate. Thus, the psyche of the people is very low. In addition, there is no law that encourages community participation in governance and also no access to information and participation. In the absence of this, the community, no matter how vibrant and enlightened, cannot achieve anything. (Ramsey, 2007).

2.6.3 Lack of Dynamic Structure

Present day economic environment demands that organization adapt new structural practices. Given the new competitive realities, there is need for management to embrace flexible and adaptable budgetary planning and control system which has the ability to quickly respond to environmental changes and complexities. (Douglas, 2004).

2.6.4 Lack of Budgetary Accuracy

Accuracy is critical to the effectiveness of performance management. Assessments of how well objectives are met depend on how realistic these objectives were from the start. Non-governmental organizations spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating department and organization unit budgets to ensure that the budget is consistent with their strategic objectives (Anderson,1999). Non-governmental organizations should allocate the right resources to the activities that will produce the highest returns (Jones, 2006).

2.6.5 Lack of Monitoring and Evaluation

Evaluation and monitoring go hand in hand. Monitoring provides the raw data to answer questions. But in itself, it is a useless and expensive exercise. Evaluation is where the learning occurs, questions answered, recommendations made and improvements suggested (Bremser, 1998). A monitoring program should not be designed without clearly knowing how the data and information was evaluated and put to use.

2.7 Summary

Budget preparation and implementation in Non-governmental organizations are important aspects for they ensure projects goals and objectives are achieved. As they are prepared in advance, they give a detailed breakdown of the activities which the organization wants to carry out. The process of budget preparation and implementation is a great challenge to many organization yet those who embrace it reap from its tremendous benefit. Once a budget is established, one of the main financial tasks for the operations or support manager is to explain variances between actual performance and the budget. Rarely does life work out exactly according to budget. Any large organization, and most others, will require managers to review and explain any variances on the budget variance report.

The current research literature has unfilled gaps about budget variance. Within the last decade, most academic studies have focused on understanding budgeting with regard to tools, techniques, processes and control. The literature has not given much emphasis on the effect of challenges of budget preparation and implementation on budget variance. Further, most of the literatures are from profit making non-governmental organizations of developed countries whose organization's strategy approach is different from that of Kenya. Thus there is dearth of literature focusing on challenges of budgeting in NGOs. No study clearly shows a link between challenges of budgeting and budget variance. This study is based upon the need to enquire on effects of challenges of budget formulation and implementation on budget variance in the Kenya environment to bridge the gap.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was used in gathering the data, analyzing the data and reporting the results. The areas given consideration include; Section 3.2 Research design, Section 3.3 Population and sample, Section 3.4 Data and data collection instruments, Section 3.5 Data analysis and finally Section 3.6 Data validity and reliability.

3.2 Research Design

According to Cooper and Emory (1995), a research design is a framework specifying the relationship among the study's variables and it starts with a plan for selecting the sources and types of information used to answer the research question. This research was conducted through a case study. This design is valuable for detailed analysis as Schlesselman (1982) concurs that a case study often provides focused and valuable insights to phenomena that may be vaguely known and less understood. The study undertook an in-depth understanding of effect of challenges of budget preparation and implementation on budget variance in WVI, which assists in meeting the objectives of the study since it drills down rather than cast wide.

3.3 Population and Sample

World Vision Kenya has 1150 employees with 200 staff at managerial level, 150 at supervisory level, 180 finance staff and 620 Program/ Project Staff.A sample of 20 Management staff, 10 supervisory staff and 20 finance staff was picked from the organization for survey to form the basis of findings of this research. Well distributed samples of professionals in each level were selected. This formed a sufficient sampling frame.

Table 3.1 Sample

Categories	Sample size	Percentage
Management	20	40
Supervisory	10	20
Finance	20	40
Total	50	100

Source: Researcher (2012)

3.4 Data and Data Collection Instruments

The study used both primary and secondary data. Questionnaires were structured as the main data collection instrument. Self-administered drop and pick questionnaires were distributed among the target employees. This enabled the researcher to get adequate and accurate information from people with experience. Primary data was collected using questionnaires and face to face interview whereas secondary data sources was employed through the use of the previous budgets, financial records and budget policies to supplement the data received from primary sources.

3.5 Data Analysis

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

The statistical package for social sciences (SPSS) was used to analyze the data. The descriptive statistics included; mean value, standard deviation, simple percentages and frequency counts. Descriptive statistics tools were used to show the effect of the challenges of budget preparation and implementation on budget variance. Appropriate tables and other graphical presentations were used to present the data collected for ease of understanding and analysis. Regression analysis was used to test the effect of challenges of budgeting on budget variance.

$$Y= \boldsymbol{\alpha}_0+ \boldsymbol{\beta}_1X1+ \boldsymbol{\beta}_2X2+ \boldsymbol{\beta}_3X3+ \boldsymbol{\beta}_4X4+ \boldsymbol{\beta}_5X5+\ell_t \quad (1)$$

Where;

Y=Budget Variance

X1=Unskilled Manpower

X2=Lack of Community Participation

X3=Lack of Dynamic Structures

X4=Lack of Budgetary Accuracy

X5=Lack of Monitoring and Review

ℓ_t =Error Term

The study also used secondary data (financial records) to find out the difference between budgeted figure and the actual accomplishment for the last four financial years. The key type of measure is the budget variance which was determined through comparison with past records.

3.6 Data Validity and Reliability

Reliability is defined as the extent to which a questionnaire, test, observation or any measurement procedures produces the same results on repeated trials whereas validity is defined as the extent to which the instruments measures what it purports to measure (Allen & Yen, 1979). The data was collected from people who have been involved in budget preparation and implementation. Other sources of information were historical records which are kept by the organization. To ensure accuracy of the sample, data was collected from the following three different clusters: management staff, supervisory staff and technical (finance) staff.

Elements in these clusters were picked at random to eliminate bias in any cluster.Pre-testing ensured reliability of the data collection tool. The pretest formed a good base upon which amendments to the questionnaires were made.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the data analysis and interpretation, the data is presented as per the study's objective. The areas given consideration include; Section 4.2 Summary of Statistics, Section 4.3 Determinants of Budget Variance, Section 4.4 Discussion and Section 4.5 Summary.

The research was conducted in WVI as a case study where the target employees were served with questionnaires; however, only 39 questionnaires were returned duly filled-in by the respondents. This makes a response rate of 78% which is within Mugenda & Mugenda's (2003) prescribed significant response rate for statistical analysis which they established at a minimal value of 50%. This commendable response rate was made possible after the researcher personally administered the questionnaire and made further visits to remind the respondents to fill-in and return the questionnaires.

In study frequencies, both absolute and relative frequencies were used on single response questions. On multiple response questions, the study used Likert scale in collecting and analyzing the data where the appropriate scales were used in computing the means and standard deviations. These were then presented in tables, pie charts as appropriate with explanations being given in prose. Findings from open-ended questions were also presented in prose.

4.2 Summary Statistics

Table 4.1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Variance
Unskilled manpower/personnel	1.00	5.00	1.4706	1.00733	1.015
Lack of community participation	1.00	5.00	2.4706	1.32842	1.765
Lack of dynamic structures	1.00	5.00	2.4118	1.27764	1.632
Lack of budgetary accuracy	1.00	5.00	2.5294	1.50489	2.265
Lack of monitoring and reviews	1.00	5.00	2.4706	1.62472	2.640

Source: Researcher (2012)

The minimum, maximum, mean and standard deviation was calculated for each of the independent variables as shown in Table 4.1.

4.3 Determinants of Budget Variance

Table 4.2 Model Summary; effects of challenges of budget preparation and implementation on budget variance in NGOs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.479[a]	.229	-.121	1.11944	.229	.654	5	11	.665

Source : Researcher (2012)

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (budget variance) that is explained by all the five independent variables (Unskilled manpower/ personnel, lack of community participation, lack of dynamic structures, lack of budgetary accuracy and lack of monitoring and review).

R of 0.479 indicates a positive relationship between dependent variable (budget variance) and independent variables (Unskilled Manpower, Lack of Community Participation, Lack of Dynamic Structures, Lack of Budgetary Accuracy and Lack of Monitoring and Review) whereas R Squared of 0.229 reflects the extent to which the independent variables studied contributes to budget variance. The difference of 0.771 indicates that there are other factors not studied which contribute to budget variance.

Table 4.3 Analysis of Variance (ANOVA)

Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	4.098	5	.820	.654	.665[a]
Residual	13.785	11	1.253		
Total	17.882	16			

Source: Researcher (2012)

Where;
DF (Degrees of Freedom)

F=F-Critical

Sig. =Significance of regression coefficient.

The calculated F-Critical (0.654) does not adequately explain the model because it is not significance (0.665).

Table 4.4 Model Summary: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	3.009	.992		3.033	.011	.826	5.193
Unskilled personnel	-.185	.741	-.177	-.250	.807	-1.815	1.445
lack of community participation	.399	.545	.502	.732	.479	-.801	1.600
Lack of dynamic structures	.034	.240	.041	.142	.890	-.493	.561
Lack of budgetary accuracy	-.560	.562	-.798	-.996	.340	-1.799	.678
Lack of monitoring and reviews	.105	.383	.161	.274	.789	-.739	.948

Source : Researcher (2012)

The coefficients in the model are as follows

$Y= 3.009-0.177X_1+0.502X_2+0.041X_3-0.798X_4+0.161X_5+0.992$……………………… (2)

Where

Y=Budget variance

X1=Unskilled Manpower

X2=Lack of Community Participation

X3=Lack of Dynamic Structures

X4=Lack of Budgetary Accuracy

X5=Lack of Monitoring and Review

ℓ_t =Error Term

Thus,

Budget Variance $=3.009-0.177X_1+0.502X_2+0.041X_3-0.798X_4+0.161X_5+0.992$……… (3)

According to the regression equation established, taking all factors into account constant at zero, budget variance will be 3.009. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in unskilled manpower will lead to a 0.177 decrease in budget variance; a unit increase in lack of community participation will lead to a 0.502 increase in budget variance, a unit increase in lack of dynamic structures will lead to a 0.041 increase in budget variance, a unit increase in lack of budgetary accuracy will lead to a 0.798 decrease in budget variance and a unit increase in lack of monitoring and review will lead to a 0.161 increase in budget variance.

4.4 Discussions

This section presents the data findings of the study on the effect of challenges of budget preparation and implementation on budget variance in NGOs in Kenya.

This study established the following steps that are used by organizations in formulation and implementation of budget; translation of operating plan into master budget, investigation of the differences between actual and budget, reassessment of vision and core competence, development of operation plans, monitoring actual results in comparison to budget and reconsidering long term strategies in that order of importance.

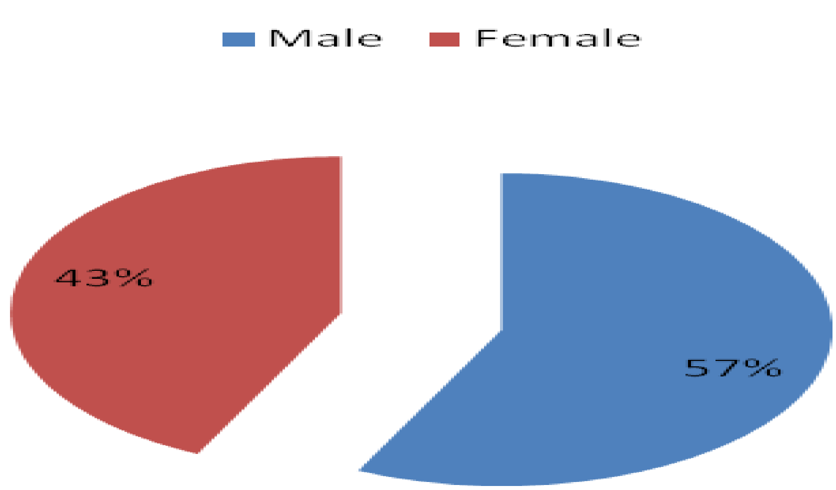
According to this study, NGOs in Kenya uses combination (mean of 3.93) of the two approaches of budgeting, top-down approach (mean of 3.43) and bottom-up approach in budgeting (mean of 2.07). In addition, the study shows that NGOs in Kenya involve directors (mean of 4.2), managers (mean of 4.4) and departmental/sectional heads (mean of 5) in planning and implementation of the budget.

In this study it is evident that a percentage (mean of 1.7) and monetary value (mean of 1.5) are the base of benchmark for investigating budget variance. The study also derived the following as the challenges of budget formulation and implementation ; lack of proper monitoring and review (mean of 4.1), poor communication of the budget requirement (mean of 3.9),lack of clear policy and procedures on budgets (mean of 3.7), lack of proper co-ordination(mean of 3.6), lack of skilled personnel(mean of 3.6), poor forecasting/ prediction of budget (mean of 3.3) and feeling of insecurity by managers when following prescribed budgets (mean of 3.2) are the main challenges facing NGOs in Kenya.

The study also noted that challenges faced during budget formulation and implementation contributes to budget variance with lack of proper monitoring and review had a mean of 4.1 and a standard deviation of 1.21, poor communication of the budget requirements had a mean of 3.9 and a standard deviation of1.10, lack of clear policy and procedures on budgets had a mean of 3.7 and a standard deviation of 0.83, lack of proper co-ordination and lack of skilled personnel to formulate and implement budgets both had a mean of 3.6 and a standard deviation of 0.85 and 1.02 respectively, poor forecasting/ prediction of budget had a mean of 3.3 and a standard deviation of 0.99, feeling of insecurity by managers when following prescribed budgets had a mean of 3.2 and a standard deviation of 0.43, and poor corporate governance had a mean of 2.7 and a standard deviation of 1.82. This illustrates that among the challenges that organizations faces during budget formulation and implementation, lack of proper monitoring and review, poor communication of the budget requirement, lack of clear policy and procedures on budgets, lack of proper co-ordination, lack of skilled personnel, poor forecasting/ prediction of budget and feeling of insecurity by managers when following prescribed budgets are the main challenges facing the NGOs in Kenya.

4.4.1 Demographic Characteristics of the Respondent

Figure 4.1: Gender of the respondent



According to the figure 4.1, 57% of the respondents were males and 43% were females. Therefore the majority of the respondents were males. This depicts that NGOs in Kenya employs slightly more male than females.

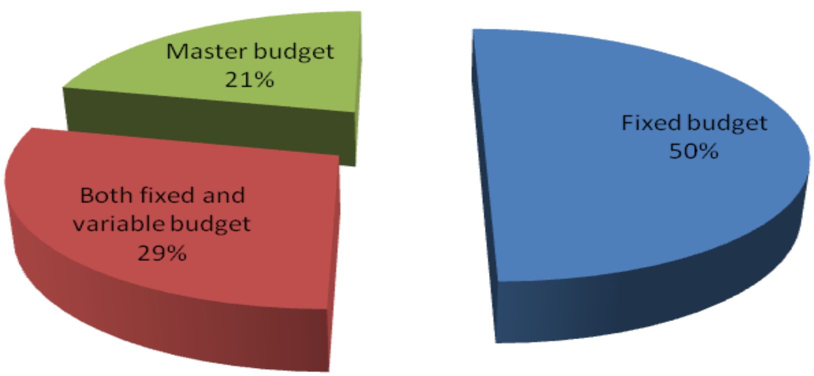
4.4.2 Budget Preparation and Implementation

Table 4.5: Budget prepared by the organization

	Frequency	Percentage
Fixed budget	7	50
Both fixed and variable budget	4	28.6
Master budget	3	21.4
Total	14	100

Source: Researcher (2012)

Figure 4.2: Budget prepared by the organization



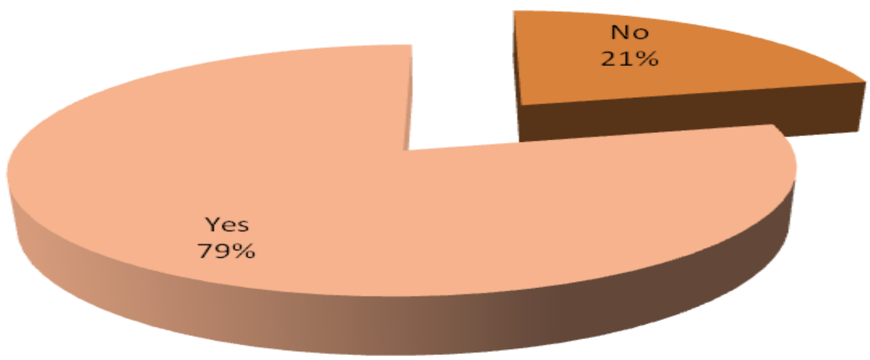
The data findings on the type of budget prepared by WVI were presented in table 4.1and figure 4.2. According to the table, 50% of the respondents' uses fixed budget, 28.6% uses both fixed and variable budgets while 21.4% uses master budget. This shows that among the types of budgets used in NGOs fixed budget is more preferred.

Table 4.6: **Whether the budgeting takes appropriate time duration**

	Frequency	Percentage
No	3	21.4
Yes	11	78.6
Total	14	100

Source: Researcher (2012)

Figure 4.3: Whether the budgeting takes appropriate time duration



The results of whether the budgeting takes appropriate time duration were recorded in the Table 4.2 and Figure 4.3. From the table 78.6% of the respondents were of the opinion that budgeting takes appropriate time while 21.4% of the respondent felt that budgeting did not take appropriate time duration. In relation to the finding, it can be depicted that majority of NGOs takes appropriate time duration during budgeting.

Table 4.7: Period covered by the budget

Period	Frequency	Percentage
12 months	14	100
8 months	0	0
6 months	0	0
4 months	0	0

Source: Researcher (2012)

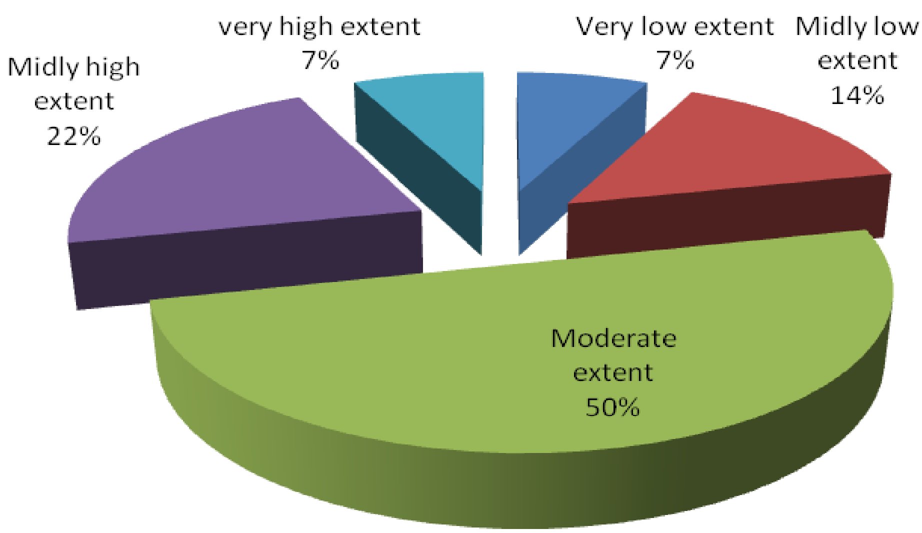
The results on the period covered by the budget were presented in Table 4.3. According to the table the entire respondent gave 12 month as the period covered by the budget. This illustrates that organizations uses a budgeting period of 12 months with exemption to instances when a donor funds a project for a shorter duration of time.

Table 4.8: **The use performance based budgeting**

	Percentage
Very low extent	7.1
Mildly low extent	14.3
Moderate extent	50.0
Mildly high extent	21.4
Very high extent	7.1
Mean	2.9
Std. Deviation	0.83

Source: Researcher (2012)

Figure 4.4: The use performance based budgeting



The study also required the respondents to give the extent of use of performance based budgeting. . The study used Likert scale in collecting and analyzing the data on a scale of 1 to 5 with 1 point being assigned to very low extent, indicating very low extent of use while 5 was assigned to very high extent, to indicate high extent of use of performance based budgeting. The data finding were presented in the table 4.4 and figure 4.4. Since the scales ranged from 1 to 5 making an interval of 4 between the two extremes; the following allocationary keys was developed:

1 Very low extent = Never Exhibit (1 – 1.8)

2 Midly low extent = Very Rarely Exhibit (1.81 – 2.6)

3 Moderate extent = Rarely Exhibit (2.61 – 3.4)

4 Midly high extent = Exhibits (3.41 – 4.2)

5 Very high extent = Always Exhibit (4.21 – 5)

According to the finding moderate extent had 50%, mildly high extent had 22%, mildly low extent ha 14 % and very low extent and very high extent both had 7%. In addition, performance based budgeting had a mean of 2.9 and a standard deviation of 0.83. This illustrates that, NGOs uses performance based budgeting.

Table 4.9: **Challenges facing budget formulation and implementation**

	Frequency	**Percentage**
Yes	14	100
No	0	0

Source: Researcher (2012)

The data findings on whether there were challenges facing budget formulation and implementation in WVI were presented in the Table 4.5. According to the table, the entire respondent agreed that there were challenges encountered during budget formulation and implementation. This depicts that organizations faces challenges in the formulation and implementation of the budget which could adversely affect their performance hence a deviation from the budgeted figure.

Table 4.10: Criteria used to make revenue/expenditure projections for financial year

	Frequency	Percentage
Informed judgement (use of experience and careful observation)	2	11
Use of trends of past years and extrapolate them into the future	15	83
Econometric model	1	6
Total	18	100

Source: Researcher (2012)

The results on the criteria used to make revenue/expenditure projections were presented on Table 4.10. According to the findings, 83% of the respondents indicated that trends of past years and extrapolating them into the future was used to make the projections , 11% indicated that informed judgment was used to make revenue/expenditure projections and 6% indicated econometric model was used.

Table 4.11: **Bench marks for investigating budget variance**

	Frequency	Percentage
Yes	14	100
No	0	0

Source: Researcher (2012)

The data findings on whether there are bench marks for investigating budget variance were recorded and presented in Table 4.7. The table shows that the entire respondents agreed that there were bench marks for investigating variance. This illustrates that organizations uses bench marks in investigating variance. This is usually set at the beginning of the financial year or such other time as agreed upon with the donor.

Table 4.12: If the program/project experienced a budget deficit or surplus

Financial year	Variance
2008	over expenditure
2009	over expenditure
2010	over expenditure
2011	over expenditure

Source: Researcher (2012)

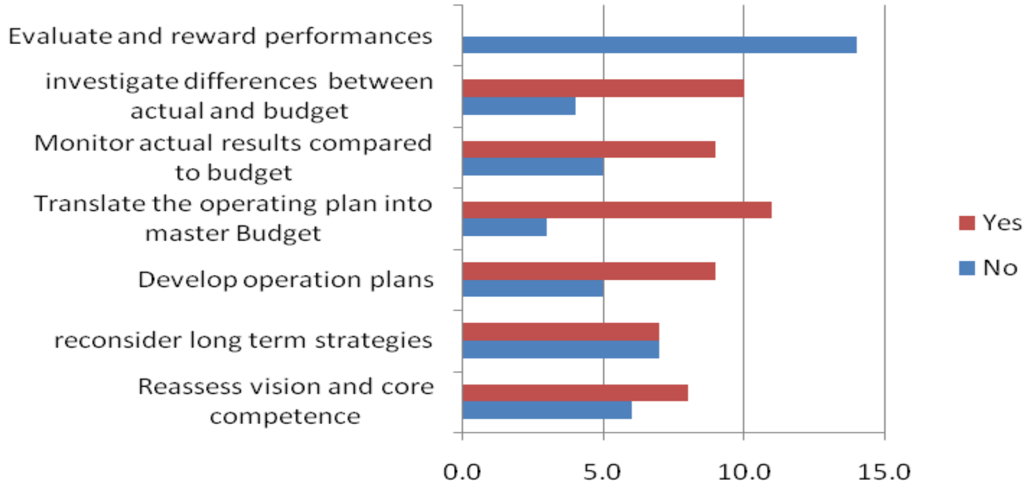
From the findings on whether the program/project experienced a budget deficit or surplus for the last 4 years, all the respondents indicated that there was a financial deficit for the year 2008 to 2011.

Table 4.13: **Stages of budget formulation and implementation**

	No	Yes	Total	Mean	STDV
Reassess vision and core competence	6.0	8.0	14	1.6	0.51
reconsider long term strategies	7	7	14	1.5	0.52
Develop operation plans	5.0	9.0	14	1.6	0.50
Translate the operating plan into master Budget	3.0	11.0	14	1.9	0.43
Monitor actual results compared to budget	5.0	9.0	14	1.6	0.50
investigate differences between actual and budget	4.0	10.0	14	1.7	0.47
Evaluate and reward performances	14.0	0.0	14	1	0

Source: Researcher (2012)

Figure 4.5: Stages of budget formulation and implementation



The study sought to establish the stages of budget formulation and implementation in the NGOs in Kenya. The study used Likert scale in collecting and analyzing the data on a scale of 1 to 2 with 1 point being assigned to No, indicating disagreement with the statement while 2 was assigned to Yes, to indicate agreement. The results were then presented in figure 4.5 being the scales ranged from 1 to 2 making an interval of 1 between the two extremes; the following allocationary keys were developed:

1 No= Never monitors (1.00-1.5)

2 Yes= monitors (1.51-2.00)

From Table 4.9, translate the operating plan into master Budget had a mean of 1.9 and a standard deviation of 0.43, investigate differences between actual and budget had a mean of 1.7 and a standard deviation of 0.47, reassess vision and core competence, develop operation plans and monitor actual results compared to budget all had a mean of 1.6 and standard deviation of 0.51, 0.50 and 0.50 respectively, reconsider long term strategies had a mean of 1.5 and a standard deviation of 0.52. This depicts that the stages that are common in most non-governmental organizations in formulation and implementation of budget are, translation of the operating plan into master budget, investigation of the differences between actual and budget, reassessment of vision and core competence, development of operation plans, monitoring actual results compared to budget and reconsideration of the long term strategies in that order of importance.

Table 4.14: **Reasons for budgeting**

	disagree	disagree	Neither agree nor disagree	Moderately agree	strongly agree	Mean	Sd Dev
To evaluate performance	3.0	0	0	0	11.0	4.1	1.70
Tools to forecasting and planning (short term and long term)	0	0	3.0	0	11.0	4.6	0.85
Judge and control performance	3.0	0	0	0	11.0	4.1	1.70
co-ordination of the operations	0	0	3.0	11.0	0	3.8	0.43
Way to calculate rewards	0	0	7	7	0	3.5	0.52
Communication	0	0	14	0	0	3	0.00
Decision making	3	0	0	7	4.0	3.6	1.50
Motivation device for managers	0	0	14	0	0	3	0

Source: Researcher (2012)

This study aimed at establishing the reasons for budgeting as given by NGOs in Kenya. Likert scale was used in collecting and analyzing the data. The data was analyzed on a scale of 1 to 5 with point 1 assigned to strongly disagree and 5 assigned to strongly agree. The results were presented in the Table 4.10. Since the scale ranged from 1 to 5 making an interval of 4 points between the two extremes; the following allocationary keys was developed.

1 Strongly disagree = Never Exhibit (1 – 1.8)

2 Disagree = Very Rarely Exhibit (1.81 – 2.6)

3 Neutral = Rarely Exhibit (2.61 – 3.4)

4 Agree = Exhibits (3.41 – 4.2)

5 Strongly Agree = Always Exhibit (4.21 – 5)

From Table 4.10, Tools to forecasting and planning (short term and long term) had a mean of 4.6 and a standard deviation of 0.85, to evaluate performance and judge and control performance both had a mean of 4.1 and standard deviation of 1.70, co-ordination of the operations had a mean of 3.8 and standard deviation of 0.43, decision making had a mean of 3.6 and a standard deviation of 1.50, and way to calculate rewards had a mean of 3.5 and a standard deviation of 0.52. This illustrates that budgeting in NGOs is done as a tools for forecasting and planning, evaluating performance, judging and controlling performance, co-ordination of the operations, decision making and as a way to calculate rewards in that order of reducing importance.

Table 4.15: **Information used to assist in setting up the budget**

	Strongly disagree	Moderately disagree	Neither agree nor disagree	Moderately agree	strongly agree	Mean	STDV
Previous Years budgeted figures	0	2	0	4	8	4.3	1.07
Industrial statistics/ indicators	0	2	0	12	0	3.7	0.73
Local economic conditions	0	1	2	11	0	3.7	0.61
National economic indicators	0	1	2	11	0	3.7	0.61
Market analysis by the organization	0	0	0	0	100	5	0
Previous years actual figures	0	0	1	1	12	4.9	0.58

Source: Researcher (2012)

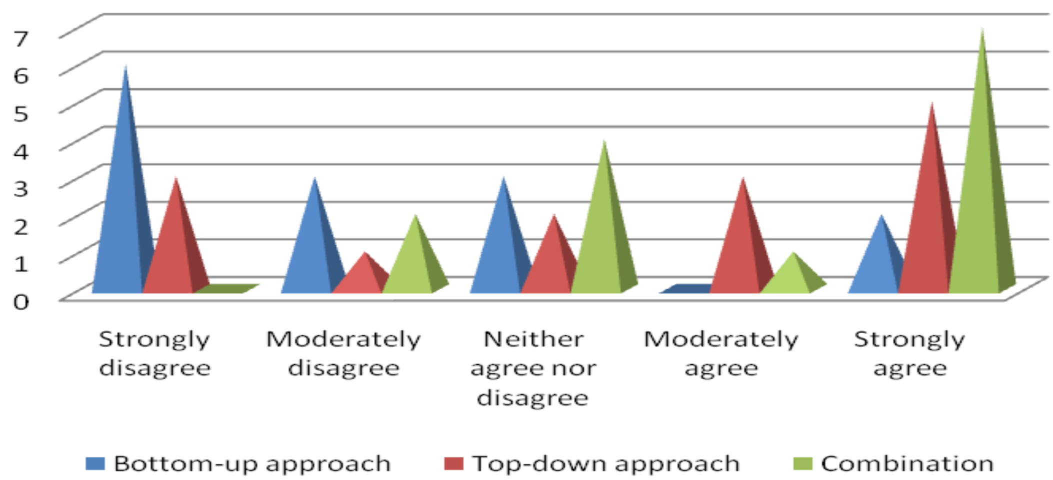
The study also sought to establish the information used to assist in setting up the budget. This study used Likert scale to collect and analyze data on a scale of 1 to 5 as above. The results were presented in the table 4.11. From Table 4.11, market analysis by the organization had a mean of 5, previous years actual figures had a mean of 4.9 and a standard deviation of 0.58, previous years budgeted figures had a mean of 4.3 and standard deviation of 1.07, industrial statistics/ indicators, local economic conditions and national economic indicators had a mean of 3.7 and a standard deviation of 0.73, 0.61, and0.61 respectively. This illustrates that market analysis by the organization, previous year’s actual figures, previous years budgeted figures, local economic conditions and national economic indicators are the sources of information used to assist in setting up the budget by the organization in Kenya.

Table 4.16: **Budgeting approaches**

	Strongly disagree	Moderately disagree	Neither agree nor disagree	Moderately agree	Strongly agree	Mean	Standard Deviation
Bottom-up approach	6	3	3	0	2	2.07	1.1
Top-down approach	3	1	2	3	5	3.43	1.6
Combination	0	2	4	1	7	3.93	1.2

Source: Researcher (2012)

Figure 4. 6: Budgeting approaches



The study also aimed at establishing the extent to which NGOs uses bottom up, top down and combination of the two approach of budgeting. This study used Likert scale to collect and analyze data on a scale of 1 to 5 as above. The results were presented in table 4.12 and figure 4.6. From Table 4.12, combination of the two approaches had a mean of 3.93 and standard deviation of 1.2, top-down approach had a mean of 3.43 and a standard deviation of 1.6 and bottom-up approach had a mean of 2.07 and standard deviation of 1.1. This illustrates that organizations use combination of the two approaches, top-down approach and bottom-up approach in budgeting all in that order of reducing importance.

Table 4.17 Factors considered when making periodic decisions

	very important	Important	Neutral	Little importance	No importance	Mean	Standard deviation
How well budget targets are met	10	5	2	1	0	4.3	0.1
How efficient the programme/project is run	5	6	5	1	1	3.7	0.4
Budget vs actual	12	4	1	1	0	4.5	0.3
Ways to exceed budget targets	0	1	5	7	5	2.1	0.1
Needs to frequently review unrealistic budget items	4	5	6	2	1	3.5	0.2

Source: Researcher (2012)

The results on how important budgeting items are considered when making periodic decisions indicated that, it was very important to consider budget vs actual when making periodic decisions as shown by a mean of 4.5 and standard deviation of 0.3. It was also important to consider how well budget targets were met, how efficient the programme/project is run and the needs to frequently review unrealistic budget items when making periodic decisions as shown by a mean of 4.3 and standard deviation of 0.1, mean of 3.7 and standard deviation of 0.4, mean of 3.5 and standard deviation of 0.2 respectively. In addition, they indicated that it was of little importance to consider ways to exceed budget targets when making periodic decisions as shown by a mean of 2.1 and standard deviation of 0.1.

Table 4.18: **Involvement of stakeholders in the planning and implementation of budget**

	Not at all	Less active	Active	Moderately active	Very active	Mean	STDV
Directors	0	0	0	11	3	4.2	0.43
Departmental/sectional heads	0	0	0	0	14	5	0
Managers	0	3	0	0	11	4.4	1.28
Supervisors	3	0	4	7	0	3.1	1.21
Other employees	10	4	0	0	0	1.3	0.47

Source: Researcher (2012)

Likert scale was used in collecting and analyzing data on the level of involvement of stakeholders in planning and implementation of the budget. The results were presented on Table 4.15. Point 1 was assigned to not at all and 5 assigned to very active. The scale ranged from 1 to 5 making an interval of 4 points between the two extremes; the following allocationary keys can be developed.

1 Not at all = Not involved (1 – 1.8)

2 Less active = Very Rarely involved (1.81 – 2.6)

3 Active = Rarely involved (2.61 – 3.4)

4 Moderately active = Involved (3.41 – 4.2)

5 Very active = Always involved (4.21 – 5)

According to the Table 4.15 above, departmental/sectional heads had a mean of 5, managers had a mean of 4.4 and standard deviation of 1.28, directors had a mean of 4.2 and a standard deviation of 0.43, supervisors had a mean of 3.1 and a standard deviation of 1.21 and other employees had a mean of 1.3 and a standard deviation of 0.47. This indicates that organizations involve directors, managers and departmental/sectional heads in planning and implementation of the budget in that order of increasing importance.

Figure 4.7: Base of the Benchmark

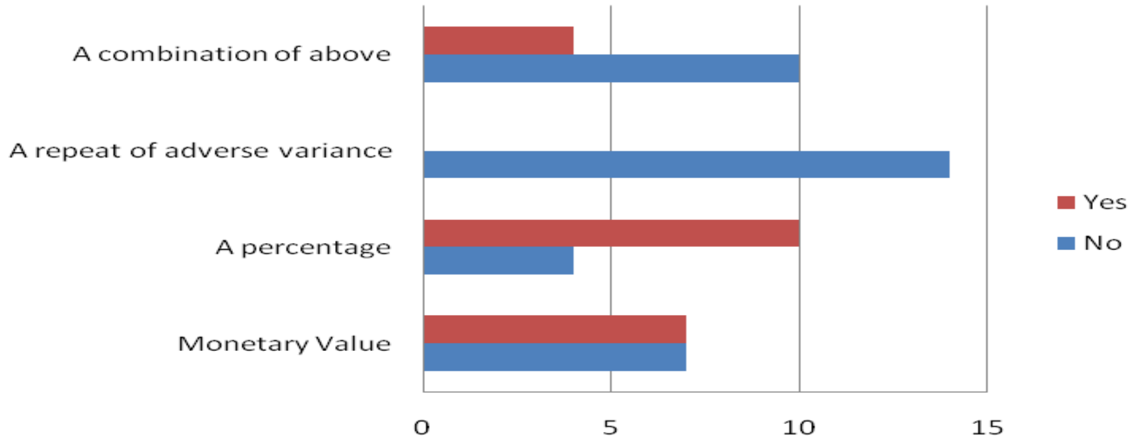


Table 4.19: Base of the Benchmark

	No	Yes	Mean	STDV
Monetary Value	7	7	1.5	0.52
A percentage	4.0	10.0	1.7	0.47
A repeat of adverse variance	14	0	1	0
A combination of above	10.0	4.0	1.3	0.47

Source: Researcher (2012)

In this study there was need to establish the base of benchmark for investigating budget variance. The study used Likert scale in collecting and analyzing the data on a scale of 1 to 2 with 1 point being assigned to No, indicating disagreement with the statement while 2 was assigned to Yes, to indicate agreement. The results were presented in Figure 4.7 and Table 4.15. According to Table 4.15, percentage had a mean of 1.7 and a standard deviation of 0.47, monetary value had a mean of 1.5 and a standard deviation of 0.52, a combination of the all had a mean of 1.3 and a standard deviation of 0.47 and repeat of adverse variance had a mean of 1. This study showed percentage and monetary value as the base of benchmark for investigating budget variance.

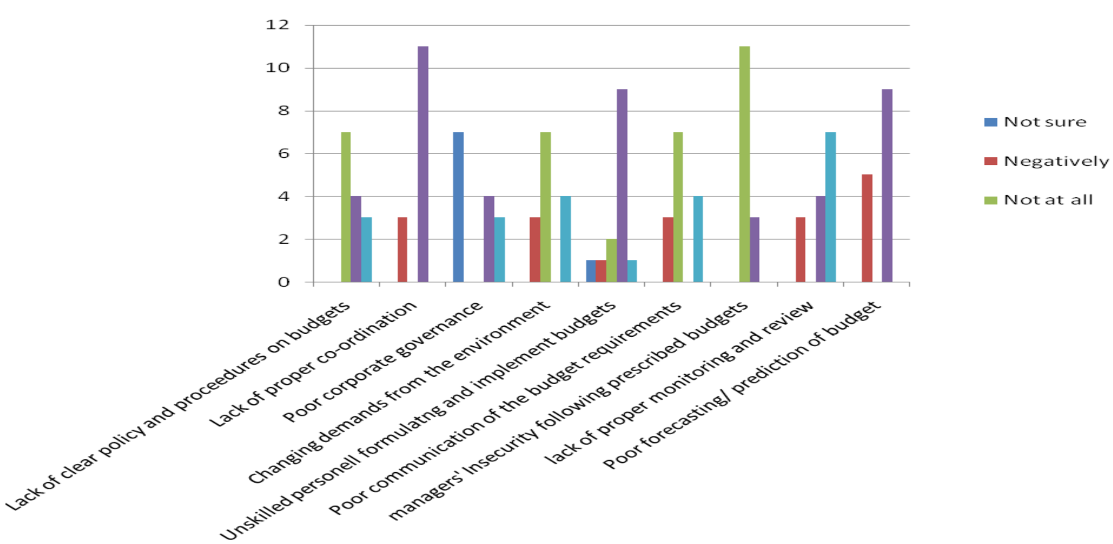
4.4.3 Challenges of Budget Formulating and Implementation

Table 4.20: **Challenges of Budget Formulation and Implementation**

	Not sure	Negatively	Not at all	To a low extent	Moderately	Mean	STDV
Lack of clear policy and procedures on budgets	0	0	7	4	3	3.7	0.83
Lack of proper co-ordination	0	3		11	0	3.6	0.85
Poor corporate governance	7	0		4	3	2.7	1.82
Changing demands from the environment	0	3	7		4	3.4	1.15
Lack of skilled personnel to formulate and implement budgets	1	1	2	9	1	3.6	1.02
Poor communication of the budget requirements	0	3	7		4	3.9	1.10
Feeling of insecurity by managers when following prescribed budgets	0	0	11	3	0	3.2	0.43
lack of proper monitoring and review	0	3	0	4	7	4.1	1.21
Poor forecasting/ prediction of budget	0	5	0	9	0	3.3	0.99

Source: Author (2012)

Figure 4.7: Challenges of budget formulation and implementation



The results on effects of challenges on budget formulation and implementation had on budget variance were presented on table 4.16 and figure 4.8.From the Table 4.16, lack of proper monitoring and review had a mean of 4.1 and a standard deviation of 1.21, poor communication of the budget requirements had a mean of 3.9 and a standard deviation of1.10, lack of clear policy and procedures on budgets had a mean of 3.7 and a standard deviation of 0.83, lack of proper co-ordination and lack of skilled personnel to formulate and implement budgets both had a mean of 3.6 and a standard deviation of 0.85 and 1.02 respectively, poor forecasting/ prediction of budget had a mean of 3.3 and a standard deviation of 0.99, feeling of insecurity by managers when following prescribed budgets had a mean of 3.2 and a standard deviation of 0.43, and poor corporate governance had a mean of 2.7 and a standard deviation of 1.82. This illustrates that among the challenges that organizations faces during budget formulation and implementation, lack of proper monitoring and review, poor communication of the budget requirement, lack of clear policy and procedures on budgets, lack of proper co-ordination, lack of skilled personnel, poor forecasting/ prediction of budget and feeling of insecurity by managers when following prescribed budgets are the main challenges facing the NGOs in Kenya. Some of the respondents were of the opinion that time and involvement of all staff tends to delay budget preparation and implementation.

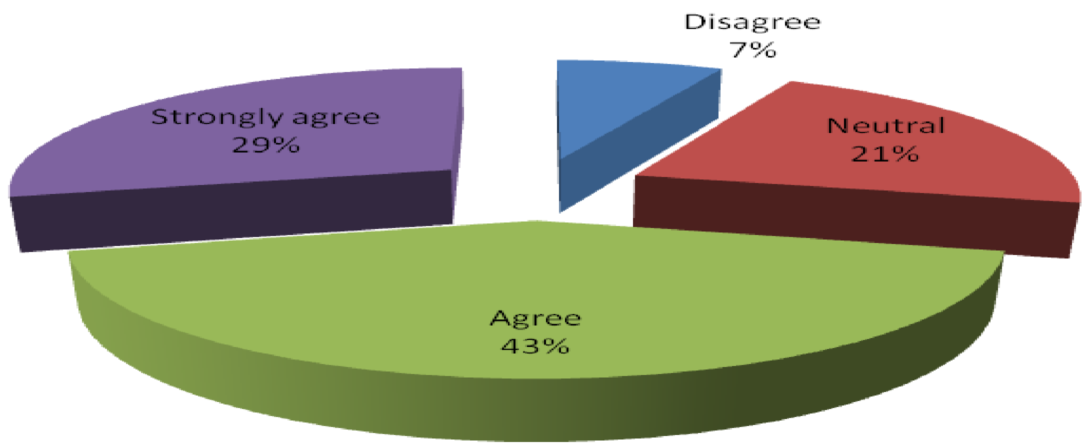
Table 4.21: Extent to Which the Respondent Agree With Statement That the Organization Can Overcome Challenges

	Frequency	**Percentage**
Disagree	1	7.1
Neutral	3	21.4
Agree	6	42.9
Strongly agree	4	28.6
Mean	3.9	
Std. Deviation	0.92	

Source: Researcher (2012)

Likert scale was used collecting and analyzing the data on whether organization can overcome challenges it was facing on budgeting. A scale of 1 to 5 with 1 point being assigned to strongly disagree, indicating that the organization was not in a position to overcome the challenges it was facing, while 5 was assigned to strongly agree, to indicate that the organization could tackle the challenges it was going through. The data finding were presented in the Table 4.17 and Figure 4.9. From Table 4.17 and the figure 4.9, 42.9% of the respondents agreed with the statement, 28.6% strongly agreed, 21.4% were neutral and 7.1% disagreed with the statement. This statement had a mean of 3.9 and a standard deviation of 0.92. This depicts that organizations are in a position to overcome their challenges.

Figure 4.8: Extent to Which the Respondent Agree With Statement That the Organization Can Overcome Challenges



In addition to the above the respondent gave, having time plan and implementation team as possible solution to the challenges facing the organization. Motivation, training and involving the employees in the decision making was also cited as other possible solutions. Other respondents were of opinion that having clear policy on budget formulation and implementation, ownership of budget figure by the managers and operating within the budget was a major step toward solving the problems faced by non-governmental organizations.

4.5 Summary

The study established that organizations use a budgeting period of 12 months with exemption to cases where a donor funds a project for a shorter period of time. It also depicts that organizations uses performance based budgeting (mean of 2.9). The study also shows that organizations face challenges in the formulation and implementation of budget and that they use bench marks in investigating variance.

In this study it is evident that a percentage (mean of 1.7) and monetary value (mean of 1.5) are the base of benchmark for investigating budget variance. The study also derived the following as the challenges of budget formulation and implementation ; lack of proper monitoring and review (mean of 4.1), poor communication of the budget requirement (mean of 3.9),lack of clear policy and procedures on budgets (mean of 3.7), lack of proper co-ordination(mean of 3.6), lack of skilled personnel(mean of 3.6), poor forecasting/ prediction of budget (mean of 3.3) and feeling of insecurity by managers when following prescribed budgets (mean of 3.2) are the main

The results of the regression analysis indicates a positive relationship (R of 0.479) between dependent variable (budget variance) and independent variables (Unskilled Manpower, Lack of Community Participation, Lack of Dynamic Structures, Lack of Budgetary Accuracy and Lack of Monitoring and Review) whereas R Squared of 0.229 reflects the extent to which the independent variables studied contributes to budget variance. The difference of 0.771 indicates that there are other factors not studied which contribute to budget variance. The coefficients in the model are as follows $Y= 3.009-0.177X_1+0.502X_2+0.041X_3-0.798X_4+0.161X_5+0.992$.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the key findings presented in the previous chapter, conclusions based on the findings and recommendations there-to. The chapter is structured into; Section 5.2 Summary of study, Section 5.3 Conclusions, section 5.4 Limitation of the study, Section 5.5 Recommendation and Section 5.6 Suggestions for further studies.

5.2 Summary of the Study

The study was conducted in WVI as a case study of Non-Governmental Organizations in Kenya. The sample was drawn from staff at management level, supervisory and finance team. To achieve the objective of this study, the researcher used both primary and secondary data. Primary data was collected using questionnaires and face to face interview whereas secondary data sources was employed through the use of the previous budgets, financial records and budget policies to supplement the data received from primary sources. The study established that NGOs employ slightly more male (57%) than females (43%). It also showed that among the types of budget used in NGOs fixed budget (50%) is more preferred and that budgeting takes appropriate time duration in majority (79%) of these organizations.

The study established that organizations use a budgeting period of 12 months with exemption to cases where a donor funds a project for a shorter period of time. It also depicts that organizations uses performance based budgeting (mean of 2.9). The study also shows that organizations face challenges in the formulation and implementation of budget and that they use bench marks in investigating variance.

This study established the following steps that are used by organizations in formulation and implementation of budget; translation of operating plan into master budget, investigation of the differences between actual and budget, reassessment of vision and core competence, development of operation plans, monitoring actual results in comparison to budget and reconsidering long term strategies in that order of importance.

The study also found out that budgeting are done as a tool for forecasting and planning, evaluating performance and judging and controlling performance, co-ordination of the operations and decision making. It further disclosed that market analysis by the organization, previous year's actual figures, and previous years budgeted figures, local economic conditions and national economic indicators are the sources of information used to assist in setting up the budget.

According to this study, NGOs in Kenya uses combination (mean of 3.93) of the two approaches of budgeting, top-down approach (mean of 3.43) and bottom-up approach in budgeting (mean of 2.07). In addition, the study shows that NGOs in Kenya involve directors (mean of 4.2), managers (mean of 4.4) and departmental/sectional heads (mean of 5) in planning and implementation of the budget.

In this study it is evident that a percentage (mean of 1.7) and monetary value (mean of 1.5) are the base of benchmark for investigating budget variance. The study also derived the following as the challenges of budget formulation and implementation ; lack of proper monitoring and review (mean of 4.1), poor communication of the budget requirement (mean of 3.9),lack of clear policy and procedures on budgets (mean of 3.7), lack of proper co-ordination(mean of 3.6), lack of skilled personnel(mean of 3.6), poor forecasting/ prediction of budget (mean of 3.3) and feeling of insecurity by managers when following prescribed budgets (mean of 3.2) are the main challenges facing NGOs in Kenya.

The study also noted that challenges faced during budget formulation and implementation contributes to budget variance with lack of proper monitoring and review had a mean of 4.1 and a standard deviation of 1.21, poor communication of the budget requirements had a mean of 3.9 and a standard deviation of1.10, lack of clear policy and procedures on budgets had a mean of 3.7 and a standard deviation of 0.83, lack of proper co-ordination and lack of skilled personnel to formulate and implement budgets both had a mean of 3.6 and a standard deviation of 0.85 and 1.02 respectively, poor forecasting/ prediction of budget had a mean of 3.3 and a standard deviation of 0.99, feeling of insecurity by managers when following prescribed budgets had a mean of 3.2 and a standard deviation of 0.43, and poor corporate governance had a mean of 2.7 and a standard deviation of 1.82. This illustrates that among the challenges that organizations faces during budget formulation and implementation, lack of proper monitoring and review, poor communication of the budget requirement, lack of clear policy and procedures on budgets, lack of proper co-ordination, lack of skilled personnel, poor forecasting/ prediction of budget and feeling of insecurity by managers when following prescribed budgets are the main challenges facing the NGOs in Kenya.

The results of the regression analysis indicates a positive relationship (R of 0.479) between dependent variable (budget variance) and independent variables (Unskilled Manpower, Lack of Community Participation, Lack of Dynamic Structures, Lack of Budgetary Accuracy and Lack of Monitoring and Review) whereas R Squared of 0.229 reflects the extent to which the independent variables studied contributes to budget variance. The difference of 0.771 indicates that there are other factors not studied which contribute to budget variance challenges of budgeting and budget variance.

5.3 Conclusions

Based on the findings of the study, the following main conclusions were made concerning the effects of challenges of budget preparation and implementation on budget variance in NGOs in Kenya. WVI operates well with a well experienced team who has served the organization in a long time blended with young newly experienced team. This maintains that the set goals, vision and mission of the organization are met.The organization prepares annual budgets which covers a year’s duration and is revised annually. The organization has budgets for different departments which are revised biannually or quarterly to suit the relevant upcoming activities or needs. The organization allows each department to participate in budgetary planning. The study concludes that most organizations use a budgeting period of 12 months. Organizations have embraced performance based budgeting which is a modern way of budgeting. In addition, budget has a number of purposes which include; tool to forecasting and planning (short term and long term), Judging and controlling performance, co-ordination of the operations, way to calculate rewards, tool for communication, used for decision making and as a motivation device for managers.

Moreover, organizations create budget slacks at the time of budget preparation. However, it was concluded that majority of organizations (75%) who created budget slacks are the ones who thought that the budget would not be reviewed in the middle of the year. Thus there was negative relationship between budget reviews in the middle of the year and budget slacks created by organizations at the beginning of the year.

The study further concluded that use of budget variance as a means of measuring of performance is detrimental to the long term economic well-being of organizations. The study revealed that most of managers who highly valued meeting the set budgets did so at the expense of any activity whose results and benefits would not be visible within that particular financial year. Thus the more rigid the annual budget, the more the managers ignored the long term well-being of the organization.

The study also concludes that organizations involve managers in the budget preparation and implementation. Most of the respondents indicated that for better implementation of budgets, managers need to be involved in budget preparation. This in itself significantly reduces budget variance. The study concludes that financial managers are the ones who are fully involved in budget preparation and implementation but not managers of other departments. This is because unlike the other departments in NGOs no finance managers called for a more participative and consultative budget preparation style.

The study concludes that organizations face challenges during budget preparation and implementation which significantly contributes to budget variance. The challenges faced include unskilled manpower, lack of community participation, lack of dynamic structures, finance function not a strategic partner, lack of budgetary accuracy and lack of monitoring and review. In addition, the study concludes that organizations use trends of past years and extrapolated them into the future to make revenue/expenditure projections. This helps to reduce the budget variance.

Challenges of budget implementation include corruption, lack of proper planning and control, and lack of staff motivation. Participation of all stakeholders makes the budgetary process to be too lengthy and time consuming while low level management does not have a significant role in both the initial and revision stages of budget preparation. In performance evaluation in the budgetary process, there is poor feedback in the budgetary process for attainment of the expected quality and standards in planning, control and leadership while feedback does not critically focus on the extent to which employees achieve expected levels of work during a specified time period. The study also shows that management can overcome the challenges associated with budget preparation and implementation.

The level of participation by the targeted community is limited. The reason is attributed to high illiteracy level and the poverty rate. The psyche of the people is very low. There is no law that encourages community participation in governance and also lack of access to information and participation hence a policy is required to enhance participation and accountability.

5.4 Limitation of the Study

The findings of this study should however be considered in light of their limitations. The researcher's wish was to get responses from the top leadership who are ultimately held responsible for budget preparation and utilization. However, only 25% of the respondents were Managers. Though the other respondents were supervisors, we may not conclusively associate their level of performance to the ultimate level of performance measured by budget variance of the entire unit.

The limitations of resources were a major challenge in carrying out the study. The researcher did not have enough finances to hire research assistants for the purpose of the data collection. The time allocated for the research was also a major limitation.

There was a possibility of some respondents giving minimal cooperation, fearing that the study could detect their administrative incompetence. This was mitigated by ensuring that the information given was kept confidential. It was also possible that some respondents would not give honest information for fear that they would be exposing negative qualities of the employer. The researcher however assured them that the findings would be used for academic purpose but not for policy decisions. Secrecy of the organizations was a key limitation to the study. Every organization has its own code of ethics that restricts staff to divulge information to the public. Some staff were reluctant to give financial data needed for the study. Some of them only gave ratios instead of absolute figures. Some respondent feared that the information given could be used against them in future by management. Other feared that the researcher could have assigned by the management to get the findings. The researcher assured them that the information obtained was for research purpose

5.5 Recommendation

The study recommends that NGOs in Kenya should adopt a proper monitoring and review of the budgeting process. The budget planning process should include all the departments. The budget should be communicated to all departments and to all staffs. This will help ease implementation of the budget hence reducing budget variance. Head of departments and their assistants who come up with the budget should ensure they review the trends of past years and extrapolate them into the future to make revenue/expenditure projections.

Though there was a broad agreement on the fact that budget preparation and implementation takes appropriate time, disagreement existed on whether there was unity of mind in the various departments during budget preparation and implementation. Some respondents, especially lower level management staff felt that they should be more involved in the process. The study thus recommends that organizations should prepare budgets which are all inclusive for the sake of reducing budget variance during utilization. Indeed most respondents called for a more interactive budget preparation and implementation process.

The human resource department needs to hire skilled staffs that are able to plan a good budget and implement it. This will help to transform the NGOs to reduce the budget deficit. Organizations should also invest in training on budget planning and implementation. The targeted community should also be encouraged to participate in the governance of the organizations. This will increase the psyche of the people. Policy makers should come up with a law that allows and encourages community participation and access to information.

From the analysis the error term of 0.146 implies that there are other factors in organizations that influence Y (Budget variance) apart from X (Challenges of budget preparation and implementation). A Study should therefore be conducted to identify these factors and how they influence budget variance.

5.6 Suggestion for Further Studies

The study focused mainly on the effect of challenges faced during budget preparation and implementation on budget variance in NGOs in Kenya. A similar study could be undertaken on other related organizations in a different geographical area with different cultures. The respondents should also be broadened to include mid and lower level staff.

The study was conducted only on NGOs. A similar study could be done on the public sector to compare the outcome with that of the NGOs. Still a similar study could be undertaken on private sectors which use other parameters in budgeting. The results can then be used to compare with the outcome of this study.

The results of the study established a positive relationship between challenges of budget preparation and implementation and budget variance. The study noted that the error term in the equation model suggested that there are definitely other factors that determine the budget variance apart from challenges of budgeting. A similar study could be carried out to determine these other factors and how they are influence budget variance.

REFERENCES

Abernethy, M., Brownell, P. (1999), The Role of Budgets in Non-governmental organizations Facing Strategic change: An Exploratory Study, Accounting, Non-governmental organizations & Society, Vol.24 No.3, Pp 189-205.

Allen, M.J., & Yen, W.M (1979), Introduction to Management Theory. Monetary Brook/Cole,Vo.7, No.6, Pp 41-51.

Ammons, David N. (2002). “Performance Measurement and Managerial Thinking”. Public Performance and Management Review

Amstrong, P. (1996), Budget control and labour Force. Finding from a survey of large British Non-governmental organizations , Vol 7 No 5.

Anand, M., Sahay, B. S., & Saha, S. (2004). Cost Management Practices in India: An Empirical Study. *ASC1 Journal of management,* 33(1-2), 1-13.

Anderson, S.W., & Lanen, W.N. (1999). “Economic Transition, Strategy and the Evolution of Management Accounting Practices: the Case of India.”, in: *Accounting, Non-governmental organizations and Society*, Vol. 24(5/6), pp. 379-412.

Anthony, R. N. & Govindarajan, V. (2007). Management control systems. Boston, Mass.: McGraw-Hill.

Bescos, Cauvin, Langevin and Mendoza (2003). Criticisms of budgeting : A Contingent approach, proceedings of the 26th European Accounting Association Conference, Seville, Spain.

Blansfied, D. (2002), Comshare Survey of Top Financial Executive. Business Finance / Executive Research Group Vol.10 Pp 85-108.

Blocher, E.J., Chen, K.H. and Li T.W. (2000),Cost Management: a Strategic Emphasis, 2nd ed., McGraw-Hill International, New York, NY.

Bremser, W.(1988), Budgeting by development and functional Area American. Management Group Association. Watertown MA, Vol.13.

Chenhall, R.H., Smith, K. L. (1998), Adoption and Benefits of Management Accounting Practices: An Australian Study, Management Accounting Research,Vol.9 Pp.1-19.

Clake, P. and Toal, A. (1999), “Performance measurement in small firms in Ireland,” Irish Accounting Review,Vol.6 No.1.

Cooper, D.R., & Schindler, P.S. (2006). Business Research Methods, 9th Ed., McGraw hill/Irwin, New York.

Davila, A. & Foster, G. (2007). Management control systems in early-stage startup non-governmental organizations . *The Accounting Review*, vol. 82(4), p. 907, ABI/INFORM Global database.

Dearden,J.(1960). “Problems in Decentralized Profit Responsibility.” Harvard Business Review : Pp 72-80

Douglas, B. (1994), The budgeting process in Multinational Firms, Multinational business Review Vol.2.

Dugdale, D. & Lyne, S. (2006).Budgeting: Are Budgets Still Needed? *Financial Management*,http://findarticles.com/p/articles/mi_m0JQT/is_2006_Nov/ai

Gachithi, E.(2010). A Study of Budget Implementation in Public Institutions: A case study of University of Nairobi, Unpublished MBA Thesis, University of Nairobi, School of Business.

Hansen, T and Van der stede, W.A (2004).Multiple facets of budgeting: an exploratory analysis Management Accounting Research Vol.15

Hilton, R.W., Maher, M.W and Selto, F.H. (2000), Cost Management: Strategies for Business Decisions, McGraw-Hill International, New York, NY.

Hopwood,A.G.(1973). “ An Empirical Study of the Role of Accounting Data in Performance Evaluation.” Supplement to Journal of Accounting Research: Pp 156-82.

Hofstede, G.H.(1968).The Game of Budget Control. London: Book, Tavistock, Pp 107-122.

Horngren C. T., Sundem, G. L., Stratton, W. O., Burgstahler, D. & Schatzberg, J. (2008). *Introduction to Management Accounting.* (14th Ed.). New Jersey: Pearson Prentice Hall.

Hope, J and Fraser, R (2003).Beyond Budgeting-ho managers can break free from the annual performance trap. The United States of America: Harvard Business School Press

Jones, T. (2006). Budgetary practices within Hospitality, as cited in Harris, P. J and Mogiello, M. Accounting and Financial Management. Development in the International Hospitality Industry, Oxford: Buttersworth-Heinemann/Elsevier

Kaplan, R. S. & Cooper, R. (2005). *Cost & effect: Using integrated cost systems to drive profitability and performance*. Boston, Mass.: Harvard Business School Press.

Kaul, Mohan (1997). "The New Public Administration: Management Innovations in Governments." Public Administration and Development.

King, R., Clarkson, P. & Wallace S. (2010). Budgeting practices and performance in

Libby, T and Lindsay, R.M (2010).Beyond Budgeting or Budgeting reconsidered? A survey of North-American budgeting practice. Management Accounting Research Vol.2

Mawathe, C. M. (2008). A survey of operational budgeting in the insurance Industry in Kenya, Unpublished MBA Thesis, University of NAIROBI.

Merchant, K.A (1985). Budgeting and the propensity to create budget slack, Accounting, Organization and society, Vol.10 No.2, Pp 201-10

Melek, E.(2007) The Impact of Budgeting Participation on Managerial Performance Via Organizational Commitment, Unpublished PHD Thesis Akdeniz University Faculty of Economics.

Muthinji, E.M (2009) Challenges of Budget Implementation in Public Sectors, A case study of the Commission of Higher Education in Kenya, Unpublished MBA Thesis, University of Nairobi.

Murray, D.(1990),"The performance effects of participative budgeting : An Integration of Intervening and Moderating Variables, Behavioural Research in Accounting.

Omolehinwa, E. O. 1998. *Coping with Cost Account.* University of Lagos Press, Lagos.

Osborne, David,, and Ted Gaebler (1992). Reinventing Government, Reading, MA; Addison Wesley

Otley, D.T., Hansan, S.C., & Van der stede, W.A.(2003).Practice Development in Budgeting: An overview and Research Perspective : Journal of Management Accounting Research Vol.15 Pp 95-116.

Pandey A. (2010) Proteomic characterization of Her2/neu-overexpressing breast cancer cells. Proteomics. 10, 3800-3810.

Puxty, A., Lyall, D. (1989). *Cost Control into the 1990s: A Survey of Standard Costing and Budgeting Practices in the UK*. London: CIMA.

Ramsey, J. (2007), Budgeting Basics : How to survive in Budgeting process, New York,Vol 15,No 5 Pp140-209.

Reddick,G.C (2003). Long-run and Short-run Budgeting : Theories and Empirical Evidence for Canadian Provinces, International Journal of Public Vol.26, No.4,

Ridgway,V.F. (1956) . Dysfunctional Consequences of Performance Measurements." Administrative Science Quarterly : 240-47.

Robinson, M. and J. Brumby (2005) *Does Performance Budgeting Work?* Washington: IMF.

Sandino, T. (2007). Introducing the first management control systems: evidence from the retail sector. *The Accounting Review*, vol. 82 (1), p. 265-293, ABI/INFORM Global database.

Schiavo ‐ Campo, S. & D. Tommasi (1999), Managing government expenditure. Manila: Asian Development Bank.

Shand, David (1998). "Budgetary Reforms in OECD Member Countries." Journal of Public Budgeting, Accounting and Financial Management.

Schlesselman, J.J.(1982), Case Control studies , Design Conduct Analysis. New York, Oxford University Press, Pp 180-90

Srinivasan, U. (1997),Current Budgeting in US Industry .New York,Vol.12, PP 130-45.

Wang, Xiaohu (2000). "Performance measurement in Budgeting: A study of County Governments." Public Budgeting and Finance.

Weber, J., Nevries, P., Breiter, D., Jeschonowski, D. P., & Kramer, S. (2009). *Operative Planung:* (Advanced controlling).Weinheim, Bergstr: Wiley-VCH, *Bd.* 7.

Xavier, John Anthony (1998). "Budget Reforms in Malaysia and Australia Compared". Public Budgeting and Finance.

Young, S.M (1985)."Participative budgeting: The effects of risk aversion and asymmetric information on budgetary slack, Journal of Accounting Research, Autumn,PP829.

APPENDIX I

LETTER OF INTRODUCTION TO THE RESPONDENTS

Muriuki Faith Mukami,

MBA Student,

University of Nairobi,

P.O Box 30197,

Nairobi.

Dear respondent,

RE: DATA COLLECTION

I am a post graduate student in the school of business, at the University of Nairobi. I am carrying out a research on the effect of challenges of budget preparation and implementation on budget variance in Non-Governmental Organizations in Kenya; A case study of World Vision International (WVI).

You have been carefully selected to participate in this research. Please assist me in this venture by completing the attached questionnaire. The information you provide will treated with utmost confidentiality and it will used for the purpose of this study only.

Your assistant towards this is highly appreciated.

Yours faithfully,

Muriuki Faith Mukami

MBA student

University of Nairobi

Dr. Sifunjo Kisaka

Supervisor

University of Nairobi

APPENDIX II

QUESTIONNAIRE

This questionnaire is designed to collect data on effects of challenges of budget preparation and implementation on budget variance in NGOs in Kenya: A case study of WVI. The data collected shall be used for academic purpose only, and thus shall be treated confidentially.

Your participation in facilitating this study is highly appreciated.

Kindly answer the following questions by ticking in the appropriate box.

PART A: GENERAL INFORMATION

1. Department …………………………………………………………………………….

2. What is your designation ……………………………………………………………….

3. How long have you worked for WVI?

   Less than 1 year [ ]

   1-2 years [ ]

   3-5 years [ ]

   Over 5 years [ ]

4. How often do you prepare budget (s)?

   Monthly [ ]

   Quarterly [ ]

   Biannual [ ]

   Annually [ ]

   Any other ……………………………………………………………

5. How often are budget revised?

Monthly [ ]

Quarterly [ ]

Biannual [ ]

Annually [ ]

Any other ……………………………………………………………………….

6. Which criteria do you use to make revenue/expenditure projections for the following financial year?
   a) Informed judgment (use experience and careful observation) [ ]
   b) Mathematical formula [ ]
   c) Use trends of past years and extrapolate them into the future [ ]
   d) Econometric model [ ]
   e) Any other specify……………………………………………………………….

SECTION B: BUDGET PLANNING AND IMPLEMENTATION

PART B: Challenges of Budget Preparation and Implementation

7. Does your department/program participate in budgetary planning?

Yes [ ]

No [ ]

8. For each of the following financial year, indicate whether your program / project experienced a budget deficit or surplus (over or under expenditure)

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

9. Budget has a number of purposes; indicate how important you think each of the following purpose is relevant for your project/program using rating scale of 1 to 5.
   1=strongly Agree, 2=Agree, 3=Neutral, 4=Disagree and 5=Strongly Disagree

Factors	1	2	3	4	5
To forecast the future					
Assist in control					
As a means by which management communicate to other levels of departments					
As a means of performance appraisal					
To motivate employees					
Others (specify)					

10. When you are making periodic decisions that affect the way your Programme/project run, how important do you consider the following items?

1=Very Important, 2=Important, 3=Neutral , 4=Of Little Important , 5=No importance

	1	2	3	4	5
How well I meet my budget targets					
How efficiently I run my programme/project					
Budget vs. actual					
Ways to exceed budget targets					
Needs to frequently review unrealistic budget items					

11. What challenges do you experience during budget preparation and implementation in your programme /project (s)

a) ……………………………………………………………………….

b) ……………………………………………………………………….

c) ……………………………………………………………………….

d) ……………………………………………………………………….

e) ……………………………………………………………………….

12. To what extent are the following challenges of budget preparation and implementation faced at WVI during the financial year.

1= Strongly Agree, 2= Agree, 3= Neutral, 4= Disagree and 5= Strongly Disagree

Challenge	1	2	3	4	5
Unskilled manpower / personnel					
Lack of community participation					
Lack of dynamic structures					
Finance function not a strategic partner					
Lack of budgetary accuracy					
Lack of monitoring and review					

13. How do you rate (in terms of percentage) the contribution of the challenges to variances between what has budgeted and the actual expenditure?

1 = 0-20% 2 = 21-40% 3 = 41-60% 4 = 71-80% 5 = 81-100%

Challenges	1	2	3	4	5
Unskilled manpower					
Lack of community participation					
Lack of dynamic structures					
Lack of budgetary accuracy					
Lack of monitoring and reviews					

14. Kindly rate the importance of the following factors on budget implementation.

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

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

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

……………………………………………………………………………………………

……………………………………………………………………………………………

SECTION C: BUDGETs AND THEIR IMPORTANCE

16. What kind of budget does your organization prepare?

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

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

Yes [ ]

No [ ]

18. What period do your budgets cover?

12 months	[ ]
8 months	[ ]
6 months	[ ]
4 months	[ ]
3 months	[ ]
1 months	[ ]

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

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

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

20. Kindly organize the following stages of budget formulation and implementation in the order that they follow in your organization.
    a. Reassess vision and core Competence
    b. Reconsider long term strategies
    c. Develop operating plans
    d. Translate the operating plans into master Budget
    e. Monitor actual Results compared to Budget
    f. Investigate differences between actual and budget
    g. Evaluate and reward performance

21. Organizations use different information to assist them in setting up the budget. To what extent do you agree that the following information is used when setting up budgets in your organization?

    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 budgeted figures					
Industrial statistics / indicators					
Local economic conditions					
National economic indicators					
Market analysis by the organization					
Previous years actual figures					

22. When setting up budget, organization can use bottom–up approach, top- down or a combination. As pertains to your organization to what extent does your organization 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)					

23. Performance based budgeting is a budgeting procedure that emphasizes performance and results. The activity goes by various names such as zero based budgeting, performance budgeting, activity based budgeting or project budgeting. What extent does your organization use performance based budgeting?

Very low extent [ ]
Mildly low extent [ ]
Moderate extent [ ]
Mildly high extent [ ]

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

1= Not at all, 2= Less active, 3= Active, 4= Moderately active, 5= Very active

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

25. Are there bench marks for investigating budget variance?

Yes [ ]

No [ ]

If yes, what is the base of the benchmark?

Monetary value [ ]

A percentage [ ]

A repeat of an adverse variance [ ]

A combination of above [ ]

26. Your organization can overcome these challenges? To what extend do you agree or disagree.

a) Strongly agree [ ]
b) Agree [ ]
c) Neutral [ ]
d) Disagree [ ]
e) Strongly disagree [ ]

Thank you for your time and cooperation.