

**AN INVESTIGATION INTO THE CHALLENGES OF BUDGETING IN THE
KENYA PUBLIC SECTOR: A CASE OF KENYAN GOVERNMENT
MINISTRIES**

KARIUKI MUGWE

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

OCTOBER, 2010

DECLARATION

STUDENT’S DECLARATION

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

Signed

Date

Kariuki Mugwe

Reg. No: D61/P/7020/03

SUPERVISOR’S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

Supervisor

Signed

Date.....

Angela Kithinji

SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

DEDICATION

My study is dedicated to the following: My loving family for support and patience during the entire period of my study. For their encouragement and continued prayers towards the successful completion of this course.

Finally I pay tribute and gratitude to my employer and colleagues for their understanding during the entire period of the study.

Thank you and God bless you.

ACKNOWLEDGEMENT

I would like to express my sincere gratitude to the Supervisor Angela Kithinji, University of Nairobi, School of Business for agreeing to supervise this research paper. I am grateful to my family for giving me the invaluable support to concentrate on this research.

Lastly, I thank Almighty God as my source of all inspiration in allowing me to undertake this project that is too involving in terms of time and resources.

ABSTRACT

The main objective of this study was to investigate the challenges of budgeting in the Kenya public sector. This study adopted a descriptive research design and used a semi-structured questionnaire to collect data. Content analysis was used to analyze the qualitative information while descriptive statistics was used to analyze quantitative data. Tables and charts were used to present the data.

The study findings reveals that majority of the departments participate in preparation of recurrent budgets, development budgets, MTEF budgets, incremental budgets, master budgets and performance-based budgeting. The study also concludes that when processes are relatively routine and repetitive; budgets could be used effectively to achieve organizational coordination and that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. The study further deduces that majority of the Ministries experience challenges of budget planning and budget control, communication, poor or lack of modern technology, budget inflexibility and competition among the budgeted items for scarce resources.

The study recommends that budgets should be used effectively to achieve organizational coordination and that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. The study further recommends that the Ministries should employ highly qualified personnel to enhance proper budget planning and budget control. The Ministries should focus on the funding process, the constraints faced, the legal frameworks and competition among the endless expenditure against the limited resources (revenue). The study further recommends that well advanced and current technology should be installed in all the Ministries in Kenya to enhance communication. Proper frameworks need to be implemented to ensure that budget inflexibility does not pose a challenge in the budgeting process. The Ministries need to be politically independent to avoid political interference.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT.....	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
LIST OF TABLES.....	ix
LIST OF FIGURES.....	x
CHAPTER ONE.....	1
1.0 INTRODUCTION	1
1.1 Background.....	1
1.1.1 Concept of Budgeting.....	1
1.1.2 Legal Frameworks in Public Sector Budgeting	6
1.1.3 Types of Budgeting Systems	7
1.1.4 Challenges of Budgeting	9
1.1.5 Kenya Government Budgeting Cycle	10
1.1.6 Kenya Government Ministries.....	14
1.2 Statement of the Problem	15
1.3 Objectives of the Study	17
1.3.1 General Objective	17
1.3.2 Specific Objectives.....	17
1.4 Research Questions.....	17
1.5 Significance of the Study	17
CHAPTER TWO.....	19
2.0 LITERATURE REVIEW.....	19
2.1 Introduction	19
2.2 Concept of Budgeting	19
2.2.1 Traditional Budgeting Systems.....	21
2.2.2 Budget Cycle in the Public Sector	22
2.2.3 The Rationale for Preparing a National Budget.....	23
2.2.4 Medium Term Expenditure Framework.....	25

2.2.5 Activity-Based Budgeting	27
2.3 Challenges of Budgeting	29
2.3.1 Budgetary Process.....	31
2.3.2 Budget Planning and Control.....	32
2.3.3 Effects of Communication.....	34
2.4 Empirical Studies	37
2.5 Conclusion.....	39
CHAPTER THREE.....	40
3.0 RESEARCH METHODOLOGY	40
3.1 Introduction	40
3.2 Research Design	40
3.3 Population.....	41
3.4 Data Collection	41
3.5 Data Analysis.....	42
CHAPTER FOUR	43
4.0 DATA PRESENTATION AND ANALYSIS	43
4.1 Introduction	43
4.1.1 Response Rate.....	43
4.2 General Information.....	43
4.2.1 Total Work Experience	43
4.2.2 Years Worked in the Current Position	44
4.3 Budgeting and Challenges of Budgeting.....	45
CHAPTER FIVE	64
5.0 SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATIONS.64	
5.1 Introduction	64
5.2 Summary of the Findings	64
5.3 Conclusions	66
5.4 Recommendations.....	68
5.5 Recommendations for Further Studies.....	69
5.6 Limitations of the Study.....	70
REFERENCES	71

APPENDICES	78
Appendix I: Letter of Introduction to Respondents.....	78
Appendix II: Questionnaire.....	78
Appendix III: The Budget Schedule	85
Appendix IV: Time Plan.....	86
Appendix V: List of Government Ministries	87

LIST OF TABLES

Table 4.1: Total Work Experience	44
Table 4.2: Length of Time they had Worked in the Current Positions	45
Table 4.3: Whether the Department Participates in Preparations of the Various types of Budgets	46
Table 4.4: Basis in Which the Budgets are Broken Down to	47
Table 4.5: Importance of Budgeting	48
Table 4.6: Agreement that Budgets could be Used to Achieve Organizational Coordination.....	50
Table 4.7: Level of Agreement that Budgeting and Variance Analysis can be Positive Tools	51
Table 4.8 Agreement to the Various Statements about the Budgeting Process at the Ministry.....	53
Table 4.9: Extent to which the Ministries Experience Challenges of Budget Planning....	54
Table 4.10: Whether the Ministries/Departments Encounter any Challenges in Budget Control	55
Table 4.11: Extent to which Various Factors Contribute to Challenges of Budget Control	56
Table 4.12: Extent that Communication Cause a Challenge in the Budgeting Process	57
Table 4.13: Extent of the Various Challenges of Planning and Control	58
Table 4.14: Extent to which Time and Resources Pose a Challenge in Budgeting	59
Table 4.15: Whether Funding Pose a Challenge in Budgeting within the Ministries	60
Table 4.16: Whether Budget Monitoring Pose a Challenge in the Budgeting Process	60
Table 4.17: Level of Agreement about Possible Solutions to the Challenges of Budgeting	62

LIST OF FIGURES

Figure 4.1: Total Work Experience	44
Figure 4.2: Length of Time they had Worked in the Current Positions	45
Figure 4.3: Whether the Department Participates in Preparations of the Various types of Budgets	47
Figure 4.4: Basis in Which the Budgets are Broken Down to	48
Figure 4.5: Agreement that Budgets could be Used to Achieve Organizational Coordination.....	51
Figure 4.6: Level of Agreement that Budgeting and Variance Analysis can be Positive Tools	52
Figure 4.7: Extent to which Time and Resources Pose a Challenge in Budgeting	59
Figure 4.8: Whether Funding Pose a Challenge in Budgeting within the Ministries.....	60
Figure 4.9: Whether Budget Monitoring Pose a Challenge in the Budgeting Process.....	61

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Continuing budget pressure is forcing organizations to re-think their current service delivery models and develop initiatives that reduce costs and increase efficiency. As Atkinson (1993) notes one of the most visible and highly publicized economic challenges facing the operational budget is the decline in the purchasing power of the acquisitions budget. Many of the reference areas cited (Horngren, 1981, Moore and Jaedlicke (1976) and Atkinson, 1993) deal with the challenges of advocating for and allocating the funds desperately needed in the face of rising costs and expectations, especially with the new cost-center related to electronic resources. It is, however, important to address the support role that the budget can play in meeting the challenge of stretching available resources within the budget constraints once the budget has been determined.

1.1.1 Concept of Budgeting

Bremser, (1988) defines a budget as generally a list of all planned expenses and revenues. It provides a time frame for decisions about the services and activities and indications of revenue flows and it is therefore by extension a plan for saving and spending. A budget is an important concept in microeconomics, as budget lines are used to illustrate the trade-offs between two or more goods. Budgets can be forward looking (planning) budgets or backward looking budgets, (Bremser, 1988) whereby they can forecast on future activities or can be used to analyze past events such as performance evaluation.

Ramsey and Ramsey (1985) on the other hand defines a budget as a standard against which the actual performance can be compared and measured. Budgets are used to

communicate top management's expectations to organization. Further, the budgets process provides for coordinated planning among different functional areas (Ramsey and Ramsey, 1985; Bremser, 1988) and in addition quantify a firm's plans for a future period. Budgets require management to specify expected sales, cash inflows and outflows, and costs; and they provide a mechanism for effective planning and control in organizations (Flamholtz, 1983).

A budget can be simply be defined as a financial plan. In this regard it outlines the major sources of revenue and how such revenues are to be expended. At the national level, the budget is a statement that shows the receipts and outlays, and how these are to be financed in the interest of all citizens. While sharing some functional similarities with personal and household budgets, the national budgets are usually easy to outline and organize, since they do not involve any laid down procedures or regulations. The need and spread of accountability for such budgets is equally limited.

The national budget, on the other hand, is unique in that, first, its reading is a constitutional requirement. Its formulation involves more parties, rules, laws and procedures. Through the national budget, the Minister for Finance requests parliament's authority to raise the estimated revenue and incur the approved expenditure for a given financial year. It is therefore through the national budget that the government demonstrates her real commitment in pursuing frequent policy pronouncements. It outlines both the spending and the revenue raising measures of the government. This involves taxation of individuals and institutions. Public expenditure is divided into two broad categories: recurrent and development expenditure. The budget outlines the recurrent and development expenditure on the one hand, and the different sources of

financing for these expenditures on the other. Recurrent Expenditure comprises the costs of running the services of the government such as salaries and wages for the public service. Development expenditure, on the other hand, refers to the costs of implementing longer term projects such as putting up new roads, bridges and hospitals. In addition, the budget contains details of the allocations for Consolidated Fund Services (CFS), which include financial estimates covering certain constitutional offices such as the Attorney General, Judges and repayment of debt.

In order to finance the above expenditures, the government generates revenue from a wide variety of sources. These include monies generated from taxation and fees accrued from user charges on government services such as the cost of acquiring new passports, birth certificates, driving licenses and other related government services. The other sources include resources raised from the public or borrowed on behalf of the public by the government. Within this context, therefore, the budget forms the rationale for a clear and well-outline framework for raising and spending the monies that are thus raised.

In summary, the purpose of budgeting is to provide a forecast of revenues and expenditures, that is, construct a model of how business might perform financially if certain strategies, events and plans are carried out and enable the actual financial operation of the business to be measured against the forecast, (Srinivasan, 2000). The budget is an important instrument that every government uses to define the direction of its national policy, the cost implications of government programmes, and the possible sources of revenues during a fiscal year. The basic functions of the budget therefore entail: collection and allocation of scarce resources to priority sectors; provision of public goods and services by government; and re-distribution of incomes (Klammer, 1999). In

addition, the budget strives to ensure economic stabilization, social order and harmony, as well as acting as a measure of government performance and accountability. Though the concept of the budget as an indicator of performance is relatively new in many developing countries, it is steadily gaining ground with the advent of an increasing demand for transparency and accountability in government action plans, (Flamholtz, 1983; Ramsey and Ramsey, 1985).

Budgeting is the key to financial management in any organisation and budget is generally a list of all planned expenses and revenues. It is a plan for saving and spending (Klammer, 1999), thus it is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods. A budget may be thought of as an action plan; planning a budget helps a business allocate resources, evaluate performance, and formulate plans. In other words, a budget is an organizational plan stated in monetary terms. Thus the budget of a government is a summary or plan of the intended revenues and expenditures of that government. Budgeting is the rational allocation of financial resources among competing multi-period projects. Brigham (1995) suggests that budgeting is the process of analysing planned expenditures on fixed assets. Schwarz (1997) suggests that budgeting is an integral component of the organization's strategy/plans process. Budgets have been widely utilized as management and strategic planning tool by corporations (Gitman and Forrester, 1977). Sullivan, Arthur and Sheffrin (2003) suggest that the budgeting process often has many behavioural outcomes in the organizational planning process, such as enhanced goal congruence and more universal participation. Participatory Budgeting is an innovative financial practice that helps to

enhance participation and improve accountability and transparency in administration of financial matters.

Budgets require management to specify expected income and expenditure and they provide a mechanism for effective planning and control in organizations (Martin, 1993; Atkinson, 1993). The budget is a standard against which the actual performance can be compared and measured. The annual budget is commonly referred to as the master budget and it has three principal components; the operating budget, the cash budget and the capital expenditure budget. It is driven by the sales forecast (Horngren, 1981; Zimmerman, 2003). It has been noted that a sales budget for an organization serves as a limit to be observed in establishing production budgets, selling and administrative budgets, cash budgets and budget plans (Moore and Jaedlicke, 1976).

Operational budget is one that embraces the impacts of operating decisions. It contains forecasts of sales, net income, costs of goods sold, selling and administrative expenses, and other expenses. The cornerstone of an operational budget is forecasted sales. Therefore, the Sales Budget is the basic building block for the operational budget. Once the sales budget is prepared, then the Production Budget can be formulated. For tactical purposes, budgets provide useful information tools and control mechanisms to company leaders, as well as partitioning decision rights with those holding specific knowledge about the operation. The advantages of budgeting (Zimmerman, 2003) include; coordination of sales and production, formulation of a profitable sales and production program, coordination of sales and production with finances, proper control of expenditures, formulation of investment and financing programs and coordination of all operations within the business.

A budget, therefore, communicates project expectations to the Project Manager and authorizes the Manager to expend company resources up to the budgeted amount. Control is maintained as the company's owner and project manager reviews the budget report on a certain interval basis. This process serves several purposes; the budget review disseminates specialized knowledge vertically as the owner learns details of each job that he otherwise was not party to; and the review also provides a formal method of communication that is necessary in a company with multiple projects occurring at the same time. The knowledge gained during these reviews allows the business owner to re-allocate company resources where they are best utilized. The owner can also investigate the causes of behind-schedule projects and shift resources to ensure the customer is satisfied and the company continues a valued reputation. This in turn will assist in maximizing the company's overall value (Stroud, 2003). During budget formulation, officials determine the portion of the organization's resources that the manager of each unit will be authorized to spend. Budgets often establish performance goals for the unit in terms of costs, revenues, and/or production (Little et al., 2002 pp.209).

1.1.2 Legal Frameworks in Public Sector Budgeting

The importance of budgeting in the public sectors of both developing and developed countries is beyond debate. Public sector budgets serve three macro aims; they act as tools of accountability; tools of management; and instruments of economic policy (Otley, 1980; Premchand, 1983). More generally, budgeting serves many purposes that are important to public sector management. It is a tool for planning, coordinating, organizing and controlling activities (Henley et al., 1992) and can enhance communication in

organizations (Coombs and Jenkins, 1991), and it may also serve as a political tool (Wildavsky, 1986).

Academic studies, particularly those adopting a contingency theory framework, have identified possible relationships between budgeting practices and organizational structure. Although most of these studies are based on private sector organizations, their findings are informative in public sector contexts also. Overall, it appears that managers in highly structured organizations tend to perceive themselves as having more influence on the budgeting process. They participate more in budgeting and appear to be more satisfied with budget related activities. Conversely, managers in organizations where authority is concentrated generally perceive budgets as being less relevant, useful and flexible (Bruns and Waterhouse, 1975).

The ability of managers to prioritize budgetary expenditure according to local needs ought to be enhanced under a decentralized management structure (Kaplan and Atkinson, 1998). The budgeting literature suggests that budgets form an important basis for financial control. At the crudest level, total annual expenditure should not exceed the budget. To achieve organization-wide control, the same requirement can be applied to expenditure on and within services, and to discrete expenditure items, (Premchand, 1983).

1.1.3 Types of Budgeting Systems

Because of the importance of budgeting, it is prudent for those with fiscal responsibilities to have a solid understanding of how their budgetary system works. There are, however, many types of budgetary systems that are used by nonprofit organizations and these can accomplish their fiscal tasks in very different ways. Some state-financed institutions must

follow budget procedures and formats dictated by their legislatures. Among the main types of budgets are personal budgets, zero based budgeting and incremental budgeting.

Other types of budgets and techniques include activity budgeting and flexible budgets.

A personal budget is a finance plan that allocates future personal income towards expenses, savings and debt repayment. Past spending and personal debt are considered when creating a personal budget. There are several methods and tools available for creating, using and adjusting a personal budget, (Otley, 1980).

Zero-based budgeting is a technique of planning and decision-making which reverses the working process of traditional budgeting. In traditional incremental budgeting, departmental managers justify only increases over the previous year budget and what has been already spent is automatically sanctioned. No reference is made to the previous level of expenditure. By contrast, in zero-based budgeting, every department function is reviewed comprehensively and all expenditures must be approved, rather than only increases. Zero-based budgeting requires the budget request to be justified in complete detail by each division manager starting from the zero-base. The zero-base is indifferent to whether the total budget is increasing or decreasing, (Wildavsky, 1986).

The term zero-based budgeting is sometimes used in personal finance to describe the practice of budgeting every dollar of income received, and then adjusting some part of the budget downward for every other part that needs to be adjusted upward. It is more technically correct to refer to this practice as zero-sum budgeting. Zero based budgeting also refers to the identification of task or tasks and then funding resources to complete the task independent of current resourcing, (Bremser, 1988).

Incremental Budgeting uses a budget prepared using a previous period's budget or actual performance as a base, with incremental amounts added for the new budget period. The allocation of resources is based upon allocations from the previous period. This approach is not recommended as it fails to take into account changing circumstances. Moreover, it encourages spending up to the budget to ensure a reasonable allocation in the next period. It leads to a spend it or lose it mentality, (Gordon and Miller, 1976).

1.1.4 Challenges of Budgeting

A master budget is a plan that outlines an organization's financial and operational goals. A public sector master budget is used as an instrument to allocate public resources toward achieving some public value. Public decisions must weigh the cost of public action against the worth of the activity to society. While planning a budget can occur at any time, for many businesses, planning a budget is an annual task, where the past year's budget is reviewed and budget projections are made for the next three or even five years. Budgeting is a key success factor for most businesses, but it is a painful process that takes too much time and effort. Schwarz (1997) laid down a challenge for economists to resolve the 'basic budgeting problem' namely, faced with limited resources. The author further suggests that solutions to this problem might be found through the application of economic theory. He warned, however, that a budgeter's Holy Grail – an all-embracing theory of resource allocation that could be applied in practice – would probably prove to be a fantasy since the problem of reconciling competing demands between different policy goals and interests was essentially one of political philosophy.

Two key factors influence budgeting process namely, the level of revenues collected and the availability of external resources to bridge the gap occasioned by shortfall in

revenues. When revenues fall short of the projected level then budget implementation is affected to the extent that the expenditures have to be reduced and some projects and programmes postponed altogether (Heller and Aghvelli, 2005). External resources in the form of loans and grants are also factored into the budget following commitment by donors. The funds may however not be available at all as may be released late into the financial year as the budgeted amount may be reduced or a result of some donor refusing to release funds as a result of the non-fulfillment of donor conditions (Pollitt and Bouckaert, 2004).

Cost increases due to inflation, unexpected difficulties, insufficient initial study of projects, and budget overruns are some of the challenges of master budgetary process. Budgeting is historical in nature and overruns are sometimes caused by noncompliance of budget managers with the spending limits defined in the budget, when committing expenditures (Atkinson, 1993). Since cash allocated to spending units for appropriated expenditures is generally controlled, these overruns turn into arrears generation. Overruns are often the result of off-budget spending mechanisms. The budget is sometimes under spent. This does not necessarily mean that there is good discipline. Concerning the development component of the budget, under spending is often related to insufficiencies in project/program preparation. All of the above has led to failure in budget implementation as the company runs out of funds for financing projects (Moore and Jaedlicke, 1976).

1.1.5 Kenya Government Budgeting Cycle

The International Monetary Fund (IMF) works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and

sustainable economic growth, and reduce poverty around the world. To maintain stability and prevent crises in the international monetary system, the IMF reviews national, regional, and global economic and financial developments through a formal system known as surveillance. The IMF provides advice to its member countries, Kenya is a member, encouraging them to adopt policies that foster economic stability, reduce their vulnerability to economic and financial crises, and raise living standards. It provides regular assessment of global prospects in its World Economic Outlook and of capital markets in its Global Financial Stability Report, as well as publishing a series of regional economic outlooks. IMF settles a budget for each case with the solicitors and then undertakes to fund the action for that budgeted amount. If the solicitors go over the budget then, in the absence of agreement, they obtain the over budget amount from the settlement or judgment if and when the litigation is successful.

In Kenya, the public sector consists of the central government, local authorities, state-owned enterprises and extra-budgetary institutions. The government structure can be split into two namely, administrative and economic structures. The administrative structure is exemplified by the provincial administration. Here, the government links to the grassroots or village level through Provincial Commissioners, District Commissioners and District Officers. The District Officers complete the chain through their link to Chiefs and Assistant Chiefs. The economic structure on the other hand is more complex than the administrative one. This comprises ministry headquarters at the top with provincial departmental heads and district departmental heads at the province and district levels, respectively. This links to the lowest levels through field officers like extension workers, hospital workers and teachers. The provincial departmental heads mainly provide an

operational link to the districts. Not many projects and programmes are implemented at the provincial level. Implementation mainly takes place at the district level.

The ministry headquarters have a second line of service provision to the people through state-owned enterprises (parastatals). Funds for service provision and budget implementation can therefore be channeled to the target areas through the ministry headquarters, through the district offices, or through parastatals as grants. The ideal budget cycle differs significantly from the practical budget calendar followed annually. The MTEF process begins in September to December the previous year, and climaxes with a budget speech read in Parliament in mid June the following year by the Minister of Finance. It starts with the PER activities flagged off by the issuance of Treasury guidelines to the Ministries/Departments and district departments to guide preparation of ministerial budgets. District budgets are assumed to have benefited from inputs from the community through location and divisional prioritization processes.

The ideal process of prioritizing community needs by local-based committees starts by calling Barazas where community development issues and agenda are discussed. The constituent committees, such as the Constituency Development Fund (CDF), act as facilitators and conveners. People from a sub-location or a location enumerate their developmental needs. Once the needs have been identified and enumerated, the facilitators take the people through a ranking process. The needs are ranked according to a scale of preference. During ranking, decisions are made either by acclamation or consensus or voting by those present. This exercise is repeated in other sub-locations or locations within the constituency (or district) depending on the smallest development unit chosen and then submitted to the District Executive Committee (DEC). The DEC

prepares the technical report to the District Development Committee (DDC), which comes up with the overall district prioritization projects and programmes. The DDC draws an action plan upon which resources are distributed. This has remained inadequate and there is, therefore, need to make the proposed consultation framework an integral part of the budget cycle.

In January to March, the Ministries/Departments submit initial drafts of the Ministerial Public Expenditure Reports (MPERs). Over the same period, the Macroeconomic Working Group develops the macroeconomic and fiscal framework in accordance with government priorities. Sector Working Group meetings also go on to finalize the sector reports. Thereafter, sector hearings on policies, expenditure proposals and targets for the next financial year are conducted followed by a review of sector ceilings, approval and communication of the same to Ministries/Departments. It is noted, however, that whereas the process provides for a MWG, a counterpart on the social sector is conspicuously missing. Even though the District MTEF is meant to be a bottom-up process for identifying people's needs, including social ones, it has remained theoretical. District management organs are less involved in budget prioritization and activity identification.

Between April and June, sector resource bidding is done followed by the consolidation and compilation of ministerial allocations. Thereafter, the draft estimates are presented to the Minister of Finance for approval. The Minister then presents the draft estimates to the Cabinet for approval and thereafter tables the budget in Parliament in the form of a budget speech in June. The budget estimates are revised in March the following year and tabled in Parliament as approved estimates. The revisions take into account unforeseen circumstances, such as revenue shortages, and unforeseen expenditure needs, for

ratification by Parliament. However, the district budgets are never revised. Government budgetary process is monitored by the provisions in the Kenyan constitution. Under Sections 48 and 99 of the Constitution of Kenya the role of the National Assembly in financial matters is to authorize withdrawal of moneys from the Consolidated Fund by the Executive and to ensure that proposed expenditure by the Government is lawful, prudent and in the best interest of the public.

1.1.6 Kenya Government Ministries

The Government Ministries derive their mandate from the Constitution of Kenya, which provides for proper budgetary and expenditure management of government financial resources. As a main function, the Ministries are charged with the responsibility of formulating financial and economic policies. In the Kenyan Government Ministries, the budgetary process proceeds in three main stages, namely: the drafting stage, the legislation stage, and the implementation and audit stage. Its contents include a policy statement, an inventory of programme priorities, and distribution/allocation of the corresponding resources as well as budget implementation/evaluation reports for the previous budget cycle.

The budget development and execution processes are transparent, orderly and predictable. Ministers and Ministries have greater budgetary flexibility (devolution) - but within a hard budget constraint. Managers at all levels (that is, within spending Ministries) have a clear budget allocation, know what it is intended for and know what results are expected. The Government Ministries were initially using the zero based budgeting which involved every function within an organization being analyzed for its needs and costs from the zero-base, then incremental budgeting was adopted in which no

reference is made to the previous level of expenditure and is currently in the process of adopting performance based budgeting which is a way to allocate resources to achieve specific objectives based on program goals and measured results. The Ministries are responsible for developing and maintaining sound fiscal and monetary policies that facilitate socio-economic development in all the government subsectors. The government Ministries coordinates government departments in the preparation of the annual national budget. It is the responsibility of the Ministry to initiate and guide all departments to prepare their ministerial budgets.

1.2 Statement of the Problem

Budgeting has been at the core of economic reform programs in most nations around the world (Schick, 1999). They have also been the principle instruments of transformation and restructuring of public sector organizations. The success of the budgeting process is based on the extent of popular participation whether individual participation or community-based participation/ representation. With the growing challenges posed by financial mismanagement and budgetary framework, the need for enhanced budget process and innovative financial management techniques are increasingly felt in developing countries and transition economies. The divergent views on budgeting as a management control tool have provided the major motivation for the present study. Despite the recognized importance of budget implementation and its suggested links to organizational structure, there has been little empirical exploration of how public sector budget implementation has developed within increasingly decentralized frameworks of governance.

Most studies on budget practices have been conducted in the advanced countries. Available literature on budgeting suggests that budgets form an important basis for financial control (Chong and Leung, 2003). One of the most investigated antecedent organisational characteristic in management accounting research is environmental uncertainty (Chenhall, 2003; Luft and Shields, 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).

Over the years, Kenya has undertaken various attempts aimed at improving its budgetary process. The overriding objective in these reforms has been to impose greater fiscal discipline on the government. In spite of the past attempts at reforming the budgetary process, the budget in Kenya remains an unsatisfactory instrument of achieving public policy objectives. Whereas Kenya has a strong, detailed and well-laid budgetary-legal framework stipulated in the Constitution, and within which the executive raises and allocates revenue, weaknesses do exist especially in relation to such issues as capacity of Parliament in the budgetary process; secrecy of budget information; management of extra-budgetary activities; violations of budget rules; and extra-budgetary expenditures (IPAR, 2002). The divergent views on budgeting as a management control tool have provided the major motivation for the present study. Furthermore, there is also a dearth of research involving surveys of budgetary practices in developing countries. Most of the research in this area has focused on the developed countries (Anderson and Lanen, 1999). Studies in budget practices done in Kenya include; Ndiritu, (2007) who studied the effectiveness of cash budgeting in public institutions, Kadondi, (2002) did a survey of capital budgeting techniques used by companies listed at the NSE, Muleri (2001) carried

out a survey of budgeting practices among the major British nongovernmental organizations in Kenya, while Biwott, (1987) did a study on the budgetary allocation process in public sector institutions.

The literature on budget practices focuses on the relevance and applications of budgets to large, complex and manufacturing organizations and less on the public sector. Additionally, most of the studies on budgeting mainly focus on profit making firms and not on public sector. To the best of the researcher's knowledge, by the time of the study, no previous investigation had been done on the challenges of budgeting in Kenya public sector. The research aimed to investigate the challenges of budgeting in the public sector with specific reference to the Kenya Government Ministries.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study was to investigate the challenges of budgeting in the Kenya public sector with a special focus on the Government Ministries.

1.3.2 Specific Objectives

The investigation was guided by the following specific objectives:

- i. To identify the systems of budgeting used in the Kenya public sector
- ii. To identify the challenges of budgeting in the Kenyan public sector

1.4 Research Questions

- i. Which systems are used in budgeting in the Kenyan public sector?
- ii. What are the challenges of budgeting in the Kenyan public sector?

1.5 Significance of the Study

The study is invaluable to the following:

To the Kenya Government Ministries, the research would be invaluable to the Ministries management in that it would provide an insight into the various approaches towards budgeting and challenges of budgets to ensure efficient utilization of resources.

To the Government, the research would be useful to the government in policymaking regarding regulatory requirements of Ministries. The findings of the research would provide some insights to the regulatory body and the government at large on the challenges facing the budgeting process within the Ministries and hence enable making of timely and appropriate interventions to mitigate the risks.

To the academicians, the research would provide a useful basis upon which further studies on budgeting in the public sector could be conducted. This research would make a contribution to the academic literature on the field of budgeting in Kenya where very little is known about its structure and application.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are concept of budgeting, types of budgeting techniques, challenges of budgeting, empirical studies and conclusion.

2.2 Concept of Budgeting

Budgeting plays a key role in an organization. It moves the organization from an informal reaction method of management to a formal controlled method of management (Morse et al., 1984). A budget can act as a motivator and communicator, as well as for functional co-ordination and performance evaluation (Dominiak and Louderback, 1988) of an organization.

Anthony et al (1992) list four uses of a budget. First, budgets are used to fine tune the strategic plan; second, to help co-ordinate the activities of the several parts of the organization; third, to assign responsibilities to managers; and last, to obtain a commitment that is a basis for evaluating a manager's actual performance. According to Garrison (1988) there are four major advantages of budgeting. First, it gives planning top priority; second, it provides managers with a way to finalize their planning efforts; third, it overcomes potential bottlenecks before they occur; and last, it co-ordinates the activities of the entire organization by integrating the plans and objectives of the various parts.

In summary, there are four main aspects to budget: the motivations aspect; the coordination of resources for their best use; setting benchmarks for performance; and as a cost control mechanism (Sheridan, 1987). Review of literature on budgeting (Amey, 1979; Bremser, 1988; Douglas, 1994) reveals that operational budgets serve dual purposes of planning and control. Flamholtz (1983) developed a mechanism for effective planning and control aspects of budgets. The study by Ezzamel and Hart (1987) also supported this dual role of budgeting. Moreover, Hopwood (1972), and Abernethy and Stoelwinder, (1991 pp.105-20) argue that budgets can be used as a control mechanism to regulate the behavior by specifying the means to produce a unit of output.

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 organisations (Abernethy and Brownell, 1999 pp.189-205). Traditionally, budgets were seen as the primary planning document (Alam and Lawrence, 1994 pp.41-51; Johnston, 1998 pp.352-68). Guthrie (1999) states that corporatization and the application of the National Competition Policy (NCP) meant that Finance Ministry should operate under some commercial principles so as to become more economic, efficient and effective.

Budgets are used to communicate organisation's expectations to its clients. The budgets process provides for coordinated planning among different functional areas (Ramsey and Ramsey, 1985; Bremser, 1988). Bruns and Waterhouse (1975 pp.177-203) concluded that when production processes were relatively routine repetitive, budgets could be used effectively to achieve organizational coordination.

2.2.1 Traditional Budgeting Systems

Concerns regarding a number of limitations and weaknesses that have been linked to traditional budgeting processes are becoming increasingly widespread, with the primary "fear" being that they could potentially hinder and damage an organization's performance (Bunce and Fraser, 1997). For the most part, these concerns fall into one of two main categories: that the process is inefficient and, furthermore, that it is ineffective.

As budgets are prepared in advance there are likely to be price increases between the time of preparation and the time when the amount is spent or received. There is need to take this into account when an organisation is doing its budgeting by estimating what the costs or value will be when the expenditure is made or the income received. If there is likely to be an increase in costs then, there is need to make sure that the budgeting committee also estimate for an increase in what the organisation will charge in fees for services or in sales of products. There is also need to keep the budget estimates for the organisation budget because some stakeholders may be willing to provide a supplementary revenue if the management can show clearly that the budget estimates were based on a smaller rate of inflation than actually proved to be the case (Hope and Fraser, 1997).

2.2.2 Budget Cycle in the Public Sector

According to Dehn *et al* (2002), most public sectors have multiple tier structures with different tasks. In most cases, tasks and interests at each tier of organisational structure of public sector may conflict with each other from the viewpoint of limited resources and finite time, and various stakeholders may also have conflicting interests. At the same time, the outputs of public service agencies are often difficult to measure and systematic information is rarely available about specific inputs and outputs of service delivery particularly in developing countries.

The budget cycle in the public sector passes through three major phases. The first stage is budget planning and preparation, which is usually done by the Ministry of Planning and National Development alongside other players. After every five years, each district develops a District Development Plan outlining development priorities and aspirations at the district level. The plan is supposed to benefit from broad-based participation by the citizens. The districts' aspirations are collated into a National Development Plan, which, in addition, spells out macro policies and programmes to be implemented in a five-year period. The medium term expenditure framework (MTEF), the latest budgetary system in Kenya, links policy making with planning and implementation of budgeted projects in a three-year rolling framework.

The actual budget preparation begins with a Treasury circular which defines the broad parameters of the budget and sets expenditure ceilings to be adhered to. This, *inter alia*, spells out the budget finalization calendar, which includes public hearings as one of the activities. At this stage, citizens have an opportunity to generate and contribute issues of interest in the budget.

The proposals from the districts are then consolidated with those of the line Ministries and thereafter sector negotiations for allocation of resources commence. The sector hearings are presided over by Treasury to give guidance to the participants. These sector hearings lead to bidding for resources, which are then allocated according to expenditure items in the budget. Once the allocations are done, Treasury scrutinizes each ministry's draft budget to ensure that they abide by both the guidelines and the ceilings. The scrutiny is also meant to ensure that the allocations are consistent with sector priorities.

2.2.3 The Rationale for Preparing a National Budget

As may be clear from the first section of this book, the budget is prepared to enable the government to finance its operations and also to influence the level of economic activity in the country. The government, just like the individual or a household, has to concern itself with regular financial inflows and outflows (Premchand, 1983). For this reason, the national budget spells out the government's plans (Modell, 2002; Hassel and Cunningham, 1993) for;

Revenue Collection: that is, how much money it intends to raise in a given financial year and how it intends to raise it.

Expenditure Measures: that is, how much money it will spend in that financial year, and on what.

The national budget however is not just pre-occupied with the raising and spending of revenues. The budget performs other vital functions as discussed under the following broad categories:

Allocation function: The government is the most critical agent in realizing the development objectives of the nation. It is through the national budget that the

government directs, through policy and financial allocations, the development process in the country. Funds allocated in the national budget are used to finance projects aimed at fostering development in various parts and sectors of the economy. Preparation of the national budget therefore ensures that sectors and districts receive official allocations more rationally.

Distribution function: In order to realize a balanced distribution of national resources and wealth, the government identifies priority sectors that need renewed focus and affirmative action. Equitable distribution of resources may be achieved through poverty eradication strategies and other measures to bridge the gap between the rich and the poor. Through various budgetary adjustments (in revenues and expenditures) the government is able to secure equity in the distribution of the nation's wealth.

Stabilization function: The budget can also be used to attain and maintain a desired level of performance in the economy. Stabilization is desired in certain vital stability in the prices of goods and services. Measures that seek to adjust levels of taxation, public borrowing and spending may be used to attain.

Ensuring fiscal transparency: In recent times, governments are increasingly being pressurized to ensure transparency in the manner in which they manage public expenditure. Information contained in the budget provides a more explicit reflection of the government's expenditure priorities. It is therefore on the basis of the national budget that citizens are able to challenge the government over its stated policies and public pronouncements (Coombs and Jenkins, 1991).

2.2.4 Medium Term Expenditure Framework

The role of the state has expanded and the number of citizens has increased making the management of public expenditure complex. Schick (1999) observes that when the government is inefficient the wages of the public sector tend to be low, much public expenditure is absorbed by dead weight administrative costs and the government is robbed of resources needed for critical social development. The dead weight administrative costs are difficult to eliminate from the budget and this limits the range of executive and legislative discretion in any one year. This development has resulted in a large and growing literature on the basic features of effective public expenditure management, (PEM), whose main goal of PEM is work better cost less (IPAR 2002).

The aggregate amount of public spending must be distributed to the main categories of expenditure. The first charge on the budget is for statutory obligations such as payments on interest, pensions and payments to constitutional office holders. The recurrent budget should be allocated between wages and salaries, goods and services and transfers and subsidiaries based on economic classifications of international monetary fund (Klammer, 1999).

It is important to acknowledge that setting expenditure ceiling is a difficult task but ensuring adherence throughout the year poses an even greater challenge. The budget allocative efficiency is improved when a government reallocates expenditure from low priority programs and from less effective to more effective programs. This approach is very different from incremental budgeting that locks in old programs out new ones even for emerging priorities (Lyne, 1992).

The budget process is a collective enterprise that benefits the contribution and input of a wide variety of players. These usually include Government Ministries, the treasury, Kenya Revenue Authority and Central Bank of Kenya, parliament, interest groups and the citizens in general. Among the beneficiaries of the budget include all institutions (local, regional and international), Ministries, state agencies, local authorities, companies or parastatals that are financed out of the national budget. Benefits may accrue either in the form of direct allocation, tax relief/incentives or policy prescription (Ramsey and Ramsey, 1985).

Kenya's MTEF budget process comprises key dual processes. The first is a "top down" fiscal process involving identification of aggregate resources and allocating them across sectors in line with national priorities. The second is a "bottom up" expenditure planning process that involves the preparation of sector strategies and the expenditure needs that would allow them achieve sector targets. This forms the resource bidding and allocations process. Of crucial importance, however, is how prioritization is done and whether expenditure allocations are conducted on that basis. Sectoral prioritization, it is feared, may not be totally reflective of the needs within the local communities at the districts, locations, sub-locations and even villages (Schall et al, 1998). Prioritization at these levels should ideally inform sectoral prioritization so that they reflect the people's prioritized needs and along whose preferences expenditure allocations should be effected. The citizens are the ultimate beneficiaries of all budgetary resources. Notwithstanding their representation in the parliament by their representatives Members of Parliament, citizens have a direct duty of ensuring that all the other players in the budget act in their best interest. This is a responsibility that they cannot delegate (Schick, 1999).

2.2.5 Activity-Based Budgeting

ABB is a full-absorption budgeting method that has gained ground on conventional methods, Brinker (1994), due to both more correct cost assessments and superb tracing of costs. Conventional costing systems, on the other hand, cannot trace – overhead costs are simply distributed as butter on bread (Hardy and Hubbard, 1992) as it were without estimating the effect of all the complexities, (Eiler and Ball, 1992), and identifying the root causes of costs. ABB systems imply a new way of thinking (Kaplan and Cooper, 1999). They carry with them a set of questions completely different from conventional costing systems, such as “what activities would be performed within the organization, how much it would cost in order to carry out such activities, why the organization needs to organize enterprise activities and processes, and what would be the starting part or amount required from each activity-products, services and customers?” An ABB system provides companies with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes. This leads to a deeper knowledge of the cost and the profitability of products, services, customers and productive units.

Compared to conventional costing systems, ABB differs in two major points (Cooper, 1990). In an ABB system, it is assumed that a cost object (products, services and so forth) consume activities, while a conventional system assumes that a cost object consume resources. There are several implications of this difference, but the most important is that ABB acknowledges that one cannot manage costs; one can only manage what is being done, that is, the activities. With respect to cost management this point also indicates that sound cost management practices should focus on process management and not virtually

solely on structure and organization as today. An ABB system utilizes drivers on several levels (unit-, batch-, product- and factory level), while a conventional system uses only unit-level characterizations called allocation bases. Roughly speaking, an allocation base is an arbitrary, unit-level driver. In this sense, from the point of view of the allocation, cost-drivers try to establish precise causal relations between products and consumption of activities. The problem is to choose the most suitable cost driver to undertake the allocation process. In general, this problem could be solved choosing between the following requirements: to represent the existing cause and effect relations between costs, activities and products as well as possible and to be the most cost effective to measure and to observe, (Fernández Fernández and Muñoz Rodríguez, 1997).

Maher (2005) notes that different cost allocation methods result in different estimates of a product's cost. ABB thus provides more detailed measures of cost than do plant-wide and departmental allocation methods. ABB can help marketing departments to select and price products by providing more accurate product cost numbers. ABB also benefits production because it provides better information about how much each activity cost. It helps identify cost drivers that managers did not previously recognize. ABB provides more information about product cost but requires more recordkeeping. Thus, managers must decide whether the benefits of improved decisions justify the additional cost of ABB compared to departmental or plant-wide allocation. Additionally, implementing ABB requires teamwork among accounting, production, marketing, management and other functional areas of an entity.

Hence, ABB is much more accurate and driven by cause and effect relations and not the latest percentage add-on from management. In fact, (O'Guin, 1990) reports that product

cost estimates from a conventional costing system can differ by several hundreds per cent compared to an ABB system.

2.3 Challenges of Budgeting

Weisenfeld and Tyson (1990) found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. It's assumed that a large portion of the researchers indicate that variances is a good way to measure their performance. They, however, pose lack of or poor technology as a challenge of operational budget in many governmental organisations and the Ministry of Finance in particular.

Auditing management and benchmarking managements can be viewed to be other tools that determine the operation of a budget in any firm. Auditing management procedures identifies the strengths and weaknesses of a company's current performance compared to corporate standards (Hoyle, 1997) while benchmarking management procedures enables comparisons of corporate standards to be made against industry best practice (Zairi and Leonard, 1996).

When auditing or benchmarking highlights, a gap in management performance, a strategy should be developed and targets defined, within an improvement plan, in order to attain the higher standards identified. However, the application of the highest standards available, per se, does not ensure success because a company operating to the highest standards but failing to make a profit will not remain in business for very long. Weisenfeld and Tyson (1990), therefore, the desire to raise standards must be put into the context of overall business performance and profitability. Although benchmarking can provide short-term solutions to some problems, by identifying how other companies

address the same issues, the main benefit of benchmarking is more related to changing business culture in the medium and long term. To achieve this, managers need an understanding of the underlying principles, strengths and limitations of the benchmarking process and an appreciation of the impact that economic constraints have on achievable performance standards. Benchmarking should therefore be supported by management models, which describe the issues and predict how changes in management strategy affect company performance.

Current strengths and weaknesses in company performance can then be compared with industry best practices and potential options for improving management performance can be assessed through logical and robust criteria. Descriptive models for implementing benchmarking assessments have been described (Zairi and Leonard, 1996; Bogan and English, 1994) but fundamental models, which explain the theory of benchmarking, have not been developed. Benchmarking can utilise competitive, functional, internal and generic approaches (Zairi and Leonard, 1996) in order to identify successful management strategies.

Zairi and Leonard (1996) have described the basis of benchmarking as understanding how better results are achieved and adapting the 'how' into one's own organization so as to overtake the competition in terms of results. The benchmarking process is therefore based on the premiss that searching out the best of the management systems in market leading companies will identify the key to superior business performance. The principles of benchmarking are equally valid for large, medium or small companies, whether they compete in local, national or international markets. However, the aims and achievable objectives of the benchmarking process may be significantly different in each situation.

For example, one company may benchmark in order to improve profitability by identifying the most cost-effective way of maintaining their current standards, while another company may benchmark to identify industry best practice.

For companies aiming to achieve recognition for world-class performance, it may be necessary to move away from a purely reactive approach to benchmarking, which identifies what other groups or companies have already achieved, and move on to essentially a proactive approach by identifying and defining the highest standards achievable. In this way they will be recognised as market leaders operating through innovative example.

2.3.1 Budgetary Process

In light of managers' often unfavorable reactions to their budget, it is perhaps fortunate for organizations that managers react also to the procedures by which this budgetary outcome is determined. Specifically, managers are concerned with how fair the procedures are, both in terms of formal budgetary procedures fairness as well as budgetary procedures implementation fairness. Formal budgetary procedures fairness addresses how well the organization's authorized structural budgetary procedures comply with the manager's criteria for what is proper. Budgetary procedures implementation fairness addresses the extent to which budgetary decision makers, such as the manager's immediate supervisor, carry out the formal budgetary procedures in a way that is consistent with the manager's criteria for what is proper. Magner and Johnson, (1995); Magner and Welker, (1994) and Staley et al., (2003) indicates that managers often have stronger reactions toward the fairness of the organization's budgetary procedures than they do toward the favorability or fairness of their unit's budget.

2.3.2 Budget Planning and Control

Since proper planning as well as the efficiency and effectiveness of time-honored budgeting methods (Leyk et al., 2006) must be implemented, empirical results from different surveys discuss the challenges of budgeting as effects of mainly technology, competition, inflexibility and political changes. According to Modell (2002 pp.653-79), the myth that organisational change in parts of any organization may be accomplished by more forceful implementation of financial and efficiency-based control methods. Contemporary research suggests that history, power and evolution must also be considered (Boyns et al., 1999 pp.85-108). Van Helden et al. (2001) for the importance of one organisation in understanding the change in system and its linkages with other organisational structures.

Horváth and Partners (2006) survey of larger firms yielded results broadly comparable to the ones obtained in the aforementioned survey of service firms. As explained, budget preparation in bigger companies is a long process. More than half the enterprises represented on the panel need between four and six months for their operational planning and budgeting. Indeed, several firms said they required more than 31 calendar weeks for these processes! Taken together, results from the two surveys suggest that traditional planning and budgeting indeed have evolved into costly, time-consuming processes, offering little opportunity to react quickly and flexibly to changes in a company's environment. Accordingly, panel members find the available time and resources insufficient to control their operations optimally.

Not only are plans and budgets no longer appropriate for the conditions currently prevailing at the time of their execution, often enough they already are obsolete before

their approval. This obsolescence arises from long duration of the bargaining and negotiations typically involved in planning and budgeting. In larger enterprises, the high degree of detail in budget planning also is an important influence. Decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis consumes large quantities of human and monetary resources. Moreover, wasteful resource consumption occurs every time negotiating partners loop through the planning cycle until they finally approve the annual operating budget. Large firms usually commit 75 per cent to 95 per cent of their total controlling capacity to operational planning during the time they are engaged in budget preparation (Kopp and Leyk, 2004). Unfortunately, top management seldom considers the high cost involved relative to the meager benefit derived from such detailed instruments. It then is no wonder that cost, product, and strategic controlling often get little attention in the process.

Changes relevant to skills and qualities, perceptions of roles played by budgets and the effectiveness of budgets remain the critical duties. It should be noted that budget managers need support and education if they are to be successful in accomplishing these new multidimensional roles (McGillis Hall and Donner, 1997). McGill's Hall and Donner (1997) observe that leadership cannot be provided by managers unless they feel competent and clear in their role” and, currently, it is apparent from the literature that “nurse managers struggle with their role in decentralized structures” (McGillis Hall and Donner, 1997).

There has been some evidence that companies have been showing considerable interest in preparing long-range plans. In a survey of Fortune 500 companies in the USA, Sinha (1990) concluded that formal strategic planning contributed to decisions that were

important, risky, global, and involved divestments. Similarly, in another study, Capon et al. (1994) found that a majority of firms employed sophisticated corporate planning and corporate financial plans in their budgeting system. Powell (1992) found that strategic planning was important in the US companies but depended on the type of industry. A study by Wijewardena and Zoysa (1999) found that 95 percent of the Japanese companies and 83 percent of the Australian companies do prepare long-range plans. Furthermore, Chenhall and Smith (1998 pp.1-19) found that more than 90 percent of the respondent companies adopted long range planning and long range forecasting in Australia. Joshi (2001) and Anderson and Lanen (1999) found that Indian companies were using strategic formal planning and long range forecasting techniques in budget planning. Other studies in Europe found extensive use of long range planning (for example, Germany: Scherrer (1996); Greece: Ballas and Venieris (1996); Italy, Barbato et al. (1996).

2.3.3 Effects of Communication

Budget goals and information flows through the organisational communication system both affect the budgeting process. Different variable factors such as attitudes and motivation (Brownell and McInnes, 1986), decentralisation (Gul et al., 1995), budget adequacy, organisational commitment (Nouri and Parker, 1998), functional area (Brownell, 1985), and locus of control (Frucot and Shearon, 1991) have been used.

Budget goals can vary from very loose and easily attainable goals to very tight and unattainable goals. According to Locke and Schweiger (1979), goal difficulty specifies a certain level of task proficiency measured against standards. Difficult goals require greater efforts, and possibly the possession of more knowledge and skills. On the other hand, easily attainable goals require less effort, knowledge, and skills to attain.

Hirst and Lowy (1990) found that difficult goals generate higher performance than setting specific moderate goals, specific easy goals, and general goals. Research has indicated that the perceived budget goal difficulty and performance are strongly related (Ezzamel, 1990; Hirst, 1981; Hofstede, 1968; Kenis, 1979; Locke and Schweiger, 1979; Mia, 1989). In particular, Kenis (1979) believed that a “tight but attainable” budget approach is the most effective way to motivate managers to perform better. Easily attainable goals do not generate incentives for managers to pursue a higher level of performance, because they fail to create job satisfaction (Mia, 1989). Dunk (1994) found that the availability of slack diminished the detrimental effect of high task difficulty on performance. Moreover, when the organisational commitment of managers is high, participation is likely to result in a reduction of slack. In contrast, if commitment is low, participation is likely to enhance the budgetary slack creation. However, there is no empirical evidence on the impact of goal difficulty on managers' propensity to create budgetary slack.

Participation by employees in the budgetary process has received considerable attention in the academic literature (Brownell, 1982 and Milani, 1975). For budgetary participation to occur, a person must become actively involved in the setting of budget goals by exchanging information and influencing outcomes (Hassel, 1993).

Although a number of previous studies have treated participation as a unidimensional construct, there is evidence that it may be at least bidimensional (Brownell, 1982 and Milani, 1975). First, there is the extent that communication occurs within the budgetary process and, second, the extent that a participant feels that he or she influences the budget finally allocated. As Hassel and Cunningham (1993) have argued, while a manager may

have considerable communication with more senior management over budget allocations, the degree of influence over the final allocation may be minimal.

It is argued that, if budget allocations are to gain any support within an institution, communication within the budgetary process will be critical. This communication is needed if those responsible for budgeting outcomes are to have any knowledge of proposed budgetary practices and procedures, budget rationale, and intended budget goals (Katz and Kahn, 1978). As Brownell and Dunk (1991) have stated, budgetary communication provides an important information exchange role.

While previous research has found that relevant communication can improve initial attitudinal responses to budgetary allocations (Ivancevich and Matteson, 1990), Freedman, Carlsmith and Sears, (1974), have argued that the likelihood of success is dependent on three factors: the general environment at the time, the message content, and trust in the communication provider by the message receiver. The majority of academics will relate easily to at least two of these factors. First, the general environment currently facing public organisations is one of reduced funding (Deutschman, 1990, Hardy, 1992; O'Reilly, 1994). Second, the message content that a reduction in external funding (general funding provided by the government) translates to a reduction in internal funding; funds distributed within public organisations like parastatal by way of budgetary allocations. However, while there may be a degree of acceptance of both these factors, there is evidence of a general lack of trust in the communication provider (that is the funding agencies and management (Dahllof, Harris, Shattock, Staropoli and in't Veld, 1991 and Ezzamel and Bourn, 1990). This was highlighted in Ezzamel and Bourn (1990), where those responsible for distributing information regarding major budget cuts were

questioned both from a technical competence perspective and a neutrality perspective. Further they were blamed “for undermining the quality and ethos of the workplace, and for challenging the culture of academic freedom by promoting a ‘financial’ or accounting ‘culture’ with a different mix of values”.

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership. According to Cook (1968), feedback is generally positively associated with budget performance. Feedback focuses on the extent to which employees have achieved expected levels of work during a specified time period. Budgets being a standard for performance are also used to evaluate ministerial performance (Srinivasan, 1987). Similarly, Douglas (1994) used a case study approach and found that budgeting places a high importance on the budget-to-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 companies the development of budget is still used as the main performance measurement system. There is need to coordinate the ministerial strategies and operational budget in a single, integrated process, characterized by continuous feedback and organizational learning (Kopp and Leyk, 2004).

2.4 Empirical Studies

Most of the local literature available so far has studied budgeting in the private sector and public sector. Obulemire (2006) conducted a survey of budgeting practices in Secondary schools where he found that budget committees and interdepartmental discussion groups were the most used budgeting tools with less emphasis on brainstorming. He further asserts that top management support, clear and realistic goals, influence of external

environment on availability of resources and the strategic plan were key factors to consider. In addition, failure to consider motivation of employees and participation by all staff in the budgeting process was a challenge. Possible consequences of not tying budget targets achievements to rewards include lack of a sense of responsibility, perception that budgets are pressure devices and budget padding among the employees (Obulemire, 2006).

A survey conducted by Ambetsa (2004) of budgeting practices by Commercial airlines operating at Wilson Airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in the preparation of the budget and lack of top management support. He further concludes that airlines operate and use budgets to plan, implement and evaluate their businesses' performance. All enterprises make plans using budgets some in a systematic and formal way, while others in an informal manner, but still have some form of budgeting and budgetary control practice. Therefore, the issue is not whether to prepare a budget, but rather how to do it effectively (Ambetsa, 2004).

Muleri (2001) in his survey of budgeting practices among the major British non-governmental development organisations in Kenya, asserts that most organisations have adopted budgeting approaches and philosophies that are modern and can act to reduce financial mismanagement. Budgets are used to achieve cost effectiveness, in planning, for operations, co-ordinating activities, motivating performance, communicating plans and operations and in evaluation and audits (Muleri, 2001). One early study had tackled problems associated with budgeting in manufacturing firms (Simiyu, 1977).

2.5 Conclusion

Budgeting is one of the fundamental decision-making processes in organizations. During budget formulation and implementation, officials determine the portion of the organization's resources that the manager of each unit will be authorized to spend. Budgets often establish performance goals for the unit in terms of costs, revenues, and/or production (Little et al., 2002). This is a succinct and accurate summation of the importance of the budgeting function within the majority of organizations. Budgets are used in differing degrees and for different purposes across different industries. Some industries use budgeting as a control of expenditures, where other businesses use budget functions as a tool for planning, a means of communication, or as a goal to measure performance. The benefits of budgeting were not minimised despite the source of initial funding (public funds, taxpayer funds, shareholder investments or privately acquired monies). Although organizations institute budgeting formats in different ways, all organizations benefit from its use, and budgeting functions perform an important mechanism in a firm's organizational architecture-corporate and business success depends on it.

The above literature review sheds light on the use of budgets as a planning, monitoring and control tool. However, these studies were mainly confined to advanced countries, and very limited evidence is available on budgetary practices in developing countries. Ambetsa (2004) recommends that further research be done on budgeting in Kenya. The researcher intended to study the challenges of budgeting in the public sector in Kenya with a specific reference on the Government Ministries and therefore, contribute to filling that gap in knowledge.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. This section was an overall scheme, plan or structure that aided the researcher in answering the raised research question. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identified the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

Research design refers to the method used to carry out a research. The two main methods used when investigating and collecting data are quantitative and qualitative methods. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon.

The main focus of this study was quantitative research and adopted a descriptive research design which was meant to investigate challenges of budgeting in the public sector in Kenya. The survey design was appropriate for this study since respondents in the

Ministries responded to the research instrument. The subject was observed in a completely natural and unchanged environment

3.3 Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. And by population the researcher means complete census of the sampling frames. Population studies are more representative because everyone has equal chance to be included in the final sample that is drawn according to Mugenda and Mugenda (2003). The population of interest of this study was the Kenya Government Ministries. There was one respondents from each of the forty (40) Government Ministries.

3.4 Data Collection

The study was a survey where data was collected from all the Ministries in Kenya. In order to maximize on the views aimed at establishing the challenges of budgeting at the public sector, one employee of the senior management level was selected from each of the Ministries and administered with the questionnaire..

The questionnaire was divided into two parts. The first part was mainly on the ministry background which was the name, years in operation and size of the department. This was to enable the researcher to know the nature of the department/ministry, while the second part was on challenges of budgeting where the variables under investigation were focused on. These variables were budget planning and control, effect of communication and availability of funds and budget accuracy. This enabled the researcher to identify the

challenges the Ministries face and any other new challenges that might not have been mentioned in the literature review.

The researcher used structured questionnaires as the main data collection instrument which were administered using drop and pick later method. The questionnaires contained both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that might not have been captured in the close-ended questions. Secondary data sources were employed through the use of previous documents or materials to supplement the data received from questionnaires and information from interviews.

3.5 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The content analysis was used to analyze the qualitative information while Descriptive statistics was used to analyze summarize the data the respondents' views on the challenges of public sector budgeting. The data was then coded to enable the responses to be grouped into various categories. This included percentages and frequencies. Tables and charts were used to present the data collected for ease of understanding and analysis.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents analysis and findings of the investigation as set out in the research methodology. The results are presented on the challenges of budgeting in the public sector in Kenya. The data was gathered exclusively from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. To enhance quality of data obtained, Likert type questions were included whereby respondents indicated the extent to which the variables were practiced in a five point Likerts scale.

4.1.1 Response Rate

The study targeted 40 respondents in collecting data with regard to the challenges of budgeting in the public sector in Kenya where specific focus was on the Kenyan Government Ministries.

All the targeted 40 respondents filled in and returned the questionnaire indicating 100% response rate. This commendable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

4.2 General Information

4.2.1 Total Work Experience

The study sought to investigate the total work experience of the respondents.

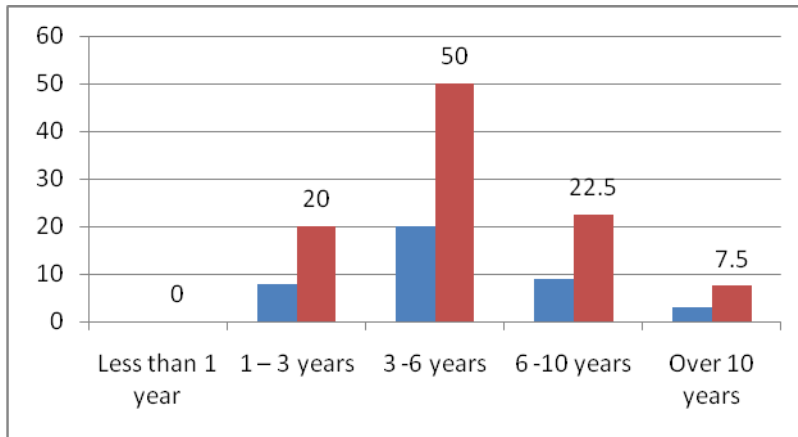
Table 4.1: Total Work Experience

Years	Frequency	Percent
Less than 1 year	0	0
1 – 3 years	8	20
3 -6 years	20	50
6 -10 years	9	22.5
Over 10 years	3	7.5
	40	100

Source: Research Data, 2010

From the study, 50% of the respondents had worked for between 3 -6 years, 22.5% of the respondents had worked for between 6 -10 years, 20% of the respondents had worked for between 1 – 3 years, while 7.5% of the respondents had worked for over 10 years. None of the respondents had worked for less than one year.

Figure 4.1: Total Work Experience



Source: Research Data, 2010

4.2.2 Years Worked in the Current Position

The respondents were requested to indicate the length of time they had worked in the current positions.

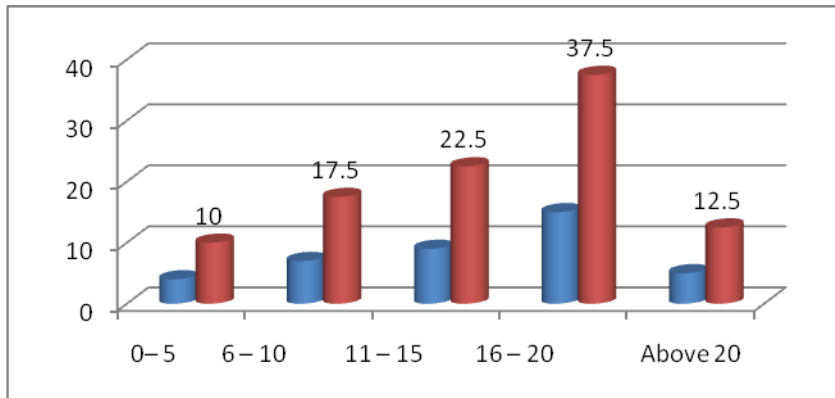
Table 4.2: Length of Time they had Worked in the Current Positions

Years	Frequency	Percent
0– 5	4	10
6 – 10	7	17.5
11 – 15	9	22.5
16 – 20	15	37.5
Above 20	5	12.5
	40	100

Source: Research Data, 2010

37.5% of the respondents had worked in their positions for a period of 16 – 20 years, 22.5% of the respondents had worked in their positions for a period of 11 – 15 years, 17.5% of the respondents had worked in their positions for a period of 6 – 10 years, 12.5% of the respondents had worked in their positions for a period of more than 20 years, while 10% of the respondents had worked in their positions for a period of 0 – 5 years.

Figure 4.2: Length of Time they had Worked in the Current Positions



Source: Research Data, 2010

4.3 Budgeting and Challenges of Budgeting

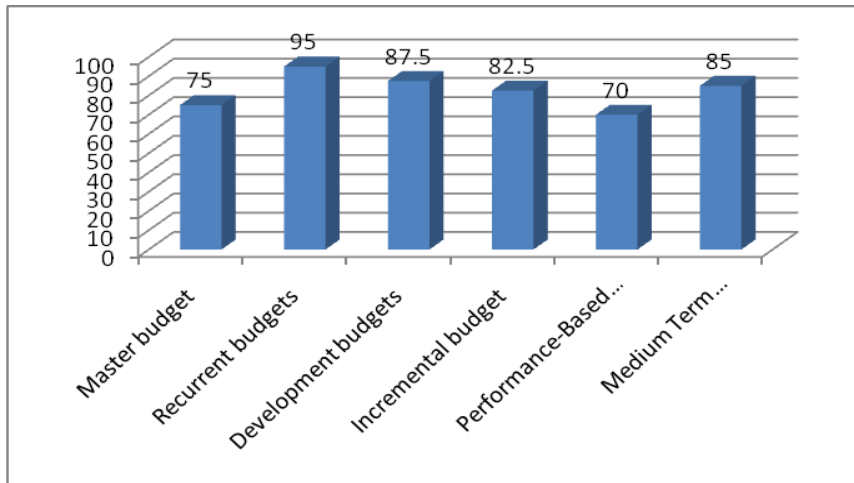
Table 4.3: Whether the Department Participates in Preparations of the Budgets

Type of budget	Yes		No	
	Frequency	Percent	Frequency	Percent
Master budget	30	75	10	25
Recurrent budgets	38	95	2	5
Development budgets	35	87.5	5	12.5
Incremental budget	33	82.5	7	17.5
Performance-Based Budgeting	28	70	12	30
Medium Term Expenditure Framework	34	85	6	15

Source: Research Data, 2010

From the study, 95% of the respondents indicated that their departments participate in preparation of recurrent budgets, 87.5% of the respondents indicated that their departments participate in preparation of development budgets, 85% of the respondents indicated that their departments participate in preparation of MTEF budgets, 82.5% of the respondents indicated that their departments participate in preparation of incremental budgets, 75% of the respondents indicated that their departments participate in preparation of master budgets, while 70% of the respondents indicated that their departments participate in preparation of performance-based budgeting.

Figure 4.3: Whether the Department Participates in Preparations of the Budgets



Source: Research Data, 2010

The respondents of this study were requested to indicate the basis in which the budgets are broken down to.

Table 4.4: Basis in Which the Budgets are Broken Down to

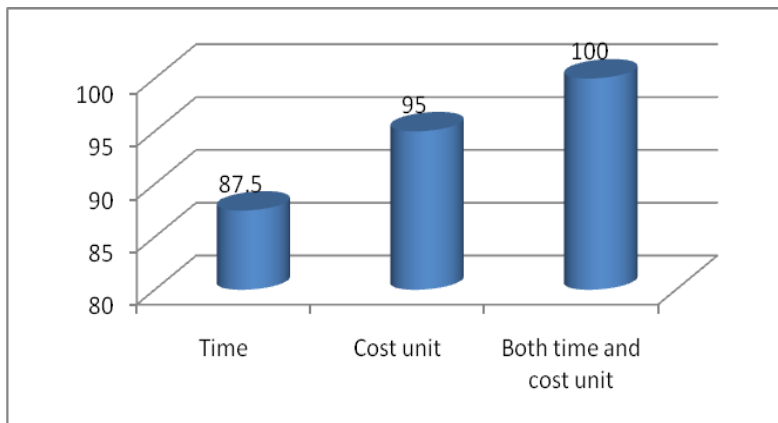
Basis of budget breakdown	Yes		No	
	Frequency	Percent	Frequency	Percent
Time	35	87.5	5	12.5
Cost unit	38	95	2	5
Both time and cost unit	40	100	0	0

Source: Research Data, 2010

100% of the respondents indicated that the budgets in their Ministries/departments were broken down on the basis of both time and cost unit, 95% of the respondents indicated that budgets were broken in cost unit basis, while 87.5% of the respondents indicated that budgets were broken in time basis. This implies that majority of the Government Ministries departments participate in the preparations of various budgets which means that the budgetary requirements for various Ministries are represented. These findings are consistent with those of Stanley et al (2003) who posits that participants' reactions

toward the fairness of the organization's budgetary procedures are well presented by direct participation.

Figure 4.4: Basis in Which the Budgets are Broken Down to



Source: Research Data, 2010

The study posed a statement that budgets have a number of purposes and the respondents were required to rate their level of agreement on how important they thought that each of the various purposes was relevant in the public sector budgeting.

Table 4.5: Importance of Budgeting

Importance of budgets	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std dev
To forecast the future	10.4	29.2	6.3	39.6	14.6	3.1875	1.299
As a functional co-ordination tool	10.4	50.0	12.5	20.8	6.3	2.6250	1.1227
As a communication tool to all the levels of department	2.1	16.7	14.6	47.9	18.8	3.6458	1.0414
As a means of performance evaluation	15.0	22.4	34.6	16.7	11.4	2.397	1.4513
To motivate employees	30.0	19.3	23.3	9.5	12.6	2.300	1.4513
Budgets are used to fine tune the strategic plan	17.4	16.2	27.8	19.0	19.0	2.914	1.5159

Budgets are used to help co-ordinate the activities of the several parts of the organization	13.6	15.0	30.9	22.9	17.6	2.966	1.4862
They are used to assign responsibilities to managers	9.5	9.3	34.5	21.2	25.5	3.224	1.5175
To control performance by calculating and investigating	32.6	16.7	25.5	15.0	10.2	2.378	1.4612
Budgets overcome potential bottlenecks before they occur	16.9	12.9	33.8	15.7	20.7	3.148	3.7743
They co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts	22.4	16.0	32.9	12.4	16.4	2.552	1.6319

Source: Research Data, 2010

Majority of the respondents indicated agreement to budgets are used as a communication tool to all the levels of department as shown by a mean score of 3.6458, another majority were neutral that budgets are used to assign responsibilities to managers as shown by a mean score of 3.224, to forecast the future as shown by a means score of 3.1875, they overcome potential bottlenecks before they occur as shown by a mean score of 3.148, they help co-ordinate the activities of the several parts of the organization as shown by a mean score of 2.966, they are used to fine tune the strategic plan as shown by a mean score of 2.914, they are used as functional co-ordination tools as shown by a mean score of 2.6250 and that they co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts as shown by a mean score of 2.552. The respondents were in disagreement that budgets are used as means of performance evaluation as shown by a mean score of 2.397, they are used to control performance by calculating and investigating as shown by a mean score of 2.378 and that budgets

motivate employees as shown by a mean score of 2.300. These findings are consistent with Sheridan (1987) findings who posited that there are four main aspects to budget including the motivations aspect; the co-ordination of resources for their best use; setting benchmarks for performance and as a cost control mechanism.

The respondents of this study were required to rate their level of agreement to the statement that when processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination.

Table 4.6: Budgets are Used to Achieve Organizational Coordination

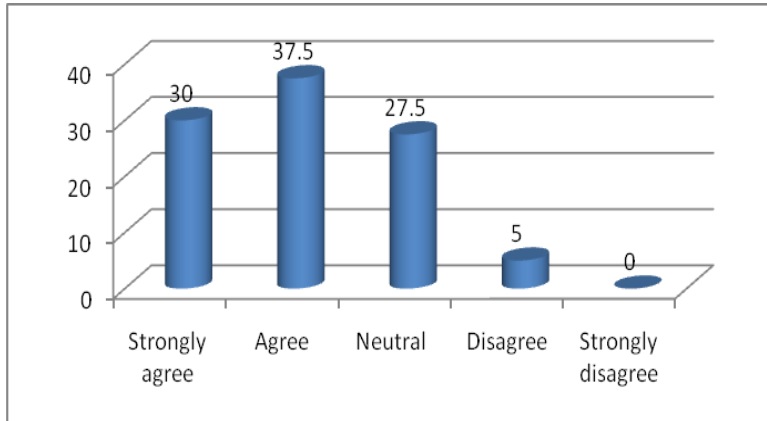
Agreement	Frequency	Percent
Strongly agree	12	30
Agree	15	37.5
Neutral	11	27.5
Disagree	2	5
Strongly disagree	0	0
	40	100

Source: Research Data, 2010

37.5% of the respondents were in agreement that when processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination, 30% of the respondents were in strong agreement that when processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination, 27.5% of the respondents were neutral that when processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination, while 5% of the respondents were in disagreement that when processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination. As Leyk et al. (2006) points out proper planning as well as efficiency and effectiveness of

time-honored budgeting methods, proper planning will lead to achievement of organizational coordination. This supports the findings in this research.

Figure 4.5: Budgets could be Used to Achieve Organizational Coordination



Source: Research Data, 2010

Further, the respondents were requested to rate their level of agreement that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately.

Table 4.7: Agreement that Budgeting and Variance Analysis are Positive Tools

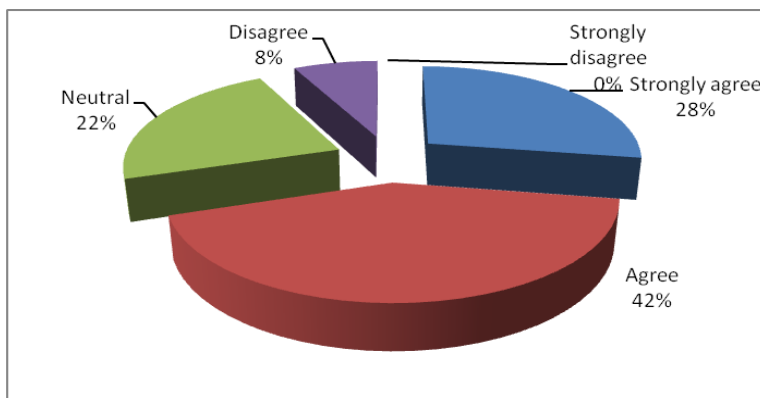
Agreement	Frequency	Percent
Strongly agree	11	27.5
Agree	17	42.5
Neutral	9	22.5
Disagree	3	7.5
Strongly disagree	0	0
	40	100

Source: Research Data, 2010

42.5% of the respondents were in agreement that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately, 27.5% of the respondents were in strong agreement that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately, 22.5% of the respondents remained neutral that budgeting and variance analysis can be positive tools, if the accounting

information/communication process is functioning appropriately, while 7.5% of the respondents were in disagreement that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. This implies that the two methods, budgeting and variance analysis are positive tools towards planning of organizational coordination. This is supported by Weisenfeld and Tyson (1990) who found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately.

Figure 4.6: Agreement that Budgeting and Variance Analysis are Positive Tools



Source: Research Data, 2010

With reference to the various budgeting systems applied in the ministry/department the respondents were required to rate the extent of their agreement to the various statements about the budgeting process at the ministry.

Table 4.8: Agreement to the Statements about the Budgeting Process at the Ministry

Importance of budgets	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std dev
Sound cost management practices focuses on process management	7.4	12.1	26.2	15.2	21.2	2.7714	1.72588
Budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes	7.9	17.9	20.5	15.2	21.2	3.5976	4.57058
Budgets control the activities but not the costs	10.7	14.0	23.8	11.9	19.3	2.5797	1.74033
Budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit	8.1	11.0	25.7	17.4	26.9	3.111	1.6318
Different cost allocation methods result in different estimates of a product's cost	10.0	14.0	21.2	18.6	26.0	3.295	3.9360

Source: Research Data, 2010

Majority of the respondents agreed that budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes as shown by a mean score of 3.5976, they remained neutral that different cost allocation methods result in different estimates of a product's cost as shown by a mean score of 3.295, that budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and

productive unit as shown by a mean score of 3.111, they were also neutral that sound cost management practices focuses on process management as shown by a mean score of 2.7714 and also remained neutral that budgets control the activities but not the costs as shown by a mean score of 2.5797. This is consistent with the findings of the previous studies (Cooper, 1990; Maher 2005) who assert that budget is an economic tool and that different cost allocation methods result in different estimates in the organizations.

The study sought to investigate the extent to which the Ministries experience challenges of budget planning in the processes of budgeting.

Table 4.9: Extent to which the Ministries Experience Challenges of Budget Planning

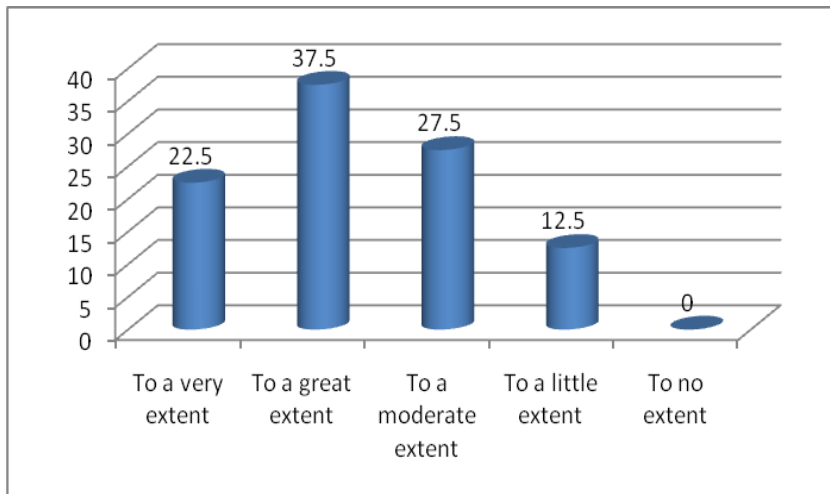
Extent	Frequency	Percent
To a very extent	9	22.5
To a great extent	15	37.5
To a moderate extent	11	27.5
To a little extent	5	12.5
To no extent	0	0
	40	100

Source: Research Data, 2010

37.5% of the respondents indicated that the Ministries experience challenges of budget planning in the processes of budgeting to a great extent, 27.5% of the respondents indicated that the Ministries experience challenges of budget planning in the processes of budgeting to a moderate extent, 22.5% of the respondents indicated that the Ministries experience challenges of budget planning in the processes of budgeting to a very great extent, while 12.5% of the respondents indicated that the Ministries experience challenges of budget planning in the processes of budgeting to a little extent. As noted by Ramsey and Ramsey (1988) and Flamholtz (1983) the budgets process provides for coordinated planning among different functional areas and in addition quantify a firm's plans for a future period. Budgets require management to specify expected sales, cash

inflows and outflows, and costs; and they provide a mechanism for effective planning and control in organizations. This implies that planning is a major process in budgeting and thus lack of proper planning is expected to result into challenges in the organizations concerned.

Figure 4.7: Extent to which the Ministries Experience Challenges of Budget Planning



Source: Research Data, 2010

Table 4.10: Whether the Ministries/Departments Encounter any Challenges in Budget Control

Response	Frequency	Percent
Yes	34	85
No	6	15
	40	100

Source: Research Data, 2010

On whether the Ministries /departments encounter any challenges in budget control, 85% of the respondents indicated that their Ministries encounter challenges in budget control, while 15% of the respondents indicated that their Ministries do not encounter any challenges in budget control.

The respondents were required to indicate the extent to which various factors contribute to challenges of budget control within the Ministries.

Table 4.11: Extent to which Various Factors Contribute to Challenges of Budget Control

Cause of budgeting challenges	Very great extent	Great extent	Moderate extent	Little extent	No extent	Mean	Std dev
Budget constraints	6.9	14.4	19.4	26.4	28.1	3.4000	1.4419
Legal frameworks	11.9	20.0	19.7	24.4	21.4	3.1583	1.4082
Competition	12.2	13.3	16.4	36.4	19.2	2.9440	1.3770
Change of office holders	7.8	21.4	24.2	26.9	15.6	3.0861	1.3376
Budget funding	11.7	8.8	26.7	17.1	24.5	3.5048	1.64947

Source: Research Data, 2010

The respondents indicated that budget funding contribute to challenges of budget control within the Ministries to a great extent as shown by a mean score of 3.5048, budget constraints contribute to challenges of budget control within the Ministries to a moderate extent as shown by a mean score of 3.4000, legal frameworks contribute to challenges of budget control within the Ministries to a moderate extent as shown by a mean score of 3.1583, while competition contribute to challenges of budget control within the Ministries to a moderate extent as shown by a mean score of 2.9440. To support this available literature from Deutschman (1990), Hardy (1992) and O'Reilly (1994) posit that the general environment currently facing public organisations is one of reduced funding where a reduction in external funding (general funding provided by the government) translates to a reduction in internal funding; funds distributed within public organisations. Other challenges being competition between available (scanty) funds against endless expenses.

The study also sought to investigate the extent to which communication cause a challenge in the budgeting process in the Ministries.

Table 4.12: Extent that Communication Cause a Challenge in the Budgeting Process

Extent	Frequency	Percent
To a very extent	12	30
To a great extent	17	42.5
To a moderate extent	10	25
To a little extent	1	2.5
To no extent	0	0
	40	100

Source: Research Data, 2010

42.5% of the respondents indicated that communication cause a challenge in the budgeting process in the Ministries to a great extent, 30% of the respondents indicated that communication cause a challenge in the budgeting process in the Ministries to a very great extent, 25% of the respondents indicated that communication cause a challenge in the budgeting process in the Ministries to a moderate extent, while 2.5% of the respondents indicated that communication cause a challenge in the budgeting process in the Ministries to a little extent.

On a scale of 1 to 5 where 1 is to a very great extent and 5 is to extent, the respondents of this study were required to rate extent of the various challenges of planning and control experienced in the budgeting process.

Table 4.13: Extent of the Various Challenges of Planning and Control

Budgeting challenges	Very great	Great extent	Moderate extent	Little extent	No extent	Mean	Std dev
Poor or lack of modern technology	2.1	27.1	16.7	10.4	43.8	3.6667	1.3422
Competition among the budgeted items for scarce funds	6.4	18.6	21.4	26.4	21.4	3.2028	1.4320
Budget inflexibility	11.9	13.9	13.1	32.8	23.1	3.2528	1.5113
Political interference	16.9	13.1	15.0	29.7	21.7	3.1528	1.5100

Source: Research Data, 2010

Majority of the respondents indicated that poor or lack of modern technology contributes the challenges of planning and control experienced in the budgeting process to a great extent as shown by a mean score of 3.6667, they indicated that budget inflexibility contributes the challenges of planning and control experienced in the budgeting process to a moderate extent as shown by a mean score of 3.2528, competition among the budgeted items for scarce funds contributes the challenges of planning and control experienced in the budgeting process to a moderate extent as shown by a mean score of 3.2028, while political interference contributes the challenges of planning and control experienced in the budgeting process to a moderate extent as shown by a mean score of 3.1528. Weisenfeld and Tyson (1990) found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. They pose that lack of or poor technology as a challenge of operational budget in many governmental organisations and the Ministry of Finance in particular.

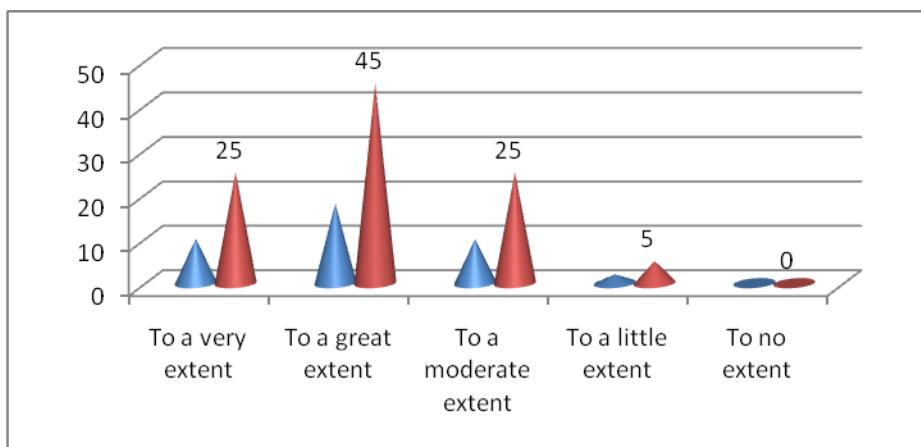
Table 4.14: Extent to which Time and Resources Pose a Challenge in Budgeting

Extent	Frequency	Percent
To a very extent	10	25
To a great extent	18	45
To a moderate extent	10	25
To a little extent	2	5
To no extent	0	0
	40	100

Source: Research Data, 2010

On the extent to which time and resources pose a challenge in budgeting in the Ministries, 45% of the respondents indicated that time and resources pose a challenge in budgeting in the Ministries to a great extent, 25% of the respondents indicated that time and resources pose a challenge in budgeting in the Ministries to a very great extent, another 25% of the respondents indicated that time and resources pose a challenge in budgeting in the Ministries to a moderate extent, while 5% of the respondents indicated that time and resources pose a challenge in budgeting in the Ministries to a little extent. Consistent with Horváth and Partners (2006), budget preparation in bigger companies is a long process. Participating members find the available time and resources insufficient to control their operations optimally.

Figure 4.8: Extent to which Time and Resources Pose a Challenge in Budgeting



Source: Research Data, 2010

The study also sought to determine whether funding pose a challenge in budgeting within the Ministries in Kenya.

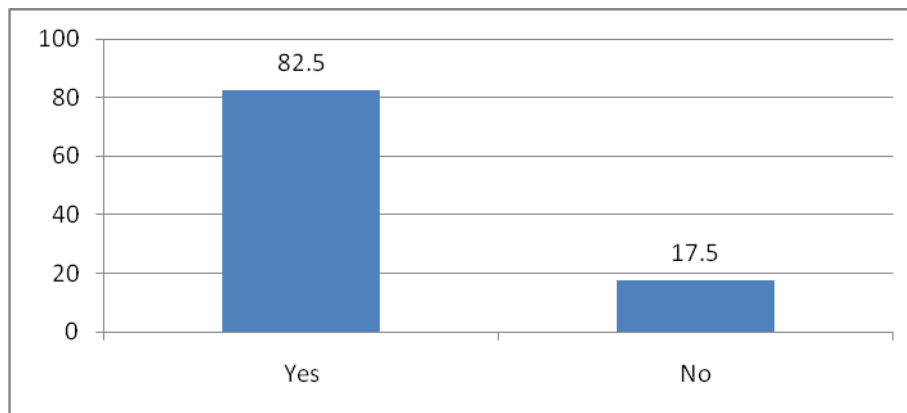
Table 4.15: Whether Funding Pose a Challenge in Budgeting within the Ministries

Response	Frequency	Percent
Yes	33	82.5
No	7	17.5
	40	100

Source: Research Data, 2010

82.5% of the respondents indicated that funding pose a challenge in budgeting within the Ministries in Kenya, while 17.5% of the respondents indicated that funding does not pose a challenge in budgeting within the Ministries in Kenya

Figure 4.9: Whether Funding Pose a Challenge in Budgeting within the Ministries



Source: Research Data, 2010

The study sought to investigate whether budget monitoring pose a challenge in the budgeting process in the Ministries in Kenya.

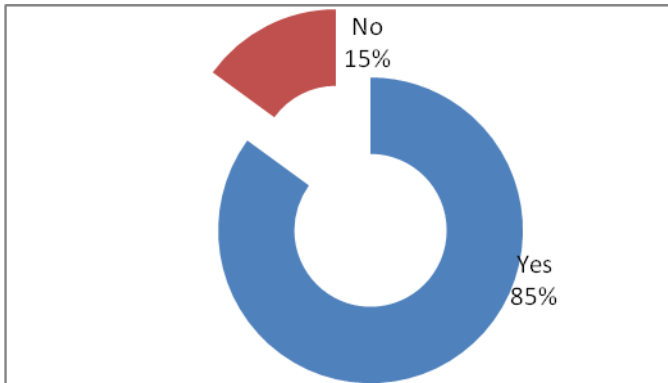
Table 4.16: Whether Budget Monitoring Pose a Challenge in the Budgeting Process

Response	Frequency	Percent
Yes	34	85
No	6	15
	40	100

Source: Research Data, 2010

85% of the respondents indicated that budget monitoring pose a challenge in the budgeting process in the Ministries in Kenya, while 15% of the respondents indicated that budget monitoring does not pose a challenge in the budgeting process in the Ministries in Kenya.

Figure 4.10: Whether Budget Monitoring Pose a Challenge in the Budgeting Process



Source: Research Data, 2010

The study requested the respondents to rate their level of agreement to the statements about possible solutions to the challenges of budgeting experienced in the Kenyan Ministries.

Table 4.17: Level of Agreement about Possible Solutions to the Challenges of Budgeting

Possible solutions to budgeting challenges	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Deviation
Budgetary procedures implementation fairness addresses the extent to which budgetary decision makers carry out the formal budgetary procedures in a way that is consistent with the manager's criteria for what is proper	4.2	6.3	2.1	3.3	52.1	3.3125	7.4085
Budgetary managers often have stronger reactions toward the fairness of the organization's budgetary procedures than they do toward the favorability or fairness of their unit's budget	6.3	8.3	27.1	18.8	39.6	3.7708	1.2418
Decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis	4.2	4.2	6.3	35.4	50	4.2292	1.0365

Source: Research Data, 2010

Majority of the respondents indicated agreement that decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis may be a possible solution to the challenges of budgeting experienced in the Kenyan Ministries as shown by a mean score of 4.2292, budgetary managers often have stronger reactions toward the fairness of the organization's budgetary procedures than they do toward the

favorability or fairness of their unit's budget may also be a possible solution to the challenges of budgeting experienced in the Kenyan Ministries as shown by a mean score of 3.7708, while they remained neutral that budgetary procedures implementation fairness addresses the extent to which budgetary decision makers carry out the formal budgetary procedures in a way that is consistent with the manager's criteria for what is proper as shown by a mean score of 3.3125. It is noted by Zairi and Leonard (1996) that procedures identifies the strengths and weaknesses of a company's current performance compared to corporate standards while benchmarking management procedures enables comparisons of corporate standards to be made against industry best practice.

CHAPTER FIVE

SUMMARY OF FINDINGS CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions and recommendations of the study based on the objectives of the study. The objectives of this investigation were to identify the systems of budgeting used in the Kenya public sector and the challenges of budgeting in the Kenyan public sector.

5.2 Summary of the Findings

From the findings, majority of the departments participate in preparation of recurrent budgets, development budgets, MTEF budgets, incremental budgets, master budgets and performance-based budgeting. All the Ministries/departments were broken down on the basis of both time and cost unit.

Majority of the respondents indicated that budgets are used as a communication tool to all the levels of department, budgets are used to assign responsibilities to managers, to forecast the future, they overcome potential bottlenecks before they occur, they help coordinate the activities of the several parts of the organization, they are used to fine tune the strategic plan, they are used as functional co-ordination tools and that they coordinate the activities of the entire organization by integrating the plans and objectives of the various parts.

This investigation also found that majority of the respondents was in agreement that when processes are relatively routine and repetitive; budgets could be used effectively to achieve organizational coordination and that budgeting and variance analysis can be

positive tools, if the accounting information/communication process is functioning appropriately.

Majority of the respondents agreed that budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes, different cost allocation methods result in different estimates of a product's cost, budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit, sound cost management practices focuses on process management and that budgets control the activities but not the costs.

This investigation also found that majority of the Ministries experience challenges of budget planning in the processes of budgeting to a great extent and that the Ministries encounter challenges in budget control. Budget funding contribute to challenges of budget control within the Ministries to a great extent, budget constraints contribute to challenges of budget control within the Ministries to a moderate extent, legal frameworks contribute to challenges of budget control within the Ministries to a moderate extent and competition contribute to challenges of budget control within the Ministries to a moderate extent.

It was also clear that communication is a challenge in the budgeting process in the Ministries to a great extent. Poor or lack of modern technology contributes to the challenges of planning and control experienced in the budgeting process to a great extent, budget inflexibility contributes the challenges of planning and control experienced in the budgeting process to a moderate extent, competition among the budgeted items for scarce funds contributes the challenges of planning and control experienced in the budgeting

process to a moderate extent and political interference contributes the challenges of planning and control experienced in the budgeting process to a moderate extent. The study further found out that time and resources pose a challenge in budgeting in the Ministries to a great extent. Funding pose a challenge in budgeting within the Ministries in Kenya and that budget monitoring is a challenge in the budgeting process in the Ministries in Kenya.

On the possible solutions to the challenges of budgeting, the study found that decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis may be a possible solution to the challenges of budgeting experienced in the Kenyan Ministries, and that budgetary procedures implementation fairness addresses the extent to which budgetary decision makers carry out the formal budgetary procedures in a way that is consistent with the manager's criteria for what is proper.

5.3 Conclusions

This study concludes that majority of the departments participate in preparation of recurrent budgets, development budgets, MTEF budgets, incremental budgets, master budgets and performance-based budgeting. All the Ministries/departments budgets were broken down on the basis of both time and cost unit. The budgets are used as a communication tool to all the levels of department, budgets are used to assign responsibilities to managers, to forecast the future, they overcome potential bottlenecks before they occur, they help co-ordinate the activities of the several parts of the organization , they are used to fine tune the strategic plan, they are used as functional

co-ordination tools and that they co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts.

This investigation also concludes that when processes are relatively routine repetitive; budgets could be used effectively to achieve organizational coordination and that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. The budgeting process provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes, different cost allocation methods result in different estimates of a product's cost, budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit, sound cost management practices focuses on process management and that budgets control the activities but not the costs.

This investigation further deduces that majority of the Ministries experience challenges of budget planning in the processes of budgeting to a great extent and that the Ministries encounter challenges in budget control. Budget funding contribute to challenges of budget control within the Ministries to a great extent, budget constraints contribute to challenges of budget control within the Ministries to a moderate extent, legal frameworks contribute to challenges of budget control within the Ministries to a moderate extent and competition contribute to challenges of budget control within the Ministries.

The study also concludes that that communication causes a challenge in the budgeting process in the Ministries to a great extent. Poor or lack of modern technology contributes the challenges of planning and control experienced in the budgeting process to a great extent, budget inflexibility contributes the challenges of planning and control experienced

in the budgeting process to a moderate extent, competition among the budgeted items for scarce funds contributes the challenges of planning and control experienced in the budgeting process to a moderate extent and political interference contributes the challenges of planning and control experienced in the budgeting process to a moderate extent. It is also clear that time and resources pose a challenge in budgeting in the Ministries to a great extent. Funding pose a challenge in budgeting within the Ministries in Kenya and that budget monitoring pose a challenge in the budgeting process in the Ministries in Kenya.

5.4 Recommendations

The investigation recommends that all the Ministries budgets should be well aligned to the ministry missions to enhance communication to all the levels of department, to assign responsibilities to managers, to forecast the future, to overcome potential bottlenecks before they occur, to help co-ordinate the activities of the several parts of the organization , to fine tune the strategic plan and to act as functional co-ordination tools and that they co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts.

The investigation recommends that budgets should be used effectively to achieve organizational coordination and that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. Such a routine repetitive process provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes, different cost allocation methods result in different estimates of a product's cost, budgeting techniques lead to a deeper knowledge of the cost and the profitability of

products, services, customers and productive unit, sound cost management practices focuses on process management and that budgets control the activities but not the costs.

The investigation further recommends that the Ministries should employ highly qualified personnel to enhance proper budget planning and budget control. The Ministries should focus on the funding process, the constraints faced, the legal frameworks and competition among the endless expenditure against the limited resources (revenue). This will equip the Ministries with the relevant knowledge about the budget challenges and hence enable a possible suggestion of solutions to the challenges.

The investigation finally recommends that well advanced and current technology should be installed in all the Ministries in Kenya to enhance communication. Proper frameworks need to be implemented to ensure that budget inflexibility does not pose a challenge in the budgeting process. The Ministries need to be politically independent to avoid political interference.

5.5 Limitations of the Study

The researcher encountered various limitations that tended to hinder access to information sought by the study. These included:

The researcher encountered problems of time as the research was being undertaken in a short period which limited time for doing a wider research. However the researcher countered the limitation by carrying out the research across all Ministries in Kenya which enabled generalization of the study findings.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about the

ministry. The researcher handled the problem by carrying with him an introduction letter from the University and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes.

The researcher also encountered problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which could not be accurately quantified and/or verified objectively. The researcher encouraged the respondents to participate without holding back the information they had as the research instruments did not bear their names.

Lack of sufficient funds limited the researcher from accessing all the public sector institutions in Kenya to collect data for study. The researcher however limited himself to the Government Ministries due to inadequacy of funds.

5.6 Recommendations for Further Studies

This study has investigated the challenges of budgeting in the public sector where specific reference was given to the Kenya Government Ministries. The investigation established that the Ministries in Kenya face challenges of budget planning and control, communication, availability of funds and budget accuracy. Another similar research need to be carried out to investigate the possible solutions to the challenges of budgeting in the Kenyan Ministries.

REFERENCES

- Abernethy, M., Brownell, P. (1999), The Role of Budgets in Organizations Facing Strategic Change: An Exploratory Study, *Accounting, Organizations & Society*, Vol. 24 No.3, Pp.189-205.
- Abernethy, M.A., Stoelwinder, J.U. (1991), Budget Use, Task Uncertainty, System Goal Orientation and Sub-Unit Performance: A Test of the Fit Hypothesis in Not-for-Profit Hospitals, *Accounting, Organizations and Society*, Vol. 16 Pp.105-20.
- Aggarwal, R. (1980), Corporate use of sophisticated capital budgeting techniques: a strategic perspective and a critique of survey results, *Interfaces*, Vol. 10 pp.31-4.
- Alam, M., Lawrence, S. (1994), A New Era in Costing and Budgeting: Implications of Health Sector Reform In New Zealand, *International Journal Of Public Sector Management*, Vol. 7 No.6, Pp.41-51.
- Ambetsa W.O. (2004) *A survey of the budgeting practices by commercial airlines operating at Wilson Airport: An Unpublished MBA Project UON*
- Amey, L.R. (1979), *Budget Planning and Control Systems*, Pitman, London
- Atkinson, R. (1993), Crisis and Opportunity: Reevaluating Acquisitions Budgeting in an Age of Transition, *Journal of Library Administration*, Vol. 19 No.2, Pp.33-55
- Bell, R.E. (1994), *Strategic planning in agricultural co-operatives: Riceland Foods, Inc.*
- Biwott E.J. (1987), *The Budgetary Allocation Process in Public Sector Institutions: The Case Of The UON: An Unpublished MBA Project UON*
- Boyns, T., Edwards, J.R., Emmanuel, C. (1999), A Longitudinal Study of the Determinants of Transfer Pricing Change, *Management Accounting Research*, Vol. 10 Pp.85-108.
- Bremser, W. (1988), *Budgeting by Department and Functional Area*, American Management Association, Watertown, MA,

- Brigham, E.F. (1995), *Fundamentals of Financial Management*, Dryden Press, Fort Worth, TX, .
- Bruns, W.J, Waterhouse, J.H (1975), Budgetary control and organizational structure, *Journal of Accounting Research*, pp.177-203.
- Bruns, W.J., Waterhouse, J.H. (1975), Budgetary Control and Organizational Structure, *Journal of Accounting Research*, Vol. 13 Pp.177-203.
- Burns, J., Scapens, R.W. (2000), Conceptualizing Management Accounting Change: An Institutional Framework, *Management Accounting Research*, Vol. 11 Pp.3-25
- Capon, N., Farley, J.U., Hulbert, J.M. (1994), Strategic Planning and Financial Performance: More Evidence, *Journal of Management Studies*, Vol. 31 Pp.105-10.
- 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.
- Cheung, L.K. (1986), *Management Accounting in Hong Kong*, Paper Presented at the S.E. Asian University Accounting Teachers Conference, Singapore, April, .
- Cook, D. (1968), The Effects of Frequency of Feedback on Attitudes and Performance: Empirical Research in Accounting, Selected Studies, *Journal Of Accounting Research, Supplement*, Vol. 6 Pp.213-24.
- Coombs, H.M, Jenkins, D.E (1991), *Public Sector Financial Management*, Chapman & Hall, London.
- Cooper, R. (1990), ABC: A Need, Not an Option, *Accountancy*, September, Pp.86-8.
- Cress, W.P., Pettijohn, J.B. (1985), A Survey of Budget-Related Planning and Control Policies And Procedure, *Journal of Accounting Education*, Vol. 3 Pp.61-78
- Dominiak, G.F., Louderback, J.G. (1988), *Managerial Accounting*, PWS-Kent, Boston, MA, .

- Douglas, B.R. (1994), The Budgeting Process in a Multinational Firm, *Multinational Business Review*, Vol. 2 Pp.59-63.
- Eccles, R.G. (1985), *The Transfer Pricing Problem: A Theory for Practice*, Lexington Books, Prentice Hall, NY.
- Eiler, R.G., Ball, C. (1997), Implementing Activity-Based Costing, In Brinker, B.J. (Eds), *Handbook of Cost Management*, Pp.B2.1-B2.33.
- Ezzamel, M., Hart, H. (1987), *Advanced Management Accounting: An Organizational Emphasis*, Cassel Educational Limited,
- Flamholtz, E.G. (1983), Accounting, Budgeting and Control Systems in their Organizational Context: Theoretical and Empirical Perspectives, *Accounting, Organizations and Society*, Vol. 8 Pp.153-69.
- Garrison, R.H. (1988), *Managerial Accounting*, Richard D. Irwin, Homewood, IL.
- Garrison, R.H., Noreen, E.W., Brewer, P.C. (2008), *Managerial Accounting*, 12th ed., McGraw-Hill Irwin, New York, NY, .
- Gitman, L.J., Forrester, J.R. (1977), A survey of capital budgeting techniques used by major US firms, *Financial Management*, Vol. 6 pp.66-71.
- Gordon, L.A, Miller, D. (1976), A contingency framework for the design of accounting information systems, *Accounting, Organizations and Society*, Vol. 1 No.1., pp.59-69.
- Guthrie, J. (1999), *A Critique of the Application of Accrual Accounting to the Public Sector*, Allen & Unwin, Sydney
- Hardy, J.W., Hubbard, E.D. (1992), ABC: Revisiting the Basics, *CMA Magazine*, November, Pp.24-8
- Hassel, L. and Cunningham, G. (1993), Budget effectiveness in multinational companies: an empirical examination of environmental interaction on cognitive and affective

- effects of two dimensions of budgetary participation, *Scandinavian Journal of Management*, Vol. 9 No.4
- Henley, D, Likierman, A, Perrin, J, Evans, M, Lapsley, I, Whiteoak, J (1992), *Public Sector Accounting and Financial Control*, 4th ed., Chapman & Hall, London, .
- Hopwood, A.G. (1972), An Empirical Study of the Role of Accounting Data in Performance Evaluation, *Journal of Accounting Research*, (Supplement), Vol. 10 Pp.156-82.
- Horngren, C.T. (1981), *Introduction to Management Accounting*, Prentice-Hall, Englewood Cliffs, NJ
- Institute of Policy Analysis & Research: IPAR (2002). *Budgetary Process in Kenya. Policy blief*. Vol. 10.
- Johnston, J. (1998), Strategy, Planning, Leadership, and the Financial Management Improvement Plan: The Australian Public Service 1983-1996, *Public Productivity and Management Review*, Vol. 21 No.4, Pp.352-68.
- Jones, T. (2006), Budgetary practice within hospitality, *International Hospitality Industry*, Butterworth-Heinemann/Elsevier, Oxford, pp.71-86.
- Kadondi E.A. (2002), *A Survey of Capital Budgeting Techniques used by Companies Listed at the NSE: An Unpublished MBA Project UON*
- Klammer, T. (1999) The association of capital budgeting and firm performance, *The Accounting Review*, April 1999, pp.353-64.
- Lyne, S.R. (1988), The Role of the Budget in Medium and Large UK Companies and the Relationship with Budget Pressure and Participation, *Accounting and Business Research*, Vol. 18 No.71, Pp.195.

- Lyne, S.R. (1992), Perceptions and Attitudes of Different User-Groups to the Role of the Budget, Budget Pressure and Budget Participation, *Accounting and Business Research*, Vol. 22 No.88, Pp.357-69.
- Maher, M.W. (2005), Activity-Based Costing and Management, In Weil, R.L., Maher, M.W. (Eds), *Handbook Of Cost Management*, John Wiley & Sons, Hoboken, Pp.217-41.
- Martin, M.S. (1993), *Academic Library Budgets*, JAI Press, Greenwich, CT, Vol. Vol. 28.
- Modell, S. (2002), Institutional Perspectives on Cost Allocations: Integration and Extension, *The European Accounting Review*, Vol. 11 No.4, Pp.653-79.
- Moore, C.L., Jaedlicke, R.K. (1976), *Managerial Accounting*, South Western, Cincinnati, OH
- Muleri A.M (2001), *A Survey of Budgeting Practices among the Major British Non Governmental Organizations in Kenya*. An Unpublished MBA Project UON
- Ndiritu M. George (2007), *Effectiveness of Cash Budgeting in Public Institutions. A Case Study of Telkom Kenya*. An Unpublished MBA Project UON
- Obulemire T.A. (2006) *A survey of budgeting practices in secondary schools. A case of public secondary schools in Nairobi: An Unpublished MBA Project UON*
- Oehler, K. (2006), *Corporate Performance Management: Erfolgsfaktoren Für Eine Integrierte Unternehmenssteuerung*, Der Controlling-Berater, Vol. 4.
- Otley, D.T (1980), The contingency theory of management accounting: achievement and prognosis, *Accounting, Organizations and Society*, Vol. 5 No.4, pp.413-28.
- Perara, S., Mckinnon, J.L., Harrison, G.L. (2003), Diffusion of Transfer Pricing Innovation In The Context of Commercialization – *A Longitudinal Case Study of a*

- Government Owned Enterprise, Management Accounting Research*, Vol. 14
Pp.140-64.
- Powell, T.C. (1992), Strategic Planning As Competitive Advantage, *Strategic Management Journal*, Vol. 13 Pp.551-8
- Premchand, A (1983), *Government Budgeting and Expenditure Controls*, International Monetary Fund, Washington, DC, .
- Ramsey, J.E., Ramsey, I.L. (1985), *Budgeting Basics: How to Survive in Budgeting Process*, Franklin Watts, New York, NY.
- Schall, L.D., Sundem, G.L., Geijsbeek, W.R. Jr (1998), Survey and analysis of capital budgeting methods, *The Journal of Finance*, Vol. 33 pp.281-7.
- Scherrer, G. (1996), *Management Accounting: A German Perspective*, In Bhimani, A. (Eds) *Management Accounting: European Perspectives*, Oxford University Press, Oxford, Pp.180-90.
- Schick A. (1999) *A Contemporary Approach to Public Expenditure Management*:
Published in an article of the World Bank Publication.
- Schwarz, H.W. (1997), Budgeting and the managerial process, in Sweeny, H.W.A., Rachlin, R. (Eds), *Handb ook on Budgeting*, John Wiley & Sons, New York, NY, pp.1-20.
- Sheridan, T. (1987), Making Budgets Mean Something Again, *Management Accounting*, No.November, Pp.26-7.
- Shields, M., Young, S.M. (1993), Antecedents and Consequences of Participating Budgeting: Evidence on the Effects of Asymmetrical Information, *Journal Of Management Accounting Research*, Vol. 5 Pp.265-80.

- Simiyu N.T.T. (1977) *A study of the problems of budgeting and motivation at the supervisory level in manufacturing firms in Kenya* .Unpublished MBA project. University of Nairobi.
- Skinner, R.C. (1990), The Role of Profitability in Divisional Decision Making and Performance Evaluation, *Accounting And Business Research*, Vol. 20 Pp.21-33.
- Srinivasan, U. (2000), *Current Budgeting Practices in US Industry*, Quorum Books, New York, NY,
- Sullivan, Arthur; Steven M. Sheffrin (2003) *Economics: Principles in action*. Upper Saddle River, New Jersey 07458: Pearson Prentice Hall. pp. 502. ISBN 0-13-063085-3.
- Tool, M. (1993), *The Theory of Instrumental Value: Extensions, Clarifications*, in Tool, M. (Eds), *Institutional Economics*, Kluwer, Boston, Ma, .
- Van Helden, G.J., Van Der Meer-Kooistra, J., Scapens, R.W. (2001), Coordination of Internal Transactions at Hoogovens Steel: Struggling with the Tension between Performance-Oriented Business Units and the Concept of an Integrated Company, *Management Accounting Research*, Vol. 12 Pp.357-86.
- Weisenfeld, L., Tyson, T. (1990), How to Make Accounting a Positive Tool in Management's Hands, *Management Accounting (UK)*, November - December, Pp.19-20.
- Wildavsky, A (1986), *Budgeting: A Comparative Theory of Budgetary Processes*, 2nd revised ed., New Brunswick, .
- Zairi, M., Leonard, P (1996), *Practical Benchmarking: The Complete Guide*, Chapman & Hall, London.
- Zimmerman, J.L. (2003), *Accounting for Decision Making and Control*, 4th Ed., McGraw-Hill, New York, NY.

APPENDICES

Appendix I: Letter of Introduction to Respondents

University of Nairobi

School of Business

P.O BOX 30197-00100

Nairobi.

March 2010

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a masters’ program student at University of Nairobi, School of Business.

In order to fulfil the master’s program requirements, I am undertaking a research project on **CHALLENGES OF BUDGETING IN THE PUBLIC SECTOR; A CASE OF KENYAN GOVERNMENT MINISTRIES.**

Your organization has been selected to form part of this study. Therefore, I kindly request you to assist me to collect data by filling out the accompanying questionnaire

The information provided will be used exclusively for academic purposes and will be held in strict confidence. Thank you.

Yours faithfully,

Kariuki Mugwe _____

Student

Angela Kithinji _____

Supervisor

Appendix II: Questionnaire

Kindly answer the following questions by ticking in the appropriate box or filling the spaces provided.

Part A: General Information

Ministry of

.....
.....

1. Department Name:

.....

2. What is your designation?

.....

3. What is your total work experience?

- Less than 1 year []
- 1 – 3 years []
- 3 -6 years []
- 6 -10 years []
- Over 10 years []

4. How many years have you worked in the current position?

- 0– 5 []
- 6 – 10 []
- 11 – 15 []
- 16 – 20 []
- Above 20 []

PART B: BUDGETING AND CHALLENGES OF BUDGETING

5. Which budgeting systems are applied in your organization?

.....

6. Does your department participate in preparations of the following budgets?

Type of budget	Yes	No
Master budget		
Recurrent budgets		
Development budgets		
Incremental budget		
Performance-Based Budgeting		
Medium Term Expenditure Framework		
Other (specify.....)		

7. On what basis do you break down your budgets? Please tick appropriately. Multiple responses allowed.

Basis of budget breakdown	Yes	No

Time		
Cost unit		
Both time and cost unit		
Other (specify)		

8. Budgets have a number of purposes, rate the level of how important you think that each of the following purpose is relevant in the public sector budgeting. Use a scale of 1 to 5 where 1 is strongly agree and 5 is strongly disagree.

Importance of budgets	1	2	3	4	5
To forecast the future					
As a functional co-ordination tool					
As a communication tool to all the levels of department					
As a means of performance evaluation					
To motivate employees					
Budgets are used to fine tune the strategic plan					
Budgets are used to help co-ordinate the activities of the several parts of the organization					
They are used to assign responsibilities to managers					
To control performance by calculating and investigating					
Budgets overcome potential bottlenecks before they occur					
They co-ordinate the activities of the entire organization by integrating the plans and objectives of the various parts					

9. When processes are relatively routine repetitive, budgets could be used effectively to achieve organizational coordination. To what extent do you agree with this statement?

Strongly agree []

Agree []

Neutral []

Disagree []

Strongly disagree []

10. Budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. To what extent do you agree with this statement?

Strongly agree []

Agree []

Neutral []

Disagree []

Strongly disagree []

11. With reference to the various budgeting systems applied in your department, rate the extent of your agreement to the following statements about the budgeting process at the ministry. Use a scale of 1 to 5 where 1 is strongly agree and 5 is strongly disagree.

Importance of budgets	1	2	3	4	5
Sound cost management practices focuses on process management					
Budgeting provides organizations with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes					
Budgets control the activities but not the costs					
Budgeting techniques lead to a deeper knowledge of the cost and the profitability of products, services, customers and productive unit					
Different cost allocation methods result in different estimates of a product's cost					
Others (Specify)					

12. To what extent do you experience challenges of budget planning in the processes of budgeting?

To a very extent []

To a great extent []

To a moderate extent []

To a little extent []

To no extent []

13. What causes the problems of budget planning challenges in this organization?

.....

.....

14. Do you encounter any challenges in budget control within this organization?

Yes [] No []

15. To what extent do the following factors contribute to challenges of budget control within the ministry?

Cause of budgeting challenges	1	2	3	4	5
Budget constraints					
Legal frameworks					
Competition					
Change of office holders					
Budget funding					
Other (specify.....)					

16. To what extent does communication cause a challenge in the budgeting process in this ministry?

To a very extent []

To a great extent []

To a moderate extent []

To a little extent []

To no extent []

17. What are the possible solutions to the communication challenges on the budgeting process?

.....

.....

18. Which are the main challenges of planning and control experienced in the budgeting process? Rate the extent of the challenge using a scale of 1 to 5 where 1 is to a very great extent and 5 is to extent.

Budgeting challenges	1	2	3	4	5
Poor or lack of modern technology					
Competition among the budgeted items for scarce funds					
Budget inflexibility					
Political interference					
Other (specify.....)					

19. To what extent do time and resources pose a challenge in budgeting in your organization?

To a very extent []

To a great extent []

To a moderate extent []

To a little extent []

To no extent []

20. Does funding pose a challenge in budgeting?

Yes [] No []

If yes how do you manage the funding challenge?

.....

21. Which challenges of budget implementation do you experience?

.....

22. Does budget monitoring pose a challenge in the budgeting process in the ministry?

Yes [] No []

If yes, to what extent?

To a very extent []

To a great extent []

To a moderate extent []

To a little extent []

To no extent []

23. To what extent do you agree with the following statements about possible solutions to the challenges of budgeting experienced? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to extent.

Possible solutions to budgeting challenges	1	2	3	4	5
Budgetary procedures implementation fairness addresses the extent to which budgetary decision makers carry out the formal budgetary procedures in a way that is consistent with the manager's criteria for what is proper					
Budgetary managers often have stronger reactions toward the fairness of the organization's budgetary procedures than they do toward the					

favorability or fairness of their unit's budget					
Decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis					
Other (specify.....)					

THANK YOU FOR PARTICIPATION!!!!

Appendix III: The Budget Schedule

Research Budget

ITEM

COST (kshs)

1 Proposal Development

a) Printing of 38 pages @ Kshs. 30	1140.00/-
b) Reproduction 6 copies @ Kshs. 80	4,800.00/-
c) Binding 6 copies @ Kshs. 50	300.00/-
d) Traveling Expenses	4,000.00/-
e) Subsistence	4,000.00/-
f) Miscellaneous expenses	3,000.00/-

2 Data collection and Analysis

a. Data collection	3,000.00/-
b. Books and reading material	5,000.00/-
c. Data analysis and computer runtime	5,000.00/-
d. Printing 70 pages @ Kshs. 30	2,100.00/-
e. Reproduction 6 copies @ Kshs. 40	8,400.00/-
f. Binding 5 copies @ Kshs. 1,000/-	5,000.00/-

3 Others

a. Miscellaneous expenses	4,000.00/-
---------------------------	------------

GRAND TOTAL

49,800.00/-

Appendix IV: Time Plan

Time Frame;
Start – Finish Duration

Phase	Description	Number of weeks										
		1	2	3	4	5	6	7	8	9	10	11
1	Data collection	■	■	■								
2	Data analysis				■	■						
3	Result writing						■	■				
4	Report writing								■	■		
5	Compilation and presentation										■	■

Appendix V: List of Government Ministries

1. Provincial Administration and National Security
2. Ministry of Defence
3. Ministry of Special Programmes
4. Ministry of Immigration and Registration of Persons
5. Ministry of National Heritage and Culture
6. Ministry of Agriculture
7. Ministry of Co-operative Development and Marketing
8. Ministry of State for Public Service
9. Ministry of East African Community
10. Ministry of Education
11. Ministry of Higher Education, Science and Technology
12. Ministry of Energy
13. Ministry of Environment and Mineral Resources
14. Ministry of Finance
15. Ministry of Industrialisation
16. Ministry of Foreign Affairs
17. Ministry of Youth and Sports
18. Ministry of Public Health and Sanitation
19. Ministry of Medical Services
20. Ministry of Information and Communication
21. Ministry of Justice, Cohesion and Constitutional Affairs
22. Ministry of Labour and Human Resource Development
23. Ministry of Lands
24. Ministry of Roads
25. Ministry of Public Works
26. Ministry of Livestock Development
27. Ministry of Fisheries Development
28. Ministry of Local Government
29. Ministry of Planning and National Development and Vision 2030
30. Ministry of Regional Development Authorities

31. Ministry of Gender and Children Affairs
32. Ministry of Tourism
33. Ministry of Trade and Industry
34. Ministry of Transport
35. Ministry of Water and Irrigation
36. Ministry of Housing
37. Ministry of Forestry and Wildlife
38. Ministry of Nairobi Metropolitan Development
39. Ministry of Home Affairs
40. Ministry of Development of Northern Kenya and other Arid Lands