FACTORS THAT LEAD TO SUPPLEMENTARY BUDGETS IN BANKING INSTITUTIONS: A CASE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

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

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This project has been submitted for examination with my approval as the University supervisor

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N.T.T SIMIYU

DEDICATION

To my wife Elizabeth and our children, Kevin and Sharon

ACKNOWLEDGEMENT

I wish to accord my Supervisor, N.T.T Simiyu, special acknowledgement for the great insight, patience with me and great encouragement and guidance throughout the research process.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Budgets are financial blueprints that quantify a firmós 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, 2001). The budget is a standard against which the actual performance can be compared and measured. The literature on budget practices focuses on the relevance and applications of budgets to large, complex and manufacturing organizations and less on services and small organizations. Furthermore, most studies report on practices in advanced countries. The reasons for this scenario may be that the budget preparation is frequently a time consuming exercise, and it involves many people in various departments of the firms.

The size of a firm and its complexity of its operations generally influence the nature of budgeting it should adopt. For example, giant organizations should have more complex and sophisticated systems as compared to medium and small organizations. Their budget systems serve as a means of integrating the numerous divisions in addition to being planning and control tools. Budgets in the organizations serve multiple roles of planning, evaluation, coordination, communication, and decision-making. Participation in budgeting is another important issue because it reflects the degree of consensus, an important aspect of management style (Premchand, 2004).

According to Premchand (2000), implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available; identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate. He states further that budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work. First an allocation system under which expenditure is controlled by release of funds is put in place. Secondly there is supervision of the acquisition of goods and services to ensure value for the money spent. Thirdly an accounting system that records government transactions and provides a framework for an analysis of their implications is implemented. The final phase involves a reporting system that permits a periodic appraisal of the actual implementation of policies (Premchand, 2004).

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

Budgeting is a vital tool in organizations for directing activities and employees' efforts towards the organization's common objectives (Covaleski *et al.*, 2003). For example, budgeting requires the organization to engage in systematic operational planning for the near future and to consider how to best allocate its limited resources among the organizations various operating units. Budgeted results (in terms of, for example, revenues, costs, or units of production) communicate to employees the organization's expectations regarding their job performance, which is ultimately evaluated based on some comparison of actual versus budgeted results. Key players in organizational budgeting are operating unit managers, who are involved both in preparing their unit's budget and ensuring the unit's activities are carried out in accordance with the budget. Because of managers' close association with the budget and budgeting, characteristics of the organization's budgetary system will influence their attitudes and behaviors (Kenis, 1979; Merchant, 2004; Covaleski *et al.*, 2003).

As the budget is formulated during the second half of the preceding year, there is scope for the development of a new scenario in parallel with or after the formulation process. Analytically it is necessary to distinguish between changes which should have been anticipated and reflected in the budget, and those which were genuinely unexpected and which now have to be incorporated (Pike, 2002).

1.1.1 Supplementary Budgeting

A supplementary budget serves to encourage debate on the budget aggregates and how they interact with the economy. As such, it also serves to create appropriate expectations for the budget itself. It should be released prior to the introduction of the budget proposal. It should state explicitly the long-term objectives and the banks intentions for the forthcoming budget and, at least, the following two years. It should highlight the total level of revenue, expenditure, deficit or surplus, and debt.

There should be a strong relationship between the budget as formulated and the budget as executed. However, a modest degree of adjustment is desirable during execution to allow for the occurrence of events which were unknown or uncertain at the time the budget was authorized. As the budget is formulated during the second half of the preceding year, there is scope for the development of a new scenario in parallel with or after the formulation process. Analytically it is necessary to distinguish between changes which should have been anticipated and reflected in the budget, and those which were genuinely unexpected and which now have to be incorporated. This is referred to as a supplementary budget (Chun, 1996).

The budget cycle is a crucial process in all organizations. However, in the banking sector, it is overlooked as a tool for improving the efficiency of the organization as a whole. But changes are afoot that mean banks must take a long, hard look at their budgeting, forecasting, monitoring and reporting arrangements to find out just how well they are working and whether they can deliver more value. In banks, the budget has a special significance as a statement of how the bank intends to spend its funding in the year ahead, and has an important role as a control mechanism.

Budgeting in the banking sector is faced with the challenge of how to ensure that investments have the expected impacts. Cost estimates for investment projects are often unrealistic. They may change significantly as projects progress, undermining the expected net value of the project. If cost increases are absorbed in annual budget updates, agencies have incentives to under-estimate initial costs. If cost reductions can be reallocated to other projects, they have incentives to over-estimate initial costs, and to extend the implementation period. Both approaches can lead to inefficient selection and implementation of budgets (Pike, 2002).

Budgeting in commercial banks is a top down process. The targets are set and prepared by the top management while implementation is by the lower management level. As a result they set unrealistic budgets because they do not have the information on the ground. This automatically will lead to failure in implementation as the critical issues are not factored in. in addition to this budgeting is not related to productivity. Effective budgets should be made with productivity given higher priority. This is however not the case as most mangers will strive to saving costs than managing them. Too much of cost cutting will shift focus and some managers will even inflate their budgets for instance budgeting for non existent staff so as to appear to be saving costs. This has resulted in budgets not being used to measure performance (Nouri and Parker, 2007).

The budget cycle is a crucial process in all organizations. However, in the banking sector, it is overlooked as a tool for improving the efficiency of the organization as a whole. But changes are afoot that mean banks must take a long, hard look at their budgeting, forecasting, monitoring and reporting arrangements to find out just how well they are working and whether they can deliver more value (Nouri and Parker, 2007).

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

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs the Banking industry in Kenya. The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Financeÿs docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenyaÿs commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banksô interests and addresses issues affecting its members (Kenya Bankers Association annual Report, 2008)

There are forty four banks and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty-five of the banks, most of which are small to medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign-owned, though some are partially locally owned. Six of the major banks are listed on the Nairobi Stock Exchange. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banksô interests and addresses issues affecting member institutions. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking (Kenya Bankers Association annual Report, 2008).

Banks represent a significant and influential sector of business worldwide that plays a crucial role in the global economy. Commercial banks are financial intermediaries that serve as financial resource mobilization points in the global economy. They channel funds needed by business and household sectors from surplus spending to deficit spending units in the economy. A well developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth. A well functioning banking sector provides a system by which a countryös most profitable and efficient projects are systematically and continuously funded. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade (Joshi, 2001).

1.2 Statement of the Problem

In the banking industry a strong relationship is evident between a formulated budget and an implemented budget. However, a modest degree of adjustment is desirable during execution to allow for the occurrence of events which were unknown or uncertain at the time the budget was authorized. Banking institutions in Kenya have been using supplementary budgets either in the middle of the year or annually (Ondiek, 2001). Analytically it is necessary to distinguish between changes which should have been anticipated and reflected in the budget, and those which were genuinely unexpected and which now have to be incorporated (Joyce and Blayney, 2003).

Most studies on supplementary budget practices have been conducted in the developed countries. The study by Cheung (2004) into the Hong Kong situation of 35 managers revealed that supplementary budgets were widely used in banks and other financial institutions. Chun (2005) replicated Lyneòs study, with a larger sample of companies from Malaysia. He reported Malaysian user-groups views on the role of supplementary budgets, budget pressure and participation, which were similar to Lyneòs findings. However, in developing countries, few studies have been done on supplementary budgets. Ndiritu (2007), for instance, researched on effectiveness of supplementary budgeting in public institutions by studying Telkom Kenya. Kadondi (2002) did a survey of supplementary budgeting techniques used by companies listed at the NSE. Muleri (2001) conducted a survey of budgeting practices among the major British Non-governmental organizations in Kenya and Wamae (2008) looked at the challenges of supplementary budgeting at national social security fund. There is no known study that has been done on factors that lead to supplementary budgets in banking institutions, a knowledge gap.

This study sought to bridge this gap by determining factors that lead to supplementary budget in banking institutions by doing a study on commercial banks in Kenya. The study sought to determine the importance of supplementary budgeting to bank operations and establish the supplementary budgeting processes used in commercial banks in Kenya. The study also established the variation between planned budget and the implemented budgets in commercial banks in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

To determine the factors leading to supplementary budgeting in banking institutions based in Kenya

1.3.2 Specific Objectives

i. To determine the factors leading to supplementary budgets in commercial banks in Kenya
ii. To establish the variation between planned budget and the implemented budgets in commercial banks in Kenya

1.4 Significance of the Study

To the banking industry the study will provide a more efficient forecast of revenues and expenditures i.e. construct a model of how business might perform financially speaking if certain strategies, events and plans are carried out. The actual financial operation of the business can be measured against the forecast. The study being an appraisal of the budget implementation process, findings and recommendations of which will be of great value to the management of the commercial banks in Kenya for it will advice them on the way they should implement the budgets they plan in order to reduce variances between planned and implemented budgets.

To the researchers and academicians the study will provide a base upon which secondary material on budget implementation will be drawn. The study will also provide good literature on budget implementation.

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

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.

2.2 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, 2001) of an organization.

Anthony et al (2004) list four uses of a budget. The first is to fine tune the strategic plan, the second is to help co-ordinate the activities of the several parts of the organization. The third is to assign responsibilities to managers; and last, to obtain a commitment that is a basis for evaluating a managerNs actual performance.

According to Garrison (2002) four major advantages of budgeting include: giving planning top priority; providing managers with a way to finalize their planning efforts; overcoming potential bottlenecks before they occur; and coordinating 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 co-ordination of resources for their best use; setting benchmarks for performance; and as a cost control mechanism (Sheridan, 2001).

Review of literature on operational budgeting (Bremser, 2004; Douglas, 2002) reveals that operational budgets serve dual purposes of planning and control. Flamholtz (2001) developed a mechanism for effective planning and control aspects of budgets. The study by Ezzamel and Hart (2001) also supported this dual role of budgeting. Moreover, Hopwood (2000), and Abernethy and Stoelwinder, (2005) 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, 2007). Traditionally, budgets were seen as the primary planning document (Alam and Lawrence, 2005; Johnston, 2005). Guthrie (2006) 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 organisationŝs expectations to its clients. The budgets process provides for coordinated planning among different functional areas (Ramsey and Ramsey, 2005; Bremser, 2008). Bruns and Waterhouse (2009) concluded that when production processes were relatively routine repetitive, budgets could be used effectively to achieve organizational coordination.

2.2.1 Budgeting: Historical Development

The growth and contributions of the existing budgeting literature can be presented in two ways. One form of presentation is historical, showing how research questions in each theoretical perspective grew out of interactions among practice concerns, budgeting research in other perspectives, and developments in basic economics, psychology, and sociology theories. The other form of presentation is analytical, separately describing the research questions, assumptions, and results characteristic of each theoretical perspective. Although the latter presentation mode, which we use in the following sections of this paper, is convenient for orderly exposition, it can give the impression that the three theoretical perspectives are more isolated and incompatible with each other than they actually are. Therefore, the remainder of this introduction summarizes the common historical background of the three perspectives on budgeting and describes their key similarities and differences.

The initial scholarly response to these observations was a stream of social-psychology-based research, which searched for (but did not always find) systematic evidence of the costs of budgeting described anecdotally in the practitioner literature. Recognizing the complexity of individuals' responses to their social environments, the psychology-based research investigated the effects of budgeting on a variety of potentially conflicting mental states and behaviors, primarily motivation, stress, satisfaction, commitment, relations with peers and superiors, and individual managerial performance. This research also examined the association of these effects with specific budgeting practices such as the level of difficulty of budget targets, the supervisor's budget-related performance-evaluation style, and the extent to which employees' compensation depends on meeting budget targets. In particular, this research investigated the effects of participative budgeting, the remedy Argyris (2006) proposed to eliminate or reduce the costs of budgeting he observed.

Like the psychology-based literature, the sociology-based budgeting literature was influenced by Argyris' (2006) description of the costs of budgeting. Early sociologybased studies linked this description of budgeting with the emerging literature on organizational theory, which was synthesized by March and Simon (2005) and associated with a second study of practice commissioned by the Controllership Foundation at about the same time, examining the controllership function in organizations (Simon et al. 2007). This organizational-theory literature focused on the difficulties of decision making and coordination in large, complex organizations engaged in diverse activities in uncertain environments over many periods. In this setting, identifying optimal organizational practices seemed beyond the capabilities of bounded rational individuals. In consequence, an important role of organizational structures and routines such as budgeting was to simplify organizational decision making. Although sociology-based research did not expect organizational practices to be always optimal, a stream of studies based on the contingency theory of organizations argued that organizations would tend to adopt practices (such as budgeting) that improved performance, and that these practices would vary systematically depending on organizational variables such as size, environmental uncertainty, and technology (Chenhall 2003).

As sociology-based budgeting research evolved, it increasingly emphasized that individuals within an organization have conflicting interests, and organizational structure and routine can establish power relations. Some sociology-based research argued that budgeting could reduce resistance to the exercise of power by concealing it in apparently neutral routine or technical procedures such as budget formulas. Budgeting could also be identified with a social norm of rational organizational behavior, thus conferring legitimacy on decisions reached through the budgeting process. However, the breakdown of routines, structures, or shared representations through changes in budgeting (or the initial development of such routines in new organizations or subunits) could generate conflict (sometimes prolonged) that hindered the working of an organization's decision-making process. Thus, the sociology-based budgeting literature sometimes represented practices like participative budgeting and budget-based performance evaluation and compensation as ways of simplifying organizational decision making for boundedly rational individuals, and sometimes represented them as part of the construction, functioning, and occasional breakdown of power relations in and around organizations.

Argyris' study (2006) and the early psychology-based research it stimulated also played a role in early economics-based studies, as researchers began to use the emerging economics of information to analyze accounting practice, including budgeting. Citing Argyris (2006) and social-psychology-based studies such as Hopwood (2000), which documented costs of budget-based evaluation of employees, Demski and Feltham (2004) asked: What are the offsetting benefits of this practice that might account for its prevalence? How can the cost-benefit trade-off be analyzed to determine whether the combination of costs and benefits provided by one budgeting practice (such as budget-based performance evaluation and reward) is better for both employer and employee than the trade-off provided by an alternative practice? The economics-based research thus often addressed the same budgeting practices as the psychology-based and sociology-based research, but shifted the focus of primary and intensive research attention. In the psychology-based research, what was "under the microscope," showing its full complexity was the nature of individual employee reactions to budgeting practices, while many features of the organization in which these practices operate appeared only sketchily in the background. In the economics-based research, the preferences and beliefs of individuals were much simplified, and what was "under the microscope" was the nature of the optimal trade-offs in employment agreements between owners and employees with conflicting preferences and different information, and how these trade-offs affect organizational performance. In the sociology-based literature, what was "under the microscope" was the role of budgeting in these organizational processes and their outcomes (e.g., organizational performance). Representations of individual preferences and beliefs are relatively underdeveloped in the sociology-based research, just as representations of organizational structure and process in large complex organizations are relatively underdeveloped in the economics- and psychology-based literatures.

The research questions formulated by the budgeting literature in the last several decades are likely to remain important questions for future research: How do budgeting practices affect employee motivation and performance, as well as organizational performance? What role should budget targets play in evaluating and rewarding employees' performance? What are the costs and benefits of different levels of budget-target difficulty and different methods of setting these targets? How does budgeting help or hinder in planning and coordinating activities in complex organizations, and what is its role in generating or resolving organizational conflict? How do the answers to all these questions change with changes in non budgeting variables such as environmental uncertainty, technology, and organizational strategy and structure?

2.2.2 Theoretical Review

It is important to note that the existing scholarly literature on budgeting has drawn on only limited portions of the social sciences on which it depends. The psychology-based literature on budgeting relies more on social psychology than on cognitive psychology. The economics-based literature on budgeting relies on principal-agent models, but not on other potentially relevant economic theory such as models of adaptive behavior in games or complementarities in organizational design. The sociology-based research on budgeting is mostly based on contingency and institutional theories rather than population-ecology or critical theories.

The level of a variable is defined at the level at which the variation of interest occurs (Rousseau 2009; Klein et al. 2001; Kozlowski and Klein 2000). For example, participative budgeting is an individual level variable when a study examines effects on individual mental states or behavior of the individuals' beliefs about how much they participate in budgeting, and the researcher is interested in variation across individuals per se, as opposed to when individuals serve as proxies for subunits or organizations. Participative budgeting is an organizational-level variable when a study examines cross-organizational differences in participative budgeting, and the researcher's goal is to relate this variation in budgeting to variations in technology, structure, or performance across organizations.

2.3 Budgeting Process

The process of preparing a meaningful and useful budget is best undertaken as an organised and structured group exercise. The budget process involves asking a number of questions. These start with plans and goals, not numbers. These questions can only be answered by program and finance staff working together (Chakravarthy and Lorange, 2006).

Since many different people will need to use the budget for different purposes, they should be able to pick it up and understand it without any additional explanation. Clarity and accuracy is crucial, particularly if staff change during the life of a project. So it is important to keep notes on all budgeting assumptions and how calculations have been made (Pickup, 2001). Six fundamental phases in the Budgeting process have been identified (Marsh et al, 2006; Pinches, 1982). These are: Identification of investment opportunities: this phase, although extremely important, has been often ignored, probably because it cannot be easily formalized; Development and evaluation: once investment proposals have been identified, it is necessary to analyze them thoroughly, collecting relevant and detailed information for each alternative, and evaluating their profitability and global attractiveness; Selection: a screening of investment proposals which have passed through the previous phase might be necessary because of financial or strategic factors. As a result, some projects might be cancelled or postponed to another planning period; Authorization: almost all investment projects must be approved (either by line management or by appropriate investment committees) before their implementation; Implementation and control: while the project is being carried out, follow-up procedures are indispensable to adhere to budgeted costs and deadlines and Post-auditing: in this phase the outcomes of each project are compared with budget targets in order to assess forecast accuracy and identify error patterns with a feedback effect on the whole decision process.

2.3.1 Estimating Costs

The cost estimate is what helps an organisation determine realistically what it will cost to implement its operational plan. When an organization is carrying out its plans it will probably need to make use of a wide range of inputs. Inputs include people, information, equipment, skills etc. Most of these inputs will have a cost attached to them. These are the costs that an organization needs to estimate in order to develop a budget. Careful cost estimation helps in developing an accurate budget and also helps monitor and control the actual costs of carrying out activities (Schmidgall, 2004).

The costs that any organization needs to estimate mainly fall into the following categories:

Operational costs are the direct costs of doing the work e.g. the cost of hiring a venue, or of printing a publication, or of travelling to the sites where fieldwork needs to take place. Here the budgeting committee would include materials, equipment, transport and services (Schmidgall, 2004) into the budgets.

Organisational costs are the costs of the organisational base, including management, administration and governance. Once an organisation has decided on the best organisational set-up to support its operational plans, it will incur the organisational expenses on a regular basis ï even if it does not carry out its plans or have activity levels as high as it had hoped. So, for example, if an organisation hires premises for four projects but only manage to carry out two, it will still have to pay rent for the extra space. If the organisation has hired a full-time receptionist on the same belief, it will still have to pay her salary, even if she is under-utilised (Agnihothri and Taylor, 2003).

Staffing costs are the costs for organizationsô core staff ï the people involved in management, the people doing work that cuts across projects. These costs can be included as a category under ñorganisational costsò. These costs include their salaries and any benefits such as medical aid or pension fund payments for which the organisation is responsible (Kadondi, 2002).

Capital costs are costs for large ñinvestmentsò which, while they may be necessary because of a project or projects, will remain organisational assets even after the projects are over. Vehicles and equipment such as computers and photocopiers fit here. They may be used by all projects, or they might only be required for a specific project. Depending on how the organisation intends to use the equipment, it might budget for it under operational costs or under organisational costs.

2.3.2 Budgeting Guidelines

While budgeting depends to a certain extent on the particulars of an organisation or project, there are certain guidelines which apply across projects and organizations. These are not rules that are fixed for all time. They offer some guidelines that can help deal with common budgeting process situations (Kadondi, 2002).

Firstly, it is usual for long-term projects and organizations to prepare a budget which makes projections for several years at a time. While it is usually only the budget for the forthcoming year that is really quite accurate, the projections for the following years gives some indication of the levels of funding that are likely to be needed. Some allowance is usually made for inflation for subsequent years, as well as for the anticipated activities which may differ from the first year. A three-year budget should be based on a three-year plan (OŏDea, 2001).

Secondly, contributions in kind (not money, but goods) should be included as a note to the budget. Although they are not part of the budget, they reduce budget costs and so should be indicated. This includes the contribution made by volunteers in the form of sweat equity. Sweat equity is a term used to describe the contribution made to a project by people who contribute their time and effort. It can be contrasted with financial equity which is the money contributed towards the project. It is used to refer to a form of compensation by businesses to their owners or employees (OŏDea, 2001).

Thirdly, some costs that need to be estimated but that often get forgotten like start-up costs, research and development, democracy and governance, marketing or public relations ï building a professional image, replacement of capital goods and monitoring and evaluation costs for projects (OŏDea, 2001).

Fourthly, guideline requires that budget estimates should be informed guesses and not just guesses. An organisation needs to carry on its homework, get quotes, phone around to arrive at a likely cost etc. This involves checking any organisational figures from previous years that may provide helpful information. There is need to note down any price increases affecting the organisation that are already known (e.g. a salary increase of 10% that may have already been agreed) and notes of any unusual expenses that are likely to occur (e.g. moving organizationsô offices) should be made. A few shillings may not seem a big amount, but when multiplied many times over this kind of discrepancy can make a big difference in the budget (Fanning, 1999).

It is also important to keep the notes made during the budgeting process. As an organisation plans its budget and makes decisions about how it will estimate costs, there is need for those involved in the budgeting process to keep their notes handy so that they can go back and check where the amounts came from. They may, for example, work out the workshop costs on the basis of a certain amount for photocopying, based on an estimated per page cost. When, a year later, the costs are higher than anticipated, they should go back to these notes and see where the discrepancy comes in. Or, in another scenario, an investor may ask the organisation to explain how the budgeting committee arrived at the cost per participant for workshops.

Lastly, for management purposes the budget for the forthcoming year should be broken into a monthly budget. This will help the management when monitoring the organisation cash flow. It will also help the management to pick up variances quickly.

2.3.3 Budget Line Items

Line items are the actual items listed in an organisation budget. For example, under the category ñtraining costsò, ñstationeryò might be a specific line item. Under the category ñgovernanceò, ñtraining for Board membersò may be a specific line item (OôDea, 2001). It is up to the budgeting committee members to decide what the organisation categories will be and to decide what the line items under each category will be. So, for example, one organisation may include ñgovernanceò under ñmanagementò, and ñinvestor liaisonò under ñfundraisingò, while another may have them as separate categories or line items.

If an organisation is preparing a budget for the first time, it should begin by listing all the items that are going to cost the organisation or project money. Later on, the management will have some idea of the categories and items that make sense for the organisation or project so it will be able to take short cuts when the budgeting committee lists the line items (OôDea, 2001).

2.3.4 Role of Organizational Commitment in the Budgetary Participation and Performance

Organizational commitment is a dimension of a positive employee attitude, which has been linked to performance (Manogran, 2000). It is defined as the extent of employees' feelings and beliefs about the organization which they work for (George and Jones, 2005). The literature describes two types of organizational commitment; affective (or attitudinal) commitment and continuance commitment. Prior work involving organizational commitment has focused on affective commitment (Quirin et al., 2001). Affective (or attitudinal) commitment is defined as the willingness to execute continuous effort for the success of the organization. It is characterized by a strong belief in, and acceptance of, the organization's goals and values.

Nouri and Parker (2007) proposed that budgetary participation affects job performance through organizational commitment. The authors reasoned that managers, who are allowed to participate in the budgetary process, will have higher organizational (affective) commitment and this in turn, leads to improved job performance. The authors conducted a study on 135 managers and supervisors in large multi-national corporations involved in chemical production in the USA. The authors used path analysis and found that organizational commitment plays an intervening role in the Budgetary Participation and Performance (BPP) relationship. The results reveal a positive relationship between budgetary participation and organizational commitment. The path analysis also showed a direct relationship between budgetary participation and performance. This led the authors to conclude that budgetary participation increases organizational commitment, which could lead to positive work outcomes, such as enhanced job performance. On the contrary, a more recent study by Parker and Kyj (2006), examining vertical information sharing as an intervening variable in understanding the performance effects of the relationship between budgetary participation and OC, found that there is no direct relationship between budgetary participation and OC. Both studies, however, were limited to the private sector. No work has been done on the role of OC in the BPP relationship, within public sector organizations.

2.3.5 Role of the Perception of Innovation in the Budgetary Participation

Managers' perception of innovation has been investigated in a few recent BPP studies. This variable, however, has been expressed slightly differently in each of these studies. Subramaniam and Mia (2001) used the term ñmanagersò value orientation towards innovationò. Subramaniam and Ashkanasy (2001), described it as ñthe perception of innovationò, while a more recent study by Subramaniam and Mia (2001) uses the term ñwork-related values of innovationò. Despite the difference in terminology used, the meaning and item used to measure this construct in BPP studies have remained the same.

Of the three recent studies cited above, the work by Subramaniam and Ashkanasy (2001) is the most relevant because they test the BPP relationship using the variable Perception of Innovation (POI). The study involved a questionnaire-survey with 114 managers from 37 companies in the

Australian food manufacturing sector. The authors predicted a three-way interaction between budgetary participation, perception of innovation and attention to detail, which in turn, affects managerial performance. The results reveal a direct positive relationship between budgetary participation and performance. They also found that managers who have a high perception of innovation, participation in budget-setting, does contribute to improved performance. Awio and Northcott's (2001) work suggests that the budgetary process is more effective in a decentralized structure, as it motivates managers, thus enhancing their performance.

Although there is no published work, to date, which specifically focuses on Organizational Commitment (OC) in the budgetary process in the public sector, the study by Dick and Metcalfe (2001) provides some insights into the role of OC, in general, in the public sector. They conducted a survey on police officers and civilian staff. They proposed that OC is higher amongst uniformed staff, compared to civilian staff. However, they found no support for this. The results, however suggest that OC is closely related to individual performance.

2.4 Importance of Budgetary Accounting

Budgetary or appropriation accounting consists of tracking and registering operations concerning appropriations and their uses. It should cover appropriations, apportionment, any increase or decrease in appropriations, commitments/obligations, expenditures at the verification/delivery stage and payments. Budgetary accounting is only one element of business accounting system but it is the most crucial for both formulating policy and supervising budget implementation. In particular, weaknesses in budgetary accounting and recording make quality analysis of the performance, outputs or outcomes impossible (Hope and Hope, 2007).

Most large organizations keep registers for their transactions at each stage of the expenditure cycle, or at least at the obligation stage and the payment stage. This, whatever their accounting system or budget execution procedures are, is important. Many small and medium enterprises keep similar registers, either at the spending department level or through centralized control procedures. However, in both cases, budgetary accounting presents inadequacies. On the one hand, when registers are kept by departments, information is not systematically available at the level of the Chief Finance Officer, which would need it to supervise budget implementation. In practice, in some of these organizations budgetary accounting covers only payments. On the other hand, where control procedures are centralized, sometimes information on budget execution concerns operation steps that do not correspond to the stages in the expenditure cycle (Fanning, 2008)

2.4.1 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 ñfearò being that they could potentially hinder and damage an organizationøs performance (Bunce and Fraser, 2006). 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 calculations for the organisation budget because some stakeholders may be willing to provide a supplementary revenue if the management can show clearly that the budget calculations were based on a smaller rate of inflation than actually proved to be the case (Hope and Fraser, 2004).

2.4.2 Efficiency and Effectiveness

With regard to being efficient, for instance, it is generally considered that the traditional budgeting process is very bureaucratic and protracted (Bunce and Fraser, 2001). In particular, it is claimed that budgets take up too much management time, often involving numerous revisions and substantial delays (Fanning, 2008). Significant concerns regarding the apparent ineffectiveness of traditional budgets, meanwhile, include: that typically such budgets encourage parochial behaviour, reinforcing departmental barriers while hindering flexibility, responsiveness and knowledge sharing; that they are seen as a rigid commitment, constraining management to out-of-date assumptions while inhibiting both management initiative and the pursuit of continuous improvement; that they strengthen the traditional vertical chain of command rather than empowering the people on the organizationøs front line; and that they emphasize cost-minimization rather than the maximizing of value (Hope and Fraser, 2006). Overall, it is considered that such budgeting systems often fail to give lasting improvement or generate congruent behaviour (Bunce and Fraser, 2006) summarize the situation by concluding that: é the budgeting process is too rigid, too internally focused, adds too little value, takes too much management time, and encourages the wrong managerial behaviour.

It is suggested that a significant number of these problems of inefficiency and ineffectiveness relate to the fact that traditional budgeting systems were actually initially designed just as an aid to financial forecasting, cash flow management and the control of costs and capital expenditure (Hope and Fraser, 2006). In recent times, though, budgets have also been utilized to support such important management functions as communicating and determining corporate goals and objectives, allocating resources and appraising performance functions for which the budgetary control system was never designed, and for which it is not at all well suited (Bunce and Fraser, 2006). It is perhaps not surprising then that it is considered that the traditional budgeting system is ñout of syncò with the needs of organizations in the information age and that a new approach to achieving managementøs purposes for budgeting is needed (Hope and Hope, 2007).

2.5 Challenges Facing Budget Implementation in the Banking Industry

Two key factors influence budgeting process namely, the level of local 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. External resources in the form of loans and grants are also factored into the budget following commitment by stakeholders. 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 result of the non-fulfilment of donor conditions (OøDea, 2001).

The above situation will lead to a shortfall in budget financing and the only realistic alternative if the budget is to be implemented in full is to resort to domestic borrowing. Therefore it is important that the projected revenue levels and the external resources committed are available to enable the budget to be fully implemented by the firms in the banking industry (Anderson and Lanen, 1999).

There is also a high degree of secrecy maintained in budget allocation. This is due to the confidential nature of the information used and contained in the budgets in the banking industry.

The most significant challenge the budget implementation in the banking industry in Kenya faces as it moves forward in keeping in line with Vision 2030 is keeping the program on schedule and within planned budget estimates through a well-managed and adequately funded effort. Adding to the challenge is the fact that key legacy assets are becoming increasingly unreliable and costly to maintain (Anthony and Govindarjan, 2003).

Actual outcomes for provincial operating support, tuition revenue, and salaries and benefits costs that are negative, and differ significantly from our planning parameters, would have adverse consequences to the activities of the University. These consequences would most surely result in further ñacross-the-boardò levies as financial plans are adjusted to balance the operating budget by the end of the multi-year period, and actions are taken to maintain a minimum level of general operating reserves. While additional selective measures would be considered, the most likely measures have already been selected and the likelihood of significant adjustments in a short period of time from new measures is reduced as we progress through the multi-year period (Brownell, 2007).

Bad weather can also be a structural bottleneck since it may give rise to drought, famine and flooding situations. Weather is not a controllable factor and so it will not be of interest to this study. The factors determining revenue can be assigned some value which can enable one to assess its availability. The external resources on the other hand, are determined by both economic and political factors. The political factors that determine release of donor funds include governance issues, human rights and legislative provisions that cannot be assigned any factors for simulation or forecasting (Burke and Modarresi, 2000).

2.6 Empirical studies

2.6.1 Operational Budget Tools

Weisenfeld and Tyson (2006 pp.19-20.) found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. Itôs 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 organizations 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 companyôs current performance compared to corporate standards while benchmarking management procedures enables comparisons of corporate standards to be made against industry best practice (Zairi and Leonard, 2002).

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. 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, 2001; Bogan and English, 2003) 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, 2001) in order to identify successful management strategies.

Zairi and Leonard (2001) have described the basis of benchmarking as ñUnderstanding how better results are achieved and adapting the ôhowô into oneôs own organization so as to overtake the competition in terms of resultsò. The benchmarking process is therefore based on the premise 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.

2.6.2 Budgetary Communication

Participation by employees in the budgetary process has received considerable attention in the academic literature (Brownell, 2007 and Milani, 2008). For budgetary participation to occur, a person must become actively involved in the setting of budget goals by exchanging information and influencing outcomes (Hassel, 2004).

Although a number of previous studies have treated participation as a unidimensional construct, there is evidence that it may be at least bidimensional. 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 (2004) 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, 2003). While previous research has found that relevant communication can improve initial attitudinal responses to budgetary allocations, Sears D, (2001), 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, 2004, Hardy, 2003; Oô Reilly, 2002). 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 inôt Veld, 2000 and Ezzamel and Bourn, 2001). This was highlighted in Ezzamel and Bourn (2001), 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 ñfor undermining the quality and ethos of the workplace, and for challenging the culture of academic freedom by promoting a ófinancialô or accounting óculture ô with a different mix of valuesò.

2.6.3 Budgeting Systems in the Financial Industry

It is interesting to note that research undertaken with regard to the use of budgeting systems within the financial industry has identified that operations of all sizes appear to place considerable importance on their traditional budgeting activities (De Franco, 2004), utilizing them on a regular basis and viewing them as a potentially valuable control tool (Brander Brown, 2006). Furthermore, the development of ñbottom-upò, participative approaches to budget determination as well as other more sophisticated budgetary control techniques are becoming increasingly widespread ï especially in multi-unit operations (Schmidgall and Ninemeier, 2003; Schmidgall et al., 2001), while the use of more simplified systems has been viewed as being more appropriate for smaller and/or single unit operations, or where perceptions of environmental uncertainty are high (Rusth, 2001).

Underpinning this apparently favorable opinion, and related widespread usage of traditional budgeting systems, are a number of perceived benefits including, for example, that such budgets can assist managers in setting positive targets ï both for themselves and for other employees (Schmidgall, 2001). Furthermore, Schmidgall also suggests that such targets, when properly used, can provide a positive motivating influence, supporting the achievement of an organizationôs aims. It has, however, also been apparent for some time that a number of problems and limitations have been associated with the use of such traditional budgeting processes within the financial industry. For instance, it is claimed that banking budgetary control systems typically demonstrate something of an adversarial nature (Pickup, 2000), and that where management and employees either do not actively participate in the budget process and/or where budget targets are seen as being unattainable, then a number of serious dysfunctional consequences ï such as game-playing, and feelings of tension and mistrust ï may emerge, with potentially detrimental implications for an organization (OôDea, 2003; Pickup, 2000; Ferguson and Berger, 2007). Moreover, it has been noted that multi-unit operations have tended to adopt standardized budgeting systems which do not permit the particular circumstances of an individual operation to be fully reflected, while it has also been asserted that the form of budgetary control systems typically in use is neither sufficiently flexible nor comprehensive (Schmidgall and Ninemeier, 2007; Eder and Umbreit, 2001).

Suggested improvements to overcome such perceived limitations include the provision of higher levels of properly controlled and co-ordinated information (Schmidgall and Ninemeier, 2007), and the incorporation of a wider range of indicators ï including more qualitative data (Eder and Umbreit, 2001). Additionally and, perhaps, reflecting the increasing complexity and competitiveness of the industry, a range of other suggested improvements and developments have also recently begun to (re)materialize. For instance, although the need for more clearly identified management information needs ï including in relation to budgets ï is long-established, calls for more up-to-date, relevant critical success factors are again being heard (Jones, 2004; Atkinson and Brander Brown, 2000). Similarly, despite the fact that it has been recognized for some time that planning within the banking industry should be proactive rather than reactive, involving the anticipation of possible alternative scenarios (Lee and Powell, 2001; Rusth and Lefever, 2002), it is apparent that such associated tools as flexible budgetary control have not, as yet, been widely used (Collier and Gregory, 2003; Harris and Brander Brown, 2008).

2.6.4 Budgets as Performance Measurement Tools

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing. According to Cook (2009), 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 managerial performance (Srinivasan, 2001). Similarly, Douglas (2004) 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 (2001) also supported this view, stating that in most companies the development of budget is still used as the main performance measurement system. Weisenfeld and Tyson (2006), in a sample of managers from two companies, found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. A total of 90 percent of the respondents indicated that variances were a good way to measure their performance. All of them agreed that variance reports positively influenced them to improve performance and increase their bonuses.

A study by Joye and Blayney (2006) found that budget variances were used by 93 percent of respondents for setting goals and evaluating performance by firms. In a more recent study, Guilding et al. (2005) found that accountants tend to see variances from budget as being important, and performance appraisal was based mainly on budget achievement. Blansfield (2002) found that only 14 percent of companies have a fully integrated planning process that combines long term and operational planning, performance measures and reporting. The survey further underscored the fact that financial executives still struggle with the need to synthesize financial and non-financial data and performance measurements in a single system in which they can also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time.

Output, especially in the private sector, has, historically, appeared relatively easy to measure (sales; profit; units produced; budget targets met) but some outputs, especially in the public sector, have appeared to pose more of a challenge to quantify (Pendlebury, 2004). However, with the ñnew way of thinking about the stateò (Ridley, 1995), including the introduction of market forces via a variety of initiatives coming under the catch-all term of ñprivatizationò (Ascher, 2004) and the devolvement of budgets, this challenge is increasingly being met.

Worker effort may be concentrated in those areas that are subject to scrutiny, possibly to the detriment of others. Effort may also include the use of behaviors incompatible with organisational values. Drury (2000) has also questioned the lack of evaluation based on longer-term performance factors than against relatively short-term budgetary indicators.

Dysfunctional behaviour associated with performance evaluation against budget targets includes the oft-reported creation of ñbudgetary slackò. Essentially, this is where workers endeavour, through the participatory process, to ensure that the budget target is relatively easy to achieve. By so doing, the motivational properties of the budget clearly are reduced. Lyne (2004) has pointed out that the likelihood of slack being manipulated is dependent upon a lack of congruence between the individualôs and the organisationôs goals and a lack of open and honest information sharing and communication between worker and manager.

Given managersô need to evaluate efficiency and effectiveness, Hopwood (2000) identified four styles of employing budgetary and accounting information in the evaluation process. These were a budget-constrained style; profit conscious style; and a non-accounting style. Although Hopwood (2000) did not explain the origin or development of these, styles that were linked to concerns around accountancy issues were also linked to a variety of dysfunctional behaviors and lower reported levels of job satisfaction.

2.6.5 Budgets as Targets

As Lyne (2004) has stated, accounting measures and the use of budgets as targets is an obvious way in which individuals can be given clearly stated, measurable, specific goals. This, assuming that rewards are based on performance, the meeting of targets, rather than issues such as seniority for example, fits with expectancy theory. The question that then can be posed is at what level of difficulty should the budget target be set in order to maximize motivation? Expectancy theory dictates that there will be little motivating effect if the budget target is set so high that it is perceived to be unattainable, irrespective of the certainty of expected performance associated rewards on offer.

Lyne (2004) has related equity theory to perceptions of the target set, either initially or upon revision if activity based budgeting is in operation. If the target is seen as irrelevant or unfair in some way then the likely effect is to de-motivate.

2.7 Conclusion

Revision of budget targets may also be made following a comparison of the target set and actual performance. Indeed, Becker and Green (2007), in order to maximize continuous levels of motivation, advocated this. For example, if performance is meeting, or is even in excess of, expectation then, to prevent the worker ñcoastingò, budget targets should be revised upwards. However, one can, at this point, issue a caveat for there is possibly a strong argument for a concurrent review of extrinsic rewards to prevent the worker with the revised target experiencing equity theory related tensions. Becker and Green (2007) also advocated the revision of budget targets downwards if there is significant under performance in order to increase motivation. Likewise, one should, perhaps, issue a caveat here. Natural justice dictates that one should recognise when perceived poor performance is due to factors beyond the control of the worker (e.g. unrealistic targets, unexpected changes in the external environment that could not have been reasonably foreseen and planned for). Equally, however, it may not be in the organisationôs best interests to be seen to be ñcarryingò under-achievers by the revision of budgetary targets. Capability proceedings should be considered in order to assist the situation.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid 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 will identify the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections should be included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This study adopted a descriptive research design to determine the operational budgetary process among the commercial banks in Kenya. According to Donald and Pamela (2000), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. The subject is being observed in a completely natural and unchanged natural environment. As noted by Miller (1991), descriptive design is the precise measurement and reporting of the characteristics of the phenomena under investigation, and describes phenomena, situations and events. In this regards, since the study was investigating the factors leading to supplementary budgets in banking institutions, descriptive research becomes the most appropriate approach.

3.3 Population and sample

The population of interest of this study was the commercial banks that are operating in Kenya. There were forty four (44) commercial banks in Kenya. The study being a survey implies that data was collected from all the forty four commercial banks in Kenya. This therefore means that census method was used. The source of the 44 commercial banks is the Central Bank of Kenya (2009).

3.4 Data Collection Instruments

The study used both primary and secondary data. Secondary data was found from management report and Annual General Meetings, management books and research reports. The primary data was collected through the use of a structured questionnaire which were dropped and picked later at the selected employeeǿs desks. The questionnaire consisted both open and closed ended questions. The study being a survey means that one (1) employee was selected from each of the forty four commercial banks and administered with the questionnaire. The staff in the commercial banks included managers and other staff in the ranks of management. This made it easier to get adequate and accurate information necessary for the research. Secondary data sources were employed through the use of previous documents or materials to supplement the data received from questionnaires.

The questionnaire was pre-tested and where appropriate adjusted before the study to establish the effectiveness of the instrument. This enhanced the reliability and effectiveness of the study and the improved scope of the information to be gathered. Employees were briefed and informed that participation is voluntary and anonymity was observed and encouraged.

3.5 Data collection procedure

The questionnaires was delivered to the senior managers and collected by research assistant. A method of hand delivery and collection on the same day was used. Focus Group Discussions will be coordinated by the principal researcher and moderated by one of the participants (Director/Consultant).

3.6 Data Analysis

Data analysis was done by the use of Statistical Package for Social Sciences (SPSS version 17) which is the process of bringing order, structuring and interpreting the mass of collected data. The data was analyzed using descriptive statisticsð percentages and frequencies, bar charts and pie charts will also be used.

3.7 Ethical considerations

Ethics as noted by Minja (2001) is referred to, as norms governing human conduct which have a significant impact on human welfare. It involves making a judgment about right and wrong behavior. Ethics is borrowed from a Greek word, ethos, meaning the character or custom of the people. Hence this term has something to do with the expected practices of a community and its individual members. It describes what a society believes to be right or wrong. In this study, confidentiality was a critical ethical concern in view of the fact that information relevant to the study is of strategic importance. In this regard, the names of the respondents were not be closed and the names of the specific financial institution involved in the study were also be held in confidence. In addition, where a response may be attributed to specific individuals or banks the said information was maintained in strict confidence.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

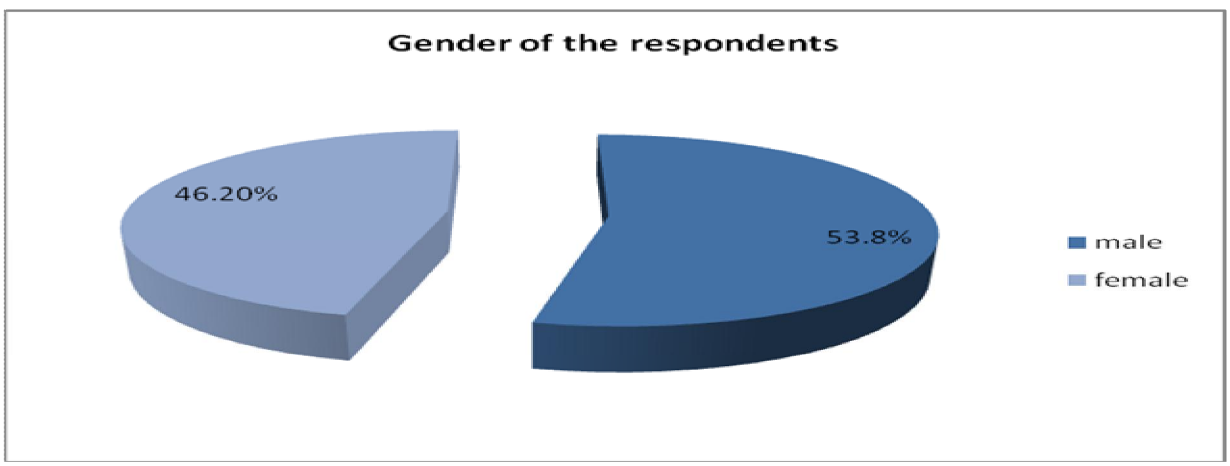
This chapter discusses the interpretation and presentation of the findings. The objectives of this study were to determine the factors leading to supplementary budgets and to establish the variation between planned budget and the implemented budgets in commercial banks in Kenya. This chapter focused on data analysis, interpretation and presentation. The researcher made use of frequency tables and percentages to present data. The researcher targeted finance managers in all the 44 commercial banks in Kenya out of which 39 filled and returned the questionnaires. This represented an 88.6% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis thus 88.6% is even better.

4.2 General information

Gender of the respondents

The researcher requested the respondents to indicate their gender. The results are shown in figure

Figure 4. 1: Gender of the respondents



From the findings as shown in figure 4.1 above majority of the respondents (53.8%) were male while 46.20% were female.

Respondents work experience

In an effort to determine whether the respondents had the information required on supplementary budgets the researcher requested them to indicate their work experience. The results are shown in figure 4.2.

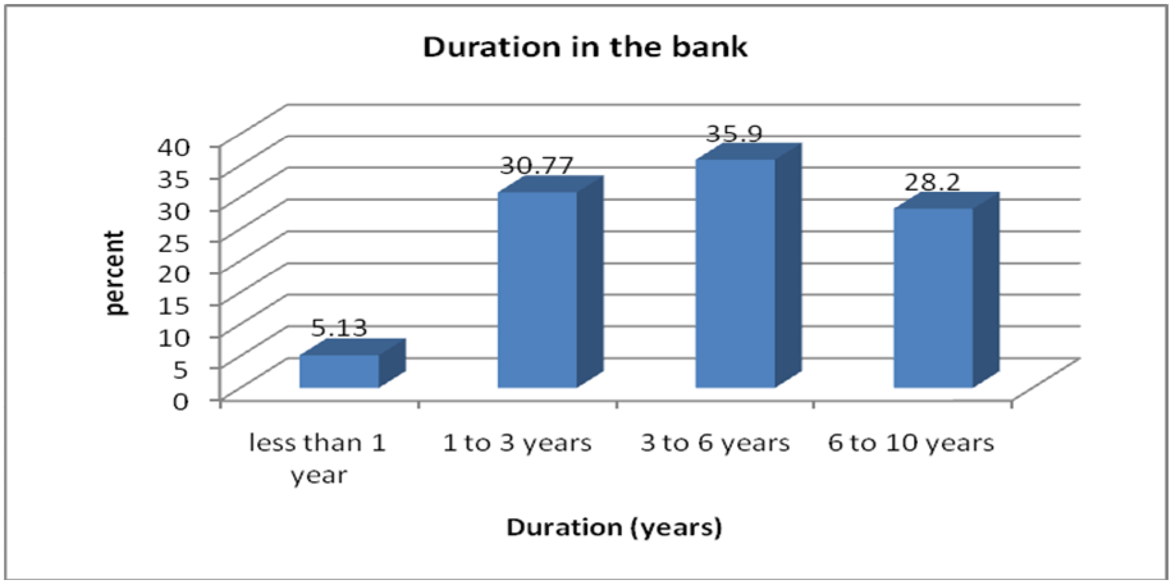
Figure 4. 2: Work experience

From the findings as shown by figure 4.2 above, 20.5% of the respondents indicated that they had a work experience of 1 and 3 years, 41.03 had a work experience of between 3 and 6 years, 28.21% of the respondents had a work experience of between 6 and 10 years and 10.26% of the respondents had a work experience of over 10 years. From these findings we can deduce that majority of the respondents had an experience of above 3 years.

Duration in the bank

The researcher requested the respondents to indicate the duration of time they had worked in their bank. The results are shown in figure 4.3 below.

Figure 4. 3: Duration in the bank



From the findings as shown by figure 4.3, 5.13% of the respondents indicated that they had been working in their banks for less than 1 year, 30.77% had been working in their bank for between 1 and 3 years, 35.9% had been working in their in their banks for between 3 and 6 years and 28.2% had been working in their banks for between 6 and 10 years. From these findings we can deduce that majority of the respondents had been working in their banks for between 1 and 6 years.

4.3 Budget

Figure 4. 4: Planned budgets

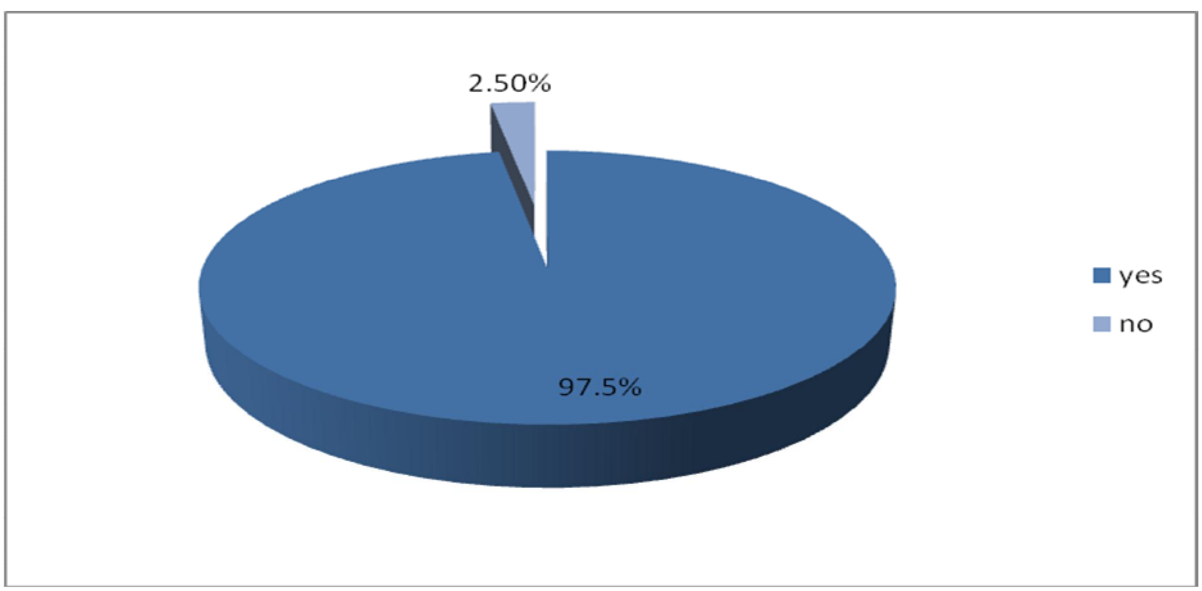


Figure 4.4 above shows the respondents response on whether their banks were embaking on planned budgets. From the findings, 97.5% of the respondents indicated that their banks were embarking of planned budgets while 2.5%. This shows that majority of the commercials in kenya were embarking on planned budgets. From the respondents who indicated that their banks were embarking on planned budgets the researcher also requested them to indicate the key players in budget preparation and implementation process. The respodents indicated that the key players were; bank managers, finance managers, marketing managers, operational managers, human resorce managers, directors and head of departments.

Figure 4. 5: Change or reallocation of expenditures after the budget has been approved

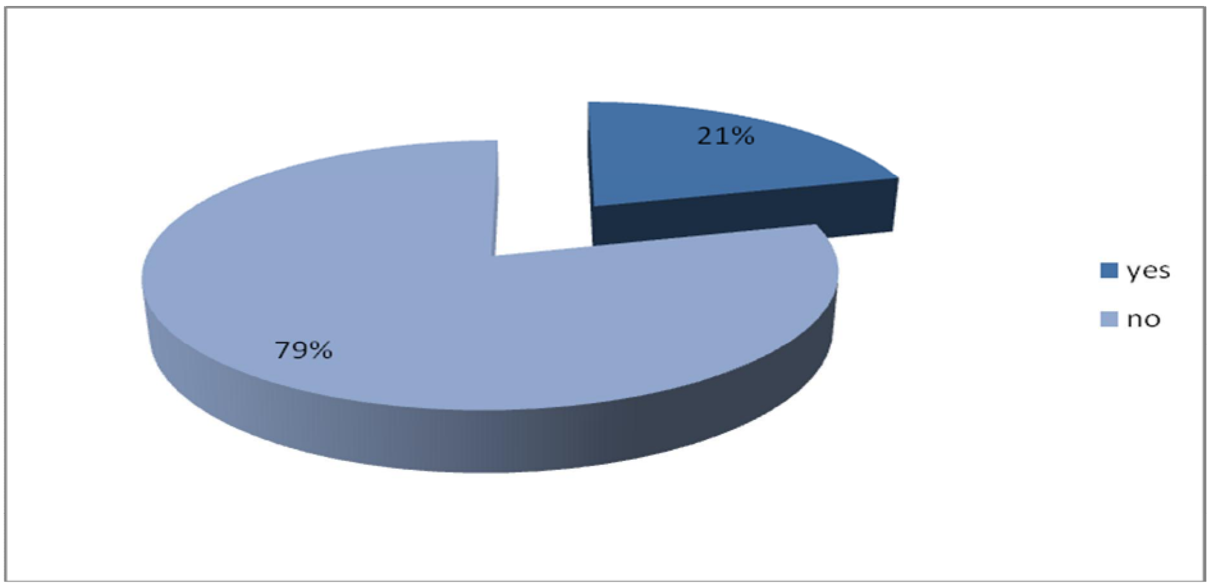


Figure 4.5 above shows the respondents response on whether managers had the authority to change or reallocate expenditures after the budget has been approved. 79% of the respondents said that managers in their banks had no authority to change or reallocate expenditures after the budget had been approved while 21% indicated that managers in their banks had authority to change or reallocate expenditures after the budget has been approved.

Table 4. 1: variance between planned budgets and implemented budget

Factors	mean	Std dev
Does the proposed budget match with the implemented budget the organization?	3.77	1.168
Do all the elements in the budget reflect the transactions of the organization?	3.71	1.092
Do you experience major variations between the planned and the implemented budget?	3.97	0.829
Are there changes in the budget for the last 12 months in operation?	3.52	1.026
Do you incur a lot of errors in the budget?	2.44	0.811

Table 4.1 above shows the respondentsô agreement with the statements on variance between planned budget and the implemented budget. A five point Likert scale was used to interpret the respondentôs responses. According to the scale, those statements which were not considered at all were awarded 1 while those which were considered to a very great extent were awarded 5. Within the continuum are 2 for low extent, 3 for moderate extent and 4 for great extent. Mean (weighted average) and standard deviation were used to analyze the data.

According to the researcher those statements with a mean close to 4.0 were rated as to a very great extent while those with a mean close to 3.0 were rated to a low extent or even not considered at all. On the same note the higher the standard deviation the higher the level of dispersion among the respondents. The respondents agreed with a mean of 3.77 and a standard deviation of 1.168 that their banks proposed budgets match with the implemented budget. They also agreed with a mean of 3.71 and a standard deviation of 1.092 that elements in the budget reflect the transactions of the organization. Experience of major variations between the planned and the implemented budget was agreed with a mean of 3.97 and a standard deviation of 0.829. It was also agreed with a mean of 3.52 and a standard deviation of 1.026 that most of the banks had experienced changes in the budget 12 months in operation. The respondents agreed to a low extent with a mean of 2.44 and a standard deviation of 0.811 that they incurred a lot of errors in their budget.

Figure 4. 6: Number of supplementary budgets

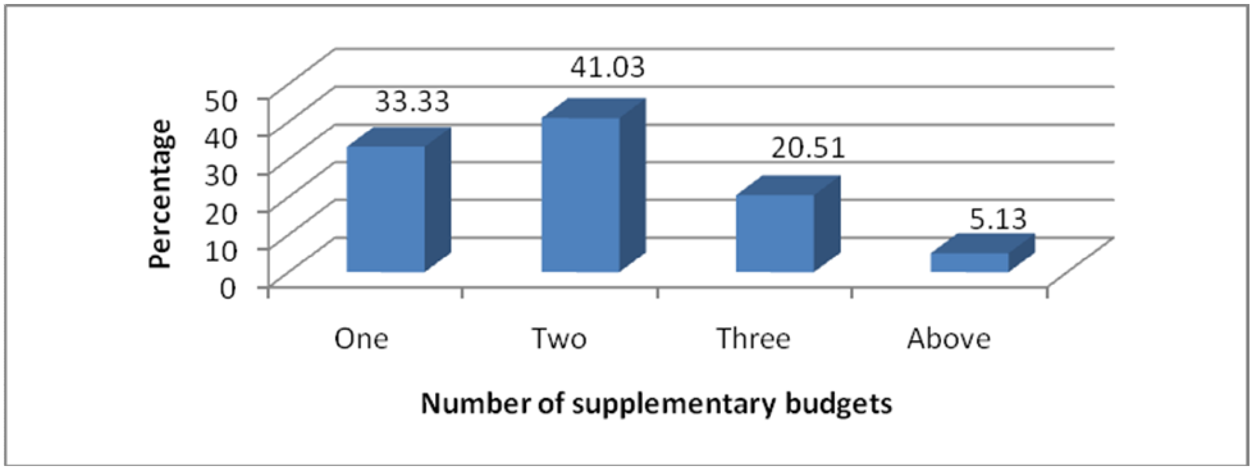


Figure 4.6 above shows the number of supplementary budgets that had been submitted in the last 2 years. 33.33% of the respondents said that one supplementary budget had been submitted in their banks in the last two years, 41.03% of the respondents said that two supplementary budgets had been submitted in their banks in the last two years, 20.51% of the respondents said that three supplementary budgets had been submitted in their banks in the last two years. 5.13% of the respondents said that above three supplementary budgets had been submitted in their banks in the past 2 years. From the findings it can be deduced that 2 supplementary budgets had been submitted in each of the banks in the last two years.

4.4 Factors requiring supplementary budgets

A supplementary budget for the bank contains tough but necessary measures to set the bank on the road to recovery after a difficult recession. Most of the banks adopted supplementary budget when there is a need to stabilize bank finances by taking a big step in bringing income and expenditure in line; when there is a need to support and stimulate confidence and giving greater certainty to consumers and business; when there is a need to restore damaged banking system and ensuring credit flows to businesses and consumers; when there a need to restore international reputation and giving confidence to the international investment community; when there is a need to support measures to improve our competitiveness so that our export sector can be sustained and thrive in the future; and when there is a need to maintain as many jobs as possible

Table 4. 2: Extent of importance of supplementary budgets in bank operations

Extent	Frequency	Percentage
Very great extent	2	5.13
Great extent	8	20.51
Moderate extent	14	35.90
Low extent	9	23.08
Not at all	6	15.38

Table 4.2 above shows the extent to which supplementary budgets are important in bank operations. 5.13% of the respondents agreed to a very great extent that supplementary budgets are important in bank operations, 20.51% agreed to a great extent, 35.90% agreed to a moderate extent, 23.08% agreed to low extent and 15.38% disagree. From these findings the researcher concludes that supplementary budgets are moderately important in bank operations.

CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objectives of the study which were to determine the factors leading to supplementary budgets and to establish the variation between planned budget and the implemented budgets in commercial banks in Kenya.

5.2 Discussions of Key Findings

A supplementary budget for the bank contains tough but necessary measures to set the bank on the road to recovery after a difficult recession. Most of the banks adopt supplementary budget when there is a need to stabilize bank finances by taking a big step in bringing income and expenditure in line; when there is a need to support and stimulate confidence and giving greater certainty to consumers and business; when there is a need to restore damaged banking system and ensuring credit flows to businesses and consumers; when there a need to restore international reputation and giving confidence to the international investment community; when there is a need to support measures to improve our competitiveness so that our export sector can be sustained and thrive in the future; and when there is a need to maintain as many jobs as possible. Banks provide the lifeblood of the economic system. Without banks to lend to households, individuals, small and large businesses, the economy will contract. While the banks have the very large overhang of underperforming loans to developers, they cannot perform this essential function for the economy.

This study revealed that majority of the banks were embarking on planned budgets and the key players in planning of the budget were; bank managers, finance managers, marketing managers, operational managers, human resorce managers, directors and head of departments. The study also revealed that managers in most of the banks had no authority to change or reallocate expenditures after the budget has been approved.

On the variance between planned budget and the implemented budget the respondents agreed with a mean of 3.77 and a standard deviation of 1.168 that their banks proposed budgets match with the implemented budget. They also agreed with a mean of 3.71 and a standard deviation of 1.092 that elements in the budget reflect the transactions of the organization. Experience of major variations between the planned and the implemented budget was agreed with a mean of 3.97 and a standard deviation of 0.829. It was also agreed with a mean of 3.52 and a standard deviation of 1.026 that most of the banks had experienced changes in the budget 12 months in operation. The respondents agreed to a low extent with a mean of 2.44 and a standard deviation of 0.811 that they incurred a lot of errors in their budget.

The study found that 2 supplementary budgets had been submitted in each of the banks in the last two years and they were moderately important in bank operations.

5.3 Conclusions

This study concludes that banks adopt supplementary budgets when there is a need to stabilize bank finances by taking a big step in bringing income and expenditure in line; when there is a need to support and stimulate confidence and giving greater certainty to consumers and business; when there is a need to restore damaged banking system and ensuring credit flows to businesses and consumers; when there a need to restore international reputation and giving confidence to the international investment community; when there is a need to support measures to improve our competitiveness so that our export sector can be sustained and thrive in the future; and when there is a need to maintain as many jobs as possible.

This study also concludes that majority of the banks were embarking on planned budgets and the key players in planning of the budget were; bank managers, finance managers, marketing managers, operationa managers, human resorce managers, directors and head of departments. Bank managers in most of the banks had no authority to change or reallocate expenditures after the budget has been approved.

On the variance between planned budget and the implemented budget the study revealed the following; banks proposed budgets match with the implemented budget, elements in the budget reflect the transactions of the organization, banks had experienced changes in the budget 12 months in operation.

5.4 Recommendations

This study recommends that;

- Commercial banks should adopt supplementary budgets in times of economic recession. A supplementary budget for the bank contains tough but necessary measures to set the bank on the road to recovery after a difficult recession.

- Commercial banks should adopt supplementary budgets to maintain their competitiveness in times of crisis. This should be done to ensure financial flow within the bank, maintain competitiveness and to maintain the number of employees in the bank.

- Banks should also adopt supplementary budgets when there is a need to restore international reputation and giving confidence to the international investment community.

5.5 Recommendation for further study

From the study and related conclusions, the researcher recommends further research in the area of necessity of supplementary budgets in operations of commercial banks in Kenya. This study focused on investigating the factors leading to supplementary budgets in Kenya but it did not outline the necessity of supplementary budgets in bank operations in Kenya.

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APPENDICES

Appendix I : Questionnaire

Questionnaires no: ……………

Section A : General Information

1. Indicate your gender below:

   Male ( )

   Female ( )

2. Name of the Bank: ______________________________

3. What is your position in the bank? é é é é é é é é é é é é é é é é é

4. What is your total work experience?

   Less than 1 year [ ]

   1 ï 3 years [ ]

   3 -6 years [ ]

   6 -10 years [ ]

   Over 10 years [ ]

5. What is your length of time in the bank?

   Less than 1 year [ ]

   1 ï 3 years [ ]

   3 -6 years [ ]

   6 -10 years [ ]

Over 10 years [ ]

Section B: Budget

6. Does the bank embark on planned budgets?

   Yes [ ] No [ ]

7. Who are the key players of budget preparation and implementation processes? ____

8. Do managers have the authority to change or reallocate expenditures after the budget has been approved?

   Yes [ ] No [ ]

9. Is the budget calendar specified in the budget system (or other) law, and is it adhered to in practice?

10. The researcher would like to know how big the variance between planned budget and the implemented budgets is. In this section the respondent is required to tick the extent to which he/she agrees with the statements.

Factors	Very Great Extent	Great Extent	Moderate Extent	Low Extent	Not at all
Does the proposed budget match with the implemented budget the organization?					
Do all the elements in the budget reflect the transactions of the organization?					

Do all the elements in the budget reflect the transactions of the organization?					
Do you experience major variations between the planned and the implemented budget?					
Are there changes in the budget for the last 12 months in operation?					
Do you incur a lot of errors in the budget?					

Section c: supplementary budgets

11. How many supplementary budgets have been submitted annually in the past 2 years?

One [ ]

Two [ ]

Three [ ]

Above three [ ]

12. What have been the major factors requiring supplementary budgets?

____

13. To which extent are supplementary budgets important in bank operations?

5 ï Very Great Extent

4 ï Great Extent

3 ï Moderate Extent

2 ï Low Extent

1 ï Not at all

Appendix II: List of Commercial banks

1. ABC Bank
2. Bank of Africa Kenya
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. CFC Stanbic Bank
7. Charterhouse Bank
8. Chase Bank
9. Citibank
10. City Finance Bank
11. Co-operative Bank of Kenya
12. Commercial Bank Of Africa
13. Consolidated Bank of Kenya
14. Credit Bank
15. Development Bank of Kenya
16. Diamond Trust Bank of Kenya
17. Dubai Bank Kenya
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank

21. Fidelity comm. Bank

22. First Community Bank

23. Fina Bank

24. Guardian Bank

25. Giro Commercial Bank

26. Gulf African bank

27. Habib A.G. Zurich

28. Habib Bank Kenya

29. Housing Finance

30. Imperial Bank

31. I & M. Bank

32. K-Rep Bank

33. Kenya Commercial Bank

34. Middle East Bank

35. National Bank of Kenya

36. N.I.C. Bank

37. Oriental Commercial Bank

38. Paramount Universal bank

39. Prime Bank

40. Southern Credit bank

41. Standard Chartered Bank

42. Trans-National Bank

43. UBA Bank

44. Victoria Commercial Bank