

**THE IMPACT OF PERFORMANCE BUDGETING ON MANAGEMENT OF
PARASTATALS IN KENYA**

BY

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DECLARATION

This research project is my original work and has not been submitted to any other University for academic award.

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DEDICATION

To my late parents Mr.& Mrs. John Gekonde for the seed they planted in me to always aim higher, selfless support as well as ceaseless prayers and my dear wife Olipha Bonareri Ogembo for her love, patience and encouragement. Sons Derrick, Collins and last born Allan for his endless and charming stories during the course of the project.

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ABSTRACT

The modern world is a highly complex one. It is moreover in a constant state of change. As testimony to these facts, one need only take a glance at the complexities and changes of today's demographics, economies, technologies, and environmental surroundings. Governments are highly aware of these intricate and mutable realities and are striving, as best they can, to keep in step. Public budgeting is one area in particular that governments are giving attention to in order to respond to a changeable world. To do this, governments are attempting to provide reliable and complete information to budgeters and policy-makers alike so that substantive budget choices can be made.

The aim of the study was to investigate the impact of performance budgeting on management of Parastatals in Kenya. The research design that was employed in this study was descriptive survey method. The population of study was a census study of the Parastatals in Kenya. Data in this study was collected using semi structured questionnaires. The drop and pick later method was used in administering the research tool. The data was analyzed by use of descriptive statistics (mean score and percentages) and regression analysis.

The study concludes that performance information utilized, use of performance targets in budgeting and performance evaluations and spending reviews are significant in explaining the variations in the management of Parastatals in Kenya. The study recommends that a standard element of the "strategic human resources management" component of managing for-results should be geared towards the introduction of stronger performance-based extrinsic incentives (rewards and sanctions) for public officials. Typically, this should be accompanied by greater flexibility of employment, including greater capacity to sanction or dismiss poor performers, and greater ease in transferring or terminate employees in programs which the government is eliminating or cutting back.

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ABBREVIATIONS

AFC	Agricultural Finance Corporation
ICDC	Industrial and Commercial Development Corporation
OECD	Organisation for Economic Co-operation and Development
PRP	Performance-related pay

CHAPTER ONE:INTRODUCTION

1.1 Background of the Study

The modern world is a highly complex one. It is moreover in a constant state of change. As testimony to these facts, one need only take a glance at the complexities and changes of today's demographics, economies, technologies, and environmental surroundings. Governments are highly aware of these intricate and mutable realities and are striving, as best they can, to keep in step. Public budgeting is one area in particular that governments are giving attention to in order to respond to a changeable world. To do this, governments are attempting to provide reliable and complete information to budgeters and policy-makers alike so that substantive budget choices can be made (Poll,2001).Governments today are especially trying to ascertain how well public organizations and programs are doing in providing services and products to their citizenry. Governments are asking: "What kind and how many services are we getting from allocated dollars?" "Are these public services of good value?" "Are they making a difference in citizens' lives?" To answer these questions, and other equally significant ones, governments are developing and implementing "performance-based budgeting" systems. No longer satisfied with traditional budgeting processes, new and, in some cases, renewed interest in linking planning and performance measurement to budgeting is taking hold. Governments are looking beyond inputs or line-item expenditures to make informed decisions, choices that address long-term effects or outcomes, and choices that are grounded in measurable progress or accomplishment (Rigby,2001).

Performance 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 (Reid, 1998). The increased international interest in performance budgeting has been prompted in part by a recognition that it is all too easy in Government to lose sight of the fundamental objective of delivering positive outcomes to the community. Public sector organizations which are financed by taxes and other compulsory charges lack the market disciplines which compel commercial enterprises, particularly those operating in highly competitive markets, to be customer – oriented Political accountability through the electoral process is, of course, extremely

important, but is not necessarily sufficient to ensure that public sector organizations are highly focused upon the results they deliver. Performance budgeting aims to improve the effectiveness and efficiency of public expenditure by linking the funding of public sector organizations to the results they deliver. It uses systematic performance information (indicators, evaluations, program costing etc) to make this link. The impact of performance budgeting may be felt in improved prioritization of expenditure, and in improved service effectiveness and/or efficiency.

1.1.1 Performance Budgeting

Gilmour and Lewis (2006) define performance-based budget as a budget system that strives to form a link between allocation of resources and performance of programs. The key idea behind performance-based budgeting is the common belief that using performance measurement results in the budget process will improve budgeting decisions by making them more rational. In this way, budget allocation decisions will be made with constant emphasis on the expected results and on choosing the best alternative for spending tax dollars. Different from the traditional line-item budgeting which focuses on the purchase of individual items of expenditure, performance-based budgeting focuses on the performance evaluation results of department and agency programs. Since the budget preparations start at least one year prior to the beginning of the fiscal year, performance results cannot be available for the next fiscal year's budget, but are most likely to be used in the budget process of the second or third fiscal year following. In order to stimulate high performance, a performance budget system rewards or punishes agencies based on their performance measurement results. Therefore, performance budgeting requires high-performing agencies, departments and programs to be rewarded by increases in funding and low performing agencies to be punished with budget cuts. Performance budgeting follows the rationale that a relaxation of input controls and an increased flexibility improves managers' performance as long as results are measured and managers are held accountable for their results (OECD, 2005). First, on a general level, management research on such non-monetary, intrinsic factors of motivation in the field of organizational behavior is inspired by findings in psychology and sociology (Breul, 2007). It concentrates on factors like collaboration within organizations and opportunities for individual development. He highlighted the importance of job design and work content for (intrinsic) motivation in addition to "hygiene factors". More recent research includes the self-determination

theory (Natarajan, 1996). It considers a low degree of heteronomy as crucial for intrinsic motivation and qualities such as creativity, self-regulation and flexibility in a work context. Furthermore, goal setting theory states that goals have a directive as well as an energizing function for individuals (Kerry and Bland, 1998). They also affect persistence. Therefore, if the manager's performance assessment is based on specific outcome targets he/she should perform better than in an organizational setting with unspecific output objectives.

One of the most prominent instruments to give public managers more freedom to manage is the results based or performance budgeting. In a move from ex ante to ex post controls the attention shifts from inputs to outputs or even outcomes. "Input controls are relaxed and managers and/or organizations are given flexibility to improve performance. In return they are held accountable for results measured in the form of outputs and/or outcomes" – as the OECD describes the development on a global perspective (2005). In order to accomplish this aim, many legislative bodies replaced a line itemized budget with a budget, in which a net sum of expenses is devolved to the administrative entities combined with performance objectives (Schick, 1999). These consolidated appropriations might apply to a whole budget or be restricted to operational costs (OECD 2005). Proponents of performance budgeting note there are several advantages associated with its use by public sector organizations. Overall, it has been discussed that budget formats and procedures influence policy outcomes (Shah and Shen ,1988) or in other words, the performance of the administration. This link, however, is not a direct one. Managers in public administrations, who are responsible for the implementation of policies, function as a type of transmission belt. In this sense, the managers are pivotal to state performance, which is why their role in budgeting is important

Performance budgeting is part of the managerialism discourse. As an eclectic concept, managerialism is influenced by a number of ideas from different disciplines (Hollingsworth ,1985). It follows the doctrine that the public sector is inefficient but can transform itself to become more efficient by introducing new management concepts, especially from the private sector (Hongren, 2003). Influencing practitioners and researchers particularly adopted the idea that more freedom leads to better performance and proposed corresponding budgeting reforms (Hofstede,1968). It has been argued that thinking in terms of costs might increase among public servants (Htun, 2000). In

addition, the flexibility and efficiency of administrations should increase (Spicer, 1988) since they are able to allocate resources corresponding to current needs rather than historical expectations that are represented in the estimates (Blair,1995). In public management literature, research on new budgeting systems concentrates on the financial, technical and institutional aspects (Bruce and Fraser,1997; Clarkson, 1994).Performance is the ability to sustain income, stability and growth.Its also the outcome of all of the organization's operations and strategies Performance measurement systems provide the foundation to develop strategic plans, assess an organization's completion of objectives, and remunerate managers (Jensen and Meckling, (2006). Although assessment of performance in the marketing literature is still very important, it is also complicated (Priest et al, 2002). While consensual measurement of performance promotes scholarly investigations and clarify managerial decisions, marketers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged.

Performance budgeting is one of many different mathematical measures used to evaluate how well a company is using its resources to make profit. This measures the overall financial health over a given period of time and can be used to compare similar firms across the same industry or compare industries. There are various measures of financial health of a company. Performance budgeting seeks to re-orient the annual resource allocation process from incremental (input-based) budgeting to output (target-based) budgeting. Such budgeting requires three key elements to be in place: a strategic performance framework; specific service delivery targets for next year; activities, inputs analysis and estimates. Performance budgeting includes both a strategic framework (however defined) and the mechanics of resource allocation in relation to performance. Performance budgeting assumes that future budget allocations will be influenced by performance-informed decisions (which presupposes a targeted strategic framework from which to make such decisions).

1.1.2 Public Management

The study of public management is concerned with managerial activity itself: the discretionary choices of actors in managerial roles, choices that are, of course, both enabled and constrained by formal authority. The need for management arises when legislation has explicitly delegated the authority to choose appropriate actions to executive agencies, when legislative mandates are ambiguous, necessitating decisions by managers as to how they should be interpreted and

implemented and when fulfilling policy objectives requires managerial judgment in applying rules and standards in particular classes of cases. Because managerial discretion is virtually inevitable—few policy and service delivery domains can be completely governed by a priori rules managerial choices are almost always a factor in government performance. Htun (2000) imply that public management is concerned with adapting the structures and processes of public sector organizations so as to ensure good organizational performance. A more elaborate version of this perspective is provided by Bunce et al (1997), who views public management as having three distinct but interrelated dimensions: the formal structures and processes of government, the practices and craftsmanship of individual public managers, and the taken-for-granted beliefs and values that infuse public organizations and their managers, thereby transforming them into institutions.

1.1.3 Performance Budgeting and Public Management

In terms of public sector management, performance budgeting has in recent decades commonly been adopted as part of a broader set of management and budgetary reforms designed to improve the efficiency and effectiveness of the public sector and/or to facilitate the achievement of fiscal sustainability. Many of these reforms fall into the category of what is commonly referred to as managing-for-results, while others introduce increased consumer choice and competition. Managing-for-results can be defined as the use of formal performance information to improve public sector performance. Its fundamental starting point is maximum clarity about the outcomes which government is attempting to achieve, and about the relationship of outputs and activities to those desired outcomes (Htun ,2000).

Often, this is linked with broader strategic planning models incorporating significant elements of private sector corporate planning practices. Managing-for-results also tends to emphasize the ex ante stipulation of performance expectations for agencies, work units and individuals through the use of performance targets and standards. A standard element of the “strategic human resources management” component of managing-for-results is the introduction of stronger performance-based extrinsic incentives (rewards and sanctions) for public officials. The other crucial element is the call to “let the managers manage”—to strip away procedural controls which are seen as having encumbered management in the past. In respect to allocative efficiency, performance budgeting reformers have been driven by a belief that expenditure allocation in the public sector tends to be insufficiently responsive to changing social needs and priorities. The perception is that money can

keep flowing year after year to ineffective programs because of a lack of accountability for results linked to the budget process. Performance-based payment systems base the salary of an organization's employee on the fulfillment of predefined aims, benchmarks or outputs. Similarly, performance budgeting links the budget of a ministry or program to its performance and outcome. Based on the idea that rational and self-maximizing bureaucrats behave in their own interest rather than in that of their political leaders (rent-seeking), incentive structures, such as performance-related pay (PRP) have been designed to bring both sides together (Htun ,2000).

Greater progress has been made in implementing performance management reforms than performance budgeting. Performance results are used internally within agencies/ministries to set programme priorities, to allocate resources within programmes, and to change work processes. Performance results are used by the parent ministry in approximately half of countries to set programme priorities and in over a third in adopting new programme approaches. The problem for governments is that improvements in performance take time to achieve but the electoral pressures are such that they need to show improvements in the short term. Some governments believe that the public will be more convinced that services have improved by the presentation of numerical performance information. However, even with numerical information there are questions about quality and accuracy. While governments present performance results as objective evaluations, this information, depending on the nature of the political system, can become part of the political dogfight between the government and the opposition. This is more a problem in political contexts where the norm is adversarial rather than consensual politics. In this context, the opposition can use the very same results to discredit the government's performance and to raise questions about their objectivity. The media has also a large role to play: if the information is presented as pure party political propaganda and government spin, this could do more to increase public skepticism than to create trust. A related issue is whether the public and interest groups are willing to accept the government's presentation of performance results. Performance results are generally aggregated outcomes for the whole country, a region or a single large institution. Even if accurate the general conclusion may be at odds with some individual experience. Thus it is almost inevitable that performance results will be challenged on the basis of that experience. The views of the public are more likely to reflect personal experiences or views presented in the media rather than the government's performance reporting (Htun ,2000).

1.1.4 Parastatals In Kenya

Parastatals were first established in Kenya by the colonial government to provide services that were not provided by the private sector. In addition, it was felt that public enterprises were better placed to curb the exploitation of consumers. Infrastructural services, such as ports, railways, airlines, post and telecommunications fell into this category. Crop marketing boards were also established by settler farmers with a view to marketing their produce. The majority of them resembled co-operatives to a large extent because they had grower representation on the boards of directors. Before independence, the colonial government adopted the Swynnerton Plan in order to develop a group of progressive middle-class African farmers. As a result, the marketing boards that existed were reorganized to serve large numbers of smallholders. Additional boards, such as the Cotton Lint and Seed Marketing Board and the Kenya Tea Development Authority, were created to cater for the expansion. Given that most Africans were peasant farmers, agricultural workers in settlers' plantations, and workers in the state sector, the government sought to finance their agricultural, commercial, and industrial entrepreneurship through Development Finance Institutions (parastatals). These included: the Agricultural Finance Corporation of Kenya ("AFC"), the Industrial and Commercial Development Corporation ("ICDC"), and the Industrial Development Bank ("IDB"). Although these Parastatals were all successful in the 1960s and 1970s, some, such as the AFC, started experiencing liquidity problems when politically connected farmers, with large farms, took loans with insufficient collateral and continuously defaulted on payments. After independence, the Kenyan government established similar parastatals with the intention of providing services of a monopolistic nature, Africanizing the sector, and redistributing regional income. As such, the growth of parastatals in Kenya can be attributed to economic as well as social and political objectives. Given that there was a shortage of local entrepreneurs with adequate capital and skills at independence, the government considered it necessary to be involved both directly and indirectly in the economy rather than relying on foreign capital. This enabled the government to play the role of entrepreneur through the medium of parastatals.

1.2 Problem Statement

The changing of accountability concept has had a fundamental impact on the budgeting system in the public sector. As accountability for results depends on clear objectives stated in measurable

terms and on budgets showing the minimum results to be achieved. This must also be based on expenditure limits and on accounting and auditing systems that measure and report on actual results (Htun, 2000). Of course, this raises the desirability of accrual-based accounting, output-based budgeting (performance budgeting), and performance-based auditing. Accordingly, the reforming of budgeting system is considered as an essential part of the reform initiatives that swept the government sector as a whole. These reforms are intended to transform the government sector budgeting systems from control of inputs to a focus on outputs and outcomes, in the interest of improving operational efficiency and promoting result-oriented accountability (Shah and Shen, 2007).

According to Hongren, (2003), with the growing challenges posed by financial mismanagement and performance budgeting framework, the need for enhanced budget processes and innovative financial management techniques are increasingly felt in developing countries and transition economies. Schedler and Proeller (1992), argue that from a leadership perspective, it is important to consider that employees adjust their commitment according to the incentive scheme in an organization, "a lack of awareness of these circumstances has led to a situation whereby it creates incentives that entice people to act in an inefficient rather than performance-oriented way". Njue (1997) in his study agrees that "achievement of performance standards affects budget recommendations in the Governor's Budget," as well as funding in the next fiscal year.

Several research studies have been conducted locally in relation to performance budgeting. Karanja (2000), did a study on determinants of effective performance budgeting; Ngei (2004) conducted a study on the challenges faced in carrying out performance budgeting. Despite the fact that a central aim of performance budgeting reforms is exactly the motivation of these public managers little research has been published on their experiences and evaluations. This scenario presents a gap in the performance budgeting process, and which is the focus of the study. No study has been done on performance budgeting in the public sector. Therefore this study attempted to study the impact of performance budgeting and provide a concrete base for future studies as well as current use of the information by the management of the public sector to meet and achieve their goals and objectives. This study sought to answer the question what is the impact of performance budgeting on public management?

1.3 Research Objective

The objective of the study was to investigate the impact of performance budgeting on management of public sector organizations.

1.4 Value of the Study

From a theoretical standpoint, it contributes to the general understanding of the impact of performance budgeting on public management. From practical standpoint, it reveals how ineffective performance budgeting can affect the management of Parastatals.

This study will help to sensitize the Parastatals on the impact of performance budgeting as well as benefit from the documentation and analysis of its performance budgeting system.

The study will help to sensitize the Government of Kenya on the impact of performance budgeting on public management. The government will find this study useful in identifying the various advances in performance budgeting used in the Parastatals in Kenya and the effects on management.

Policy makers will benefit from the issues raised in the study, which will be useful in refining the existing performance budgeting policy framework. Policy makers will also benefit from the insights raised in the study that are important in developing the frameworks where in Parastatals will enhance to service delivery.

The study will add to the existing body of knowledge on the concepts of performance budgeting to benefit academicians and aid further research on the concept. It forms a fundamental base upon which further research into the field based as it act as both reading and secondary source material in such cases. It is expected that the recommendations of the study will inform the government on the need for performance budgeting or review that will ensure a conducive environment for implementing effective performance budgeting. This will lead to improved service delivery by concerned government departments.

The literature will be useful to scholars as a reference material when carrying out further research on issues of performance budgeting. The intervention mechanism found in the study can be used to

strengthen the already existing projects as well as incorporating them in design of new schemes/projects both locally and internationally.

CHAPTER TWO:LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who had carried out their research in the same field of study. The specific areas covered here theoretical review, empirical studies, concepts of performance budgeting and public management and conclusions from the literature review.

2.2 Theoretical Review

Performance 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 (Manogran, 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. Concerns regarding a number of limitations and weaknesses that have been linked to traditional performance 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 performance 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 (Bunce and Fraser, 1997).

2.1.1 Agency Theory

Natarajan (1996) investigates the role of components of earnings in managers compensation contracts. He argues that shareholders will use components of earnings as additional performance measures whenever the components provide information, over and above earnings, about managerial decisions. Results indicate that earnings and cash flow measures together have a better association with cash compensation paid to CEOs than aggregate earnings alone. The evidence also suggests that current accruals and cash flows from operations are aggregated for performance evaluation. Stewardship value measures are able to explain some of the cross-sectional variation in the weights attached to earnings and working capital from operations.

An important stream of multi-period theoretical papers argues that residual income, defined as earnings less a charge for capital employed, is an optimal measure for managerial performance evaluation. Ohlson (1999) employ a multi-period principal-agent model to show that residual income is an optimal performance measure in a pure moral hazard setting with symmetric information. Because it measures value creation, Ohlson (1999) argues that compensation functions depend on the history of residual income. Continuing with the same theme but including the issue of asset valuation, Ohlson (1999) show that residual income, combined with fair value accounting for receivables, provides an optimal performance measure for incentive purposes. However, neither paper considers the agency problem of investment delegation.

Another stream of multi-period agency focuses on motivating long-term investments and ameliorating the problem of investment delegation. Bunce and Fraser (1997) examine how by choosing a suitable depreciation schedule, pay based on periodic residual income motivates the manager to accept all projects with positive net present value Ohlson (1999) studied a multi-period principal-agent model in which both the hidden action and investment delegation problems exist and found that residual income is the performance measure based on current accounting information that provides optimal investment and effort incentives if the relative benefit depreciation rule is used. Therefore, the residual income is the “optimal” accounting performance measure in compensation contracts.

2.1.2 Stakeholder Theory

In defining Stakeholder Theory Clarkson (1994) states that a firm is a system of stake holders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stake holders by converting their stakes into goods and services'. This view is supported by Blair (1995) who proposes that the goal of directors and management should be maximizing total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialized inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders.

Consistent with this view by Blair to provide 'voice' and 'ownership-like incentives' to 'critical stakeholders', Porter (1992) recommended to US policy makers that they should 'encourage long-term employee ownership' and 'encourage board representation by significant customers, suppliers, financial advisers, employees, and community representatives'. Porter (1992) also recommended that corporations 'seek long-term owners and give them a direct voice in governance' (i.e. relationship investors) and to 'nominate significant owners, customers, suppliers, employees, and community representatives to the board of directors'.

All these recommendations would help establish the sort of business alliances, trade related networks and strategic associations which Hollingsworth (1985) noted had not evolved as much in the US as they had in continental Europe and Japan. In other words, Porter is suggesting that competitiveness can be improved by using all four institutional modes for governing transactions rather than just markets and hierarchy. This supports the need to expand the theory of the firm as suggested by Turnbull (1994).

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 (Hollingsworth ,1985). 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.

2.1.3 Signaling Theory

Ross (2007) argues that trade off models adopted by traditional theorists do not offer a satisfactory solution to financial structure choice. He posits that it's difficult to specify exactly what the costs of bankruptcy are, particularly when it's in the interest of all parties to simply reorganize the firm. Ross (2007) also contend that MM'S theory implied that the market know the random return stream of the firm and value this stream to set the value of the firm. He posits that what is valued in the market place is the perceived stream of the firm. Borrowing from MM's argument he stated that changes in financial structure can alter the market perception....by changing the financial structure, the firm changes its perceived risk class even though the actual risk class remains unchanged.

Ross concluded that choice of capital structure signals information to the market and that the signals will be validated in a competitive market. The implication of this theory is that managers decide on the capital structure of their company in a way that a positive signal will be sent to the market so as to increase the firms value. This is only achieved if management issue debt securities but in a way that the market will not perceive the issue as too large to invite possibilities of financial distress as this may pose a negative signal.

2.3 Empirical Review

Empirical studies of the actual impact of performance. The few studies conducted do not necessarily arrive at the same conclusions. Stiefel, Rubenstein, and Schwartz (1999) analyzed the relationship between the performance of public schools in Chicago and patterns of budget allocation by constructing and using adjusted performance measures. They concluded that, even though the total spending differences between low-performing schools and high-performing schools were small, there were significant differences in the distribution of discretionary spending across function.

They concluded that “high performing schools average almost five percentage points more discretionary spending on instruction and less on instructional support and administration” (p. 82).

Kluvers (2001) surveyed municipalities in Victoria, Australia which were known to be using PBB, and reported that “the question of whether performance indicators, if used, had provided useful information was answered in the affirmative by an overwhelming majority of survey respondents. However, this result is tempered by the fact that only a small number of councils reported actually using performance indicators”. Kluvers further concluded that managers tended to use the performance indicators primarily to allocate resources or to increase productivity. Furthermore, the use of performance indicators appeared to foster a changed attitude toward planning and to influence could influence spending over time.

Crain and O’Roark (2004) examined the impact of PBB innovation on state expenditures in the US by using panel data from 1970 through 1997. They concluded that PBB did have an impact on state spending per capita by at least two percentage points, but also find that PBB didn’t affect all state government programs equally.

Melkers and Willoughby (2005) surveyed local government officials in 47 countries and 168 cities in the United States. They found that the presence of performance measures in budget documentation (which they called performance-measurement transparency) was significantly correlated with budget effects in a negative direction ($b = -0.147$, significant at 0.05 level). At the same time, they found that the comprehensive use of performance measures across departments (which they called performance-measurement density) had a much stronger and positive influence on the budget ($b = 0.341$, significant at 0.01 probability level).

Ohlson (1999) demonstrated that the system had been highly successful in improving hospital efficiency and reducing the rate of increase of Medicare health costs. In respect to feared adverse consequences, it showed that to that time “none of the worst fears raised at the outset have been borne out by experience.” More specifically, there was no evidence of any significant deterioration of health outcomes, nor of other feared perverse effects more specifically relevant to the U.S. health system.

As for impacts on technology and research, these were more difficult to test, but the empirical literature did at least demonstrate that there had not been a “large and systematic reduction in the rates of adoption of new technology”.

Reinforcing the impression of cost containment driven by efficiency rather than quality reduction, a survey of 10 pairs of hospitals which had been “winners” and “losers” in profitability terms under PPS in the 1980s found that “in the majority of losers, interviewees representing a wide cross-section of staff ...stated that staffing was excessive and that reductions could be made without sacrificing quality of patient care,” while “staff at winner hospitals generally related lean staffing that was perceived to be about right” (Premchand, 1983).

Njue (1997) carried a survey of state executive budget offices, with officials representing 29 out of 45 respondent states agreeing that “achievement of performance standards affected budget recommendations in the Governor’s Budget,” and 33 out of 46 claiming that performance affects funding in the next fiscal year.

At the local government level, Karanja (1999) found, in a relatively large-scale survey, that 60 percent of Kenya Parastatals managers from jurisdictions which had “centralized, citywide performance measurement systems that incorporate most departments and programs” believed that the use of performance measures had brought about either moderate or substantial changes in city budget allocations.

In a survey conducted by Kamau (1995), 30 percent and 18 percent of state budget offices asserted that “substantial use” was made of output or outcome measures respectively in the formulation of the executive budget.

Kiraitu (1999), in his study suggested that “performance budgeting may impact the appearance and preparation of the budget document, but the outcome in terms of funding is not significantly (if at all) affected.” This conclusion does not, however, appear to be justified either by their specific results or by the results of the other surveys. Negative perceptions on the use and effects of performance measurement in budgeting reported in these surveys might reflect the very early state of development, or even the absence, of performance measurement and performance budgeting systems in many jurisdictions.

2.4 Performance Budgeting

Performance budgeting aims to improve the effectiveness and efficiency of public expenditure by linking the funding of public sector organizations to the results they deliver. It uses systematic performance information (indicators, evaluations, program costings etc) to make this link. The impact of performance budgeting may be felt in improved prioritization of expenditure, and in improved service effectiveness and/or efficiency. PB usually also emphasizes giving government agencies and their managers greater flexibility in the use of resources than they would typically have under traditional tightly-controlled public management systems. A key element of this is greater flexibility in the choice of the mix of inputs which are to be used to deliver services (e.g. how much labor input vs. externally sourced inputs, the mix of types of externally-sourced supplies and services used). An important implication of this is the need for more flexibility human resources management, a topic discussed in a later section. The increased international interest in performance budgeting has been prompted in part by a recognition that it is all too easy in Government to lose sight of the fundamental objective of delivering positive outcomes to the community (Poll,2001).

Public sector organizations which are financed by taxes and other compulsory charges lack the market disciplines which compel commercial enterprises, particularly those operating in highly competitive markets, to be customer oriented. Political accountability through the electoral process is, of course, extremely important, but is not necessarily sufficient to ensure that public sector organizations are highly focused upon the results they deliver. Performance budgeting should be viewed in the broader context of a set of related “managing for-results” reforms. Managing for-results can be defined as the use of formal performance information to improve public sector efficiency and effectiveness (Poll, 2001).

Its fundamental starting point is maximum clarity about the outcomes which government is attempting to achieve, and about the relationship of outputs, activities and resources used to those desired outcomes. Good strategic planning and business planning are an essential element of managing for-results. Managing for-results also tends to emphasize the ex ante stipulation of performance expectations for agencies, work units and individuals through the use of performance targets and standards. A standard element of the “strategic human resources management”

component of managing for-results is the introduction of stronger performance-based extrinsic incentives (rewards and sanctions) for public officials. Typically, this is accompanied by greater flexibility of employment, including greater capacity to sanction or dismiss poor performers, and greater ease in transferring or terminate employees in programs which the government is eliminating or cutting back (Rigby,2001).

2.5 Summary

In conclusion, the purpose of this literature review was to assess the the impact of performance budgeting on public management.

Thus, the above literature review shed light on performance budgeting and its impact on management. However, these studies were mainly confined to advanced countries, and very limited evidence is available on performance budgeting practices in developing countries, especially from the Middle Eastern region.

CHAPTER THREE:RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that will be followed in completing the study. This chapter highlights the research design, the study population, sampling techniques and sample size determination, methods of data collection, validity and reliability of the instruments.

3.2 Research Design

The research design was a descriptive survey study aimed at assess the the impact of performance budgeting on public management of Parastatals in Kenya. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive surveys are used to develop a snapshot of a particular phenomenon of interest since they usually involve large samples. Descriptive research design was chosen because it enables the researcher to generalize the findings to a larger population. The study covered a budget period of five years from 2006-2011.The study will utilize annual budgetary readings.

3.3 Target Population

Target population in statistics is the specific participation 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. 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 (1999). The population of this study was a census study of all Parastatals in Kenya.

3.4 Data Analysis Method

Once the data was collected, the next step that the researcher took was the processing and analysis of data. Data is processed via editing and coding (Babbie, 2002). After the collection of questionnaires from the respondents, the acceptability of questions was examined and coded assigning numbers to each of the question. This study used the quantitative method of data analysis. The data was analyzed by use of descriptive statistics (mean score and percentages). Data was

coded and thereafter analyzed using Statistical Package for Social Sciences (SPSS) program version 21 and presented using tables to give a clear picture of the research findings at a glance.

In addition, a multivariate regression model was applied to determine the relationship between budget performance and public management. Multiple regressions is a flexible method of data analysis that may be appropriate whenever quantitative variables (the dependent) is to be examined in relationship to any other factors (expressed as independent or predictor variable). Relationships may be non-linear, independent variables may be quantitative or qualitative and one can examine the effects of a single variable or multiple variables with or without the effects of other variables taken into account, (Cohen, West & Aiken, 2003). The regression model was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y = Public Management (Dependent Variable)

i. Public management

Public Management measures include:

Feedback of performance results

Efficiency measures (cost/output)

ii. Budget Performance(Independent Variable)

Performance measures include:

Input measures (revenue and input measures on the units of labour, capital and service- or the costs of such units- used in the production and delivery of public goods and services)

Output measures (volume measures of non-market goods and services produced/delivered)

Outcome measures (impacts/consequences of government outputs)

Performance “Ratings” (performance ratings given by CBK or Ministries to Agencies)

Efficiency measures (cost/output)

Thematic measures: Gender-sensitive measures (e.g. indicators for gender mainstreaming) , Sustainability measures (e.g. ‘green’ indicators) , Innovation measures (e.g. indicators on

promoting and conducting innovative practices) , Satisfaction/trust measures and Inequality/inequity measures .

β_0 = Constant Term

β_1, β_2 and β_3 = Beta coefficients

X_1 = Types of Performance Information utilized in Performance Budgeting

It entails: financial data , operational data and performance reports (e.g. annual reports, “business plans”, “organizational strategies”, etc.) , performance evaluations (evaluations of policies or programmes, commissioned and/or conducted by government) , Spending Reviews(evaluation conducted with explicit purpose of identifying savings or funds for re-allocation) , Independent performance information (of organizations, programmes or policies, not commissioned or conducted by government) and Statistical information (harmonized/standardized data which allow for comparisons over time or across sectors/organizations, official data produced by governmental or international organizations)

X_2 = Use of Performance Targets in Budgeting

Performance targets will be measured by pre-tax profit and shareholders equity

It entails: setting allocations , Reducing spending , Increasing spending , Proposing new areas of spending (e.g. new programmes) and Developing management reform proposals

X_3 = Use of Performance Evaluations and Spending Reviews in Budgeting

It entails: transfers and/or entitlement expenditures governed by law, Expenditures governed by budget appropriations

ε = Error term

3.5 Validity of the Research Instrument

Validity refers to whether the instrument is actually able to test what it is supposed to test (Harper, 2002). Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Content validity refers to the degree that one has representatively sampled from that domain of meaning. It is determined by expert judgments of the appropriateness of the contents of a measure (Keya, 2008). Expert opinion was requested to comment on the representativeness and suitability of questions and give suggestions of corrections to be made to the structure of the research tools. This helped to improve the content validity of the data that was collected.

3.6 Reliability of the Research Instrument

Reliability measures the relevance of the questions included in the questionnaires. To ensure reliability of the questionnaire, the same was tested under field conditions. Pre-testing enabled the researcher to receive important feedback on how questions were to be recorded or restructured. The questionnaire needed to be pre-tested under field conditions before it was ready for the field. The purpose of enhancing clarity is to ensure collection of accurate information and to correct any deficiencies revealed during pre-testing exercise (Mugenda and Mugenda, 1999).

The researcher pre-tested the questionnaire on a selected state owned corporation, which was not part of the actual study since subjects in the actual sample should not be used for pre-testing. The researcher intended to select a pilot group of 15 individuals from the target population to test the reliability of the research instruments. In order to test the reliability of the instruments, internal consistency techniques was applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. Coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability (Mugenda, 1999). Finally, the responses to be received from the questionnaires were attuned accordingly and any area needing adjustments was done.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the data analysis, presentation and the interpretation of the findings of the research. It provides the frequencies and the corresponding percentages and an analysis of how these findings relate to the study.

The research aimed at investigating the impact of performance budgeting on management of public sector organizations in Kenya. The data collected was arranged into categories and interpreted on the basis of each research objective.

4.1.1 Response Rate

The study targeted a sample size of 22 respondents from which 20 filled in and returned the questionnaires making a response rate of 90.9%. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

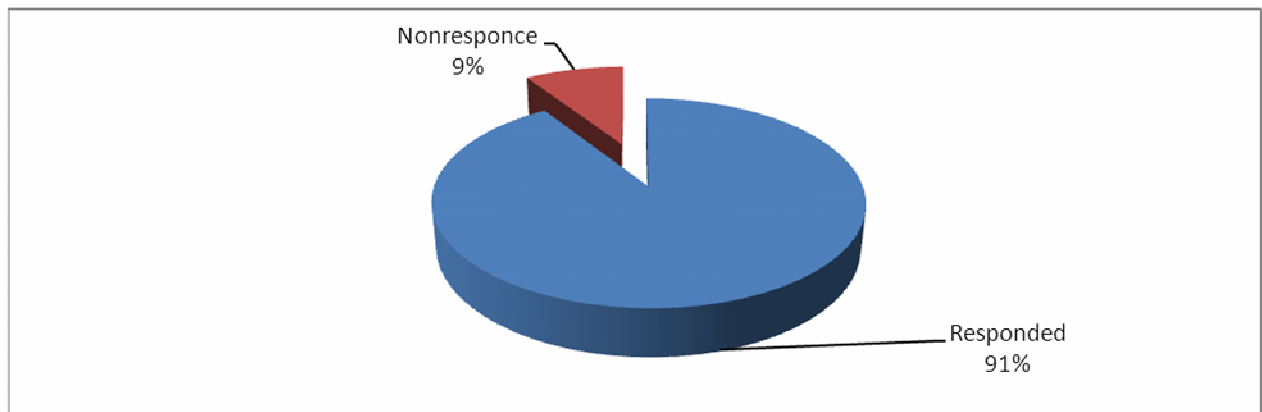


Figure 4. 1:Response Rate

4.1.2 Reliability Analysis

Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain item within a scale measures the same construct.

Gliem and Gliem (2011) established the Alpha value threshold at 0.6, thus forming the study's benchmarked. Cronbach Alpha was established for every objective which formed a scale. The table shows that performance information utilized had the highest reliability ($\alpha= 0.852$), followed by use of performance targets in budgeting ($\alpha=0.872$) and use of performance evaluations and spending reviews in budgeting ($\alpha=0.724$). This illustrates that all the three variables were reliable as their reliability values exceeded the prescribed threshold of 0.6.

Table 4. 1: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Performance Information Utilized	0.852	5
Use of Performance Targets in Budgeting	0.872	5
Use of Performance Evaluations and Spending Reviews in Budgeting	0.721	4

4.2 Data Presentation

Respondent's Demographics

This section presents the respondents classification by gender, age and respondents' education level.

Respondents Gender

The findings in Table 4.3 show the gender of the respondents. From the findings, the study established that the majority of respondents were male as shown by 64.3% while females were 35.7% of the respondents.

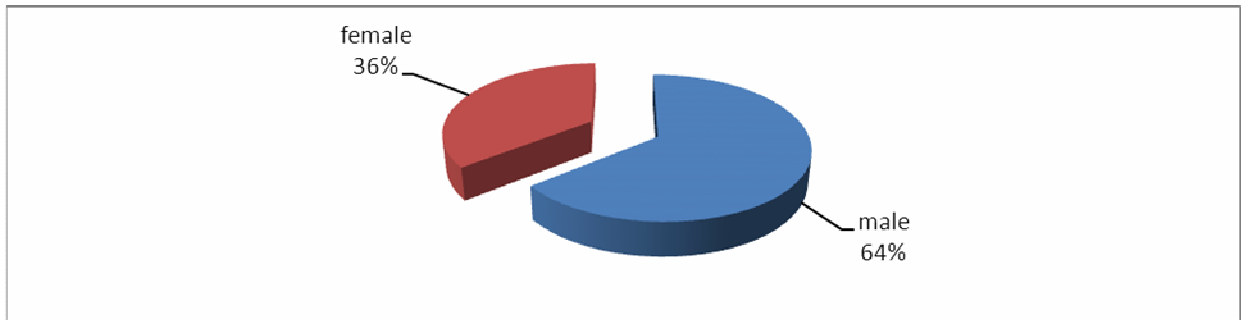


Figure 4. 2: Respondents Gender

Respondents Age

On the age of the respondents, the study found that the majority of the respondents were between 31-34 years (42.9%), 33.3% were aged between 25- 30 years while 23.8 % were aged over 41 years. This shows that majority of the respondents were middle aged and therefore had enough experience on the subject being researched on.

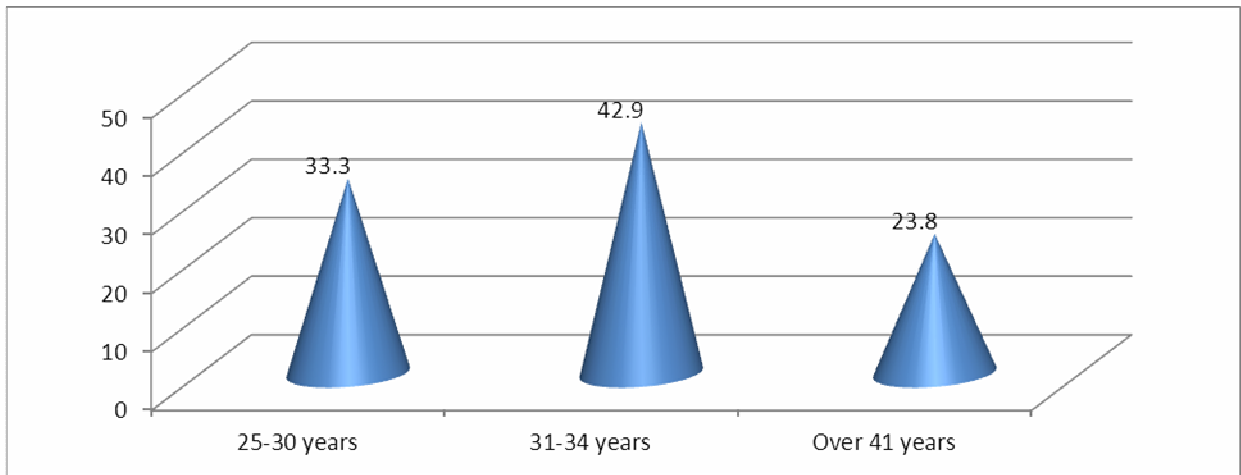


Figure 4. 3: Respondents Age

Respondents Level Of Education

According to the table 4.5, most of the respondents (57.1%) had a post graduate degree while 42.9% had a bachelor’s degree. This therefore depicts that majority of the respondents had a post graduate degree as their highest level of education.

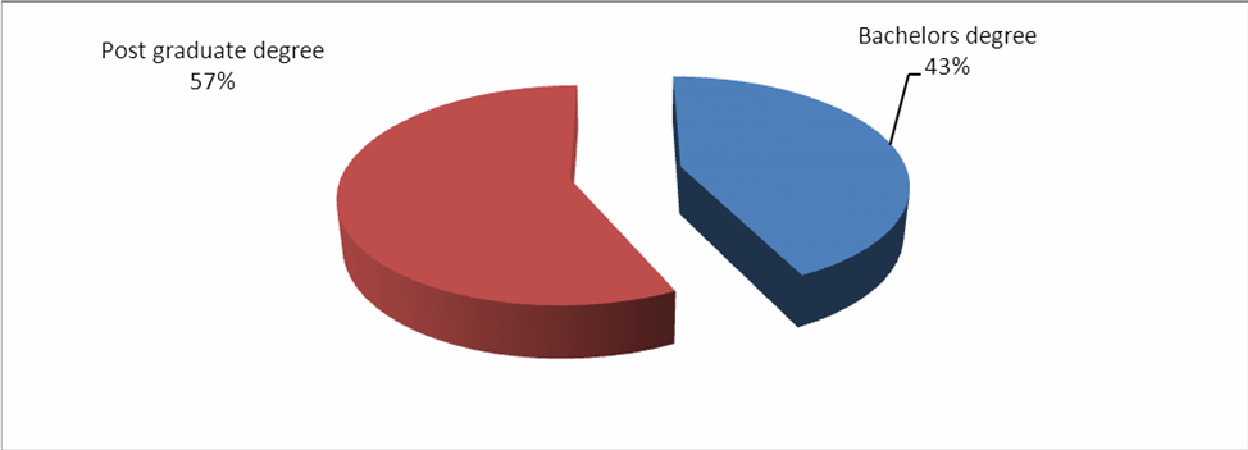


Figure 4. 4: Respondents’ Level Of Education

Performance Information Utilized

Institutions in the Government playing Important Roles

The respondents were asked to indicate the institutions in the government that played important roles in each of the following functions regarding the generation and use of performance information for use in the budgeting process using the likert scale, where: Chief Executive or elected governing body (e.g. President or Cabinet) = 1, CBK= 2, and Private consultants= 3. Table 4.8 shows the results obtained:

The respondents indicated that the private consultants played an important role in developing and maintaining ICT system for managing or supporting data and process needs for performance budgeting as shown by a mean score 2.5500 .The respondents indicated that the CBK played an important role in generating performance information as shown by a mean score 2.2000. The respondents also indicated that the CBK played an important role in conducting evaluations and in the allocation and/or reallocation of funds based explicitly on performance information as shown by a mean score 2.1000 and 2.0500 respectively. The respondents also indicated that the CBK played an important role in establishing a standard performance budgeting framework or drafting guidelines as shown by a mean score 2.0000.Further, the respondents indicated that the Chief Executive played an important role in setting performance targets as shown by a mean score 1.3500.

Table 4. 2: Institutions in the Government playing Important Roles

	N	Mean	Std. Deviation
Setting performance targets	20	1.3500	.67082
Establishing a standard performance budgeting framework or drafting guidelines	20	2.0000	.45883
Generating performance information	20	2.2000	.41039
Allocation and/or reallocation of funds based explicitly on performance information	20	2.0500	.51042
Conducting evaluations	20	2.1000	.64072
Developing and maintaining ICT system for managing or supporting data and process needs for performance budgeting	20	2.5500	.68633

Whether Parastatals utilize the following kinds of performance information

In determining how often the Parastatals utilized the following kinds of performance information in budget negotiations. The respondents indicated that the Parastatals always utilized spending reviews in their budget negotiations as shown by a mean score of 4.5500. The respondents indicated that the Parastatals usually utilized independent performance information and operational data and performance reports in their budget negotiations as shown by a mean score of 4.1000 and 4.0000 respectively. The respondents indicated that the Parastatals usually utilized statistical information and financial data in their budget negotiations as shown by a mean score of 3.9500, and 3.8000 respectively.

Further, the respondents indicated that the Parastatals usually utilized performance evaluations in their budget negotiations as shown by a mean score of 3.4500.

Table 4. 3: Whether Parastatals utilize the following kinds of performance information

	N	Mean	Std. Deviation
Financial data	20	3.8000	.52315
Operational data and performance reports	20	4.0000	.45883
Performance evaluations	20	3.4500	.75915
Spending Reviews	20	4.5500	.51042
Independent performance information	20	4.1000	.55251
Statistical information	20	3.9500	.51042

Use Of Performance Targets In Budgeting

Setting Performance Targets

In determining the benchmark against which the performance targets were set, 38.1% of the respondents indicated that the performance targets were set according to the performance objectives of the programme, 28.6% of the respondents indicated that the performance targets were set relative to international benchmarks of similar programmes, 19.0% of the respondents indicated that the performance targets were set relative to the programme's past performance while 14.3% of the respondents indicated that the performance targets were set relative to the performance of a similar programme.

Table 4. 4:Setting Performance Targets

	Frequency	Percent
Relative to the programme's past performance	4	19.0
Relative to the performance of a similar programme	3	14.3
Relative to international benchmarks of similar programmes	6	28.6
According to the performance objectives of the programme	7	38.1
Total	20	100.0

Consequences Triggered When Performance Targets Are Not Met By Parastatals

The study sought to establish the consequences triggered when performance targets were not met by Parastatals. According to the findings, the respondents indicated that always when the performance targets are not met more intense monitoring of organization and/or programme in the future was done and that the budget froze as shown by a mean score of 4.7500 respectively. The respondents indicated that when the performance targets are not met usually, the budget decreased and that more staff were assigned to programme/organization as shown by a mean score of 4.4500 and 4.1000 respectively. Further, the respondents indicated that when the performance targets are not met usually, organizational or programme's poor performance was made public as shown by a mean score of 3.6000. The respondents also indicated that when the performance targets are not met occasionally, the programme was eliminated as shown by a mean score of 3.3000. The respondents further indicated that when the performance targets are not met occasionally, pay was cut for head of programme/organization (either to performance-variable pay or bonus) and that the budget increased as shown by a mean score of 2.5000 and 2.4500 respectively.

Table 4. 5:Consequences Triggered When Performance Targets Are Not Met By Parastatals

	N	Mean	Std. Deviation
Programme eliminated	20	3.3000	.57124
More intense monitoring of organization and/or programme in the future	20	4.7500	.44426
Budget freezes	20	4.7500	.44426
Budget decreases	20	4.4500	.51042
Budget increases	20	2.4500	.51042
Pay cut for head of programme/organization (either to performance-variable pay or bonus)	20	2.5000	.51299
Organisational or programme's poor performance made public	20	3.6000	.50262
More staff assigned to programme/organization	20	4.1000	.55251

Consequences Triggered When Performance Targets Are Met By Parastatals

The study sought to establish the consequences triggered when performance targets were met by Parastatals. According to the findings, the respondents indicated that usually, when the performance targets are met, leadership/staff were asked to train others and/or share their

practices/lessons with other civil servants and that the remaining budget is allowed to be carried over to next fiscal year as shown by a mean score of 4.1500 and 4.0500 respectively. The respondents indicated that usually, when the performance targets are met, the Senior Civil servants received pay raise to performance variable portion of pay or bonus as shown by a mean score of 4.0000. The respondents indicated that usually, when the performance targets are met , the budget increased (beyond what would have been a regular increase despite of performance) and that the organisational and/or programme’s positive results were made public as shown by a mean score of 3.9000 and 3.8000 respectively. The respondents indicated that usually, when the performance targets are met , the requirements for reporting back on performance were lessened/reduced and that staff transfers reduced as shown by a mean score of 3.5000 and 3.4500 respectively.

Table 4. 6: Consequences Triggered When Performance Targets Are Met By Parastatals

	N	Mean	Std. Deviation
Budget increase (beyond what would have been a regular increase despite of performance)	20	3.9000	.44721
Remaining budget allowed to be carried over to next fiscal year	20	4.0500	.39403
Organisational and/or programme’s positive results made public	20	3.8000	.69585
Requirements for reporting back on performance are lessened/reduced	20	3.5000	.51299
Senior Civil servants receive pay raise to performance variable portion of pay or bonus	20	4.0000	.56195
Staff reduction transfers	20	3.4500	.51042
Leadership/staff asked to train others and/or share their practices/lessons with other civil servants	20	4.1500	.36635

Performance Evaluations And Spending Reviews

Elements Included In Regulations And/Or Formal Policy Guidelines

With regard to elements included in regulations and/or formal policy guidelines explicitly governing performance evaluations commissioned or conducted by the government. According to the findings 33.8% of the respondents indicated that the Terms of Reference must be published prior to start of evaluations,19.0% of the respondents indicated that Advisory committee must be formed and that consultation on results were required, respectively while 14.3% of the respondents indicated that External stakeholders must be involved in conducting the evaluation(s) and that results must be made publically available, respectively.

Table 4. 7:Elements Included In Regulations And /Or Formal Policy Guidelines

	Frequency	Percent
Terms of Reference must be published prior to start of evaluations	6	33.4
Advisory committee must be formed	4	19.0
External stakeholders must be involved in conducting the evaluation(s)	3	14.3
Results must be made publically available	3	14.3
Consultation on results required	4	19.0
Total	20	100.0

Government Conduct Spending Reviews

With regard to whether the government conducted spending reviews (e.g. evaluations conducted with the intent of identifying savings and or funds for re-allocation, and which propose measures for achieving these savings).From the findings,76.2% of the respondents indicated that the government

conducted spending reviews while 23.8% of the respondents indicated that the government didn't conduct spending reviews.

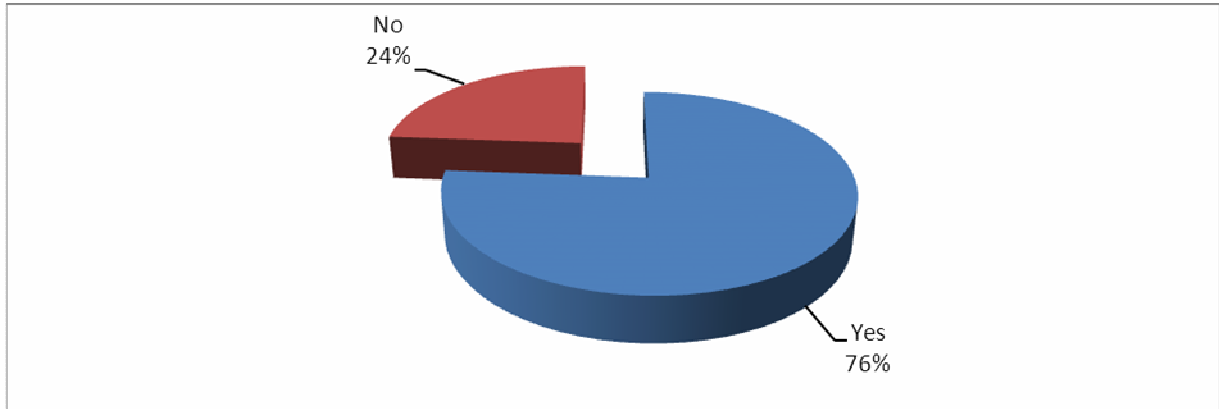


Figure 4. 5:Government Conduct Spending Reviews

Kinds Of Government Expenditures Do Spending Reviews Examine

The study sought to establish the kinds of government expenditures spending reviews examined. According to the findings, 57.2% of the respondents indicated that the spending reviews examined transfers and/or entitlement expenditures governed by law while 42.8% of the respondents indicated that the spending reviews examined expenditures governed by budget appropriations.

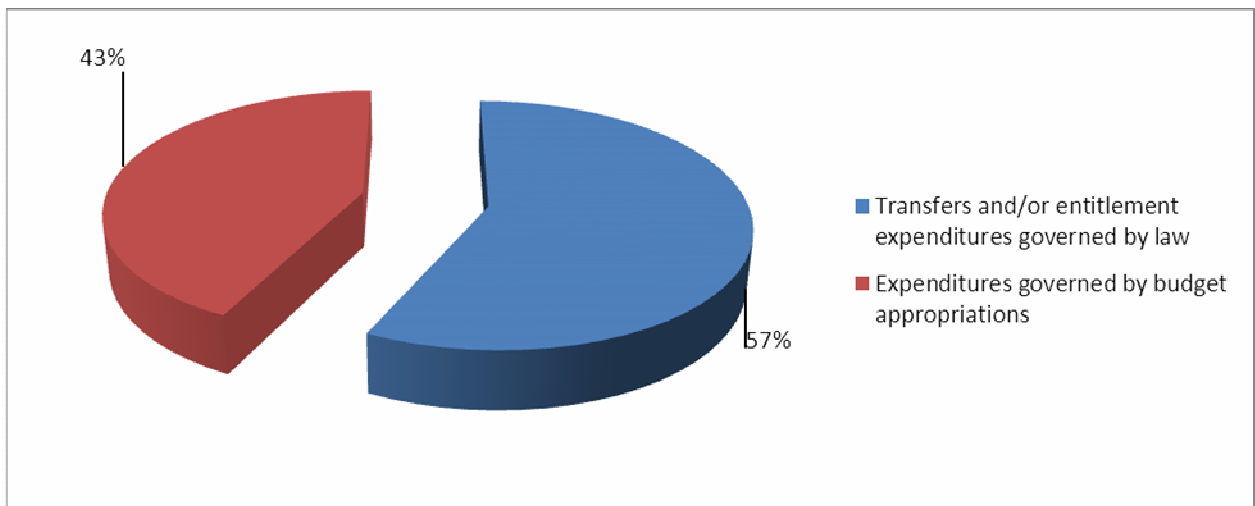


Figure 4. 6: Kinds Of Government Expenditures Do Spending Reviews Examine

Non-Governmental Actors (E.G. NGOs, Consultants, Citizens, etc.) Involved in the Spending Review Process

The study sought to determine when non-governmental actors (e.g. NGOs, consultants, citizens, etc.) were involved in the spending review process. According to the findings, 51.7% of the respondents indicated that Non-governmental actors were consulted ex-ante (before the review takes place) on objectives and/or procedures, 28.6% of the respondents indicated that Non-governmental actors were consulted following the review on findings, recommendations and/or follow-up while 23.8% of the respondents indicated that Non-governmental actors were consulted during the review process to provide inputs for analysis.

Table 4. 8: Non-Governmental Actors (E.G. NGOs, Consultants, Citizens, etc.) Involved in the Spending Review Process

	Frequency	Percent
Non-governmental actors are consulted ex-ante (before the review takes place) on objectives and/or procedures	9	51.7
Non-governmental actors are consulted during the review process to provide inputs for analysis	5	23.8
Non-governmental actors are consulted following the review on findings, recommendations and/or follow-up	6	28.6
Total	20	100.0

4.3 Regression Analysis

The relevant portions of the output provided by SPSS were as follows:

Table 4. 9: Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.784 ^a	.615	.601	3.58232

Source: Research, 2013

a. Predictors: (Constant), performance Information Utilized, Use of performance targets in budgeting and performance evaluations and spending reviews.

b. Dependent Variable: Public management of Parastatals In Kenya

The "Adjusted R Square" (adjusted for the number of variables in the equation) for the model summary shows that all three independent variables taken together explain about 60.1 percent of the variation in Public management of Parastatals In Kenya.

Table 4. 10: ANOVA (Analysis of Variance)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	901.780	2	450.89	14.37	.000 ^a
Residual	564.653	18	31.37		
Total	1466.433	20			

a. Predictors: (Constant), performance Information Utilized, Use of performance targets in budgeting and performance evaluations and spending reviews.

b. Dependent Variable: Public management of Parastatals In Kenya

The ANOVA table shows that the residual sum of squares (the sum of squared deviations from the least squares line) is 564.653, while the total sum of squares (the sum of squared deviations from the mean) is 1466.433. Note that $(1466.433 - 564.653) / 1466.653 = .615$. This is identical to the unadjusted R Square in the model summary. The “Sig” of .000 is the significance level (based on an “F ratio”). In other words, for the model as a whole, $p < .001$.

Table 4. 11: Estimated Coefficients

Model	Unstandardized coefficients(B)	p-Value
Const.	12.23	2.65e-11 ***
Performance Information	0.762	0.0296 ***
Use of performance targets in budgeting	0.674	0.0134 ***
Performance Evaluations and Spending Reviews	0.846	0.0243 ***

* Significant at 1%

** Significant at 5%

*** Significant at 10%

The “coefficients” table provides the regression equations. Under “unstandardized coefficients,” the “Constant” (12.23) is the “a” coefficient. The remaining values in this column are the “b” coefficients. Rewriting this in standard algebraic form, the unstandardized regression equation is:

$$PM = 12.23 + 0.762PI + 0.674PT + 0.846PESR$$

Where PM is Public Management, PI is Performance Information, PT is Use of performance targets in budgeting and PESR is Performance Evaluations and Spending Reviews.

A unit change in the performance information will lead to a 0.762 change in the public management of Parastatals In Kenya. A unit change in use of performance targets in budgeting will lead to a 0.674 change in the public management of Parastatals In Kenya. A unit change in performance evaluations and spending reviews will lead to a 0.846 change in the public management of Parastatals In Kenya.

Table 4.17 shows that performance Information Utilized, Use of performance targets in budgeting and performance evaluations and spending reviews at 1%, 5% and 10% level of significance, they are significant in explaining the variations in the public management of Parastatals In Kenya.

4.4 Summary and Interpretation Of Findings

The study established that private consultants played an important role in developing and maintaining ICT system for managing or supporting data and process needs for performance budgeting; that the CBK played an important role in generating performance information and in the allocation and/or reallocation of funds based explicitly on performance information as well as in conducting evaluations. According to Blair (2005) the goal of directors and management should be maximizing total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialized inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders. The study deduced that the Parastatals utilized spending reviews, statistical information, independent performance information, performance evaluations, financial and operational data as well as performance reports in their budget negotiations. (Poll, 2001) argues that performance budgeting aims to improve the effectiveness and efficiency of public expenditure by linking the funding of public sector organizations to the results they deliver. It uses systematic performance information (indicators, evaluations, program costings, spending reviews etc) to make this link. Bunce and Fraser (1997) observe that 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 performance 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 .

The study also established that performance budgeting didn't affect all the systems of the governments. This concurs with Crain and O'Roark (2004) who examined the impact of PBB innovation on state expenditures in the US by using panel data from 1970 through 1997. They concluded that PBB did have an impact on state spending per capita by at least two percentage points , but also find that PBB didn't affect all state government programs equally.

The study revealed that the performance targets were set according to the performance objectives of the programme; relative to international benchmarks of similar programmes as well as relative to the performance of a similar programme. According to Jensen and Meckling, (2006) performance measurement systems provide the foundation to develop strategic plans, assess an organization's completion of objectives, and remunerate managers. Although assessment of performance in the marketing literature is still very important, it is also complicated (Priest et al, 2002). While consensual measurement of performance promotes scholarly investigations and clarify managerial decisions, marketers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged. According to Poll (2001) Performance budgeting should be viewed in the broader context of a set of related "managing for-results" reforms. Managing for-results can be defined as the use of formal performance information to improve public sector efficiency and effectiveness. Rigby (2001) further argues that performance budgeting fundamental starting point is maximum clarity about the outcomes which government is attempting to achieve, and about the relationship of outputs, activities and resources used to those desired outcomes. Good strategic planning and business planning are an essential element of managing for-results.

The study further established that the spending reviews examined transfers and/or entitlement expenditures governed by law and that Non-governmental actors were consulted ex-ante (before the review takes place) on objectives and/or procedures. According to Rigby (2001) managing

for-results also tends to emphasize the ex ante stipulation of performance expectations for agencies, work units and individuals through the use of performance targets and standards. A standard element of the “strategic human resources management” component of managing for-results is the introduction of stronger performance-based extrinsic incentives (rewards and sanctions) for public officials. Typically, this is accompanied by greater flexibility of employment, including greater capacity to sanction or dismiss poor performers, and greater ease in transferring or terminate employees in programs which the government is eliminating or cutting back. Kluvers (2001) surveyed municipalities in Victoria, Australia which were known to be using PBB, and reported that “the question of whether performance indicators, if used, had provided useful information was answered in the affirmative by an overwhelming majority of survey respondents. However, this result is tempered by the fact that only a small number of councils reported actually using performance indicators”. Kluvers further concluded that managers tended to use the performance indicators primarily to allocate resources or to increase productivity. Furthermore, the use of performance indicators appeared to foster a changed attitude toward planning and to influence could influence spending over time.

CHAPTER FIVE:SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The key idea behind performance-based budgeting is the common belief that using performance measurement results in the budget process will improve budgeting decisions by making them more rational. Performance budgeting is dependent on performance management and commitment of public employees to produce good results. It is not inconsistent to report and budget differently and to reconcile the two types of financial statements. Although cash-based budgeting is subject to manipulation of the timing and recognition of transactions, accrual budgeting is vulnerable to manipulation of key assumptions.

Performance budgeting aims to improve the effectiveness and efficiency of public expenditure by linking the funding of public sector organizations to the results they deliver. It uses systematic performance information (indicators, evaluations, program costings etc) to make this link. The impact of performance budgeting may be felt in improved prioritization of expenditure, and in improved service effectiveness and/or efficiency. Performance budgeting usually also emphasizes giving government agencies and their managers greater flexibility in the use of resources than they would typically have under traditional tightly-controlled public management systems. A key element of this is greater flexibility in the choice of the mix of inputs which are to be used to deliver services (e.g. how much labor input vs. externally sourced inputs, the mix of types of externally-source supplies and services used). An important implication of this is the need for more flexibility human resources management, a topic discussed in a later section. The increased international interest in performance budgeting has been prompted in part by a recognition that it is all too easy in Government to lose sight of the fundamental objective of delivering positive outcomes to the community.

Performance budgeting is one of many different mathematical measures used to evaluate how well a company is using its resources to make profit. This measures the overall financial health over a given period of time and can be used to compare similar firms across the same industry or compare

industries. There are various measures of financial health of a company. Performance budgeting seeks to re-orient the annual resource allocation process from incremental (input-based) budgeting to output (target-based) budgeting.

5.2 Conclusion

It is concluded from the study that performance budgeting aims to improve the effectiveness and efficiency of public expenditure by linking the funding of public sector organizations to the results they deliver.

It is also concluded that managing for-results can be defined as the use of formal performance information to improve public sector efficiency and effectiveness. Good strategic planning and business planning are an essential element of managing for-results.

The study reveals that managers use the performance indicators primarily to allocate resources or to increase productivity. Furthermore, the use of performance indicators appears to foster a changed attitude toward planning and to influence could influence spending over time.

The study concluded that private consultants played an important role in developing and maintaining ICT system for managing or supporting data and process needs for performance budgeting; that the CBK played an important role in generating performance information and in the allocation and/or reallocation of funds based explicitly on performance information as well as in conducting evaluations. Further, the study established that the Chief Executive played an important role in setting performance targets.

The study concluded that the Parastatals utilized spending reviews, statistical information, independent performance information, performance evaluations, financial and operational data as well as performance reports in their budget negotiations.

The study concluded that the performance targets were set according to the performance objectives of the programme; relative to international benchmarks of similar programmes as well as relative to the performance of a similar programme.

The study also concluded that when the performance targets were not met more intense monitoring of organization and/or programme in the future was done; that the budget froze; more staff was

assigned to programme/organization and that the budget decreased. The study further revealed that when the performance targets were met, the budget increased (beyond what would have been a regular increase despite of performance); that the remaining budget was allowed to be carried over to next fiscal year and that leadership/staff were asked to train others and/or share their practices/lessons with other civil servants and that the organizational and/or programme's positive results were made public and that Senior Civil servants received pay raise to performance variable portion of pay or bonus.

The study also concluded that Terms of Reference were published prior to start of evaluations; that Advisory committee must be formed and that consultations on results were required. The study also revealed that the government conducted spending reviews. The study further established that the spending reviews examined transfers and/or entitlement expenditures governed by law and that Non-governmental actors were consulted ex-ante (before the review takes place) on objectives and/or procedures.

5.3 Policy Recommendations

Based on the findings and conclusions, the following recommendations are made from the study.

A standard element of the “strategic human resources management” component of managing for-results should be geared towards the introduction of stronger performance-based extrinsic incentives (rewards and sanctions) for public officials. Typically, this should be accompanied by greater flexibility of employment, including greater capacity to sanction or dismiss poor performers, and greater ease in transferring or terminate employees in programs which the government is eliminating or cutting back.

Good strategic planning and business planning should be embraced as an essential element of managing for-results.

The study recommends that Program objectives need to be explicitly linked to the objectives formulated in the organization's strategic plan and in any government-wide strategic or national plans. More generally, planning and programming should be seen as part of an integrated cycle.

A well-formulated government-wide strategy will define a small number of high-level outcomes upon which the government is focused. The clear specification of program objectives then provides the natural means of linking programs to the government-wide strategy. This is because program objectives are generally "intermediate" outcomes through which the high level

Whole-of-government outcomes are achieved.

Better integration of performance information into the decision making phases of the budget process is a long term challenge that will require long term effort from Finance and agencies.

Systematic processes for regular programme review are a potentially effective mechanism for containing growth in government spending. The current lapsing programme review process only covers measures and programmes that have been the subject of recent policy deliberations. An approach to review the stock of programmes that have not been subject to recent policy decisions would greatly extend the scope and usefulness of programme review.

5.4 Limitations of the study

Non response because of fear to reveal detailed information concerning the organization due to fear of exposing the impact of performance budgeting on management of public sector organizations and the confidentiality of such information in terms of business practices.

The researcher foresaw a challenge in collecting the required data from the respondents. The respondents feared giving information stating that the information requested may be used against them. To limit the effects of this limitation, the researcher carried with her an introduction letter from the University confirming that the data requested was used for academic purposes only.

Lack of co-operation from some of the respondents for fear of victimization from their supervisors.

The researcher also foresaw a challenge where the respondents were likely to give the ideal scenario instead of providing the situation they way it was at that time. This affected research finding as it distorted the study findings.

5.5 Suggestions for Further Research

This study sought to investigate the impact of performance budgeting on management of public sector organizations in Kenya. It is recommended further that studies in the area of factors affecting effective performance budgeting of the public sector.

It is also recommended that an analysis study should be conducted on the patterns and determinants of budget allocation.

The study also recommends that a study should be carried out on the challenges facing budget allocation in the country.

Moreover, a study should be conducted on the ways of enhancing the transparency and effectiveness of budgeting operations.

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APPENDICES

Appendix I: Introduction Letter


UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 6/8/2013

TO WHOM IT MAY CONCERN

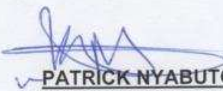
The bearer of this letter EVANS NYABUTO GERONDE
Registration No. D.G.I./72344/2011


is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS


UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
06 AUG 2013
MBA U.N.I.C.
P.O. Box 30197 - 00100, NAIROBI

Appendix II: Questionnaire

SECTION A

DEMOGRAPHIC INFORMATION

1) Gender:

Male Female

2) Your age bracket (Tick whichever appropriate)

25 - 30 Years

31 - 34 years 35 - 40 years

Over 41 years

What is your highest education level? (Tick as applicable)

Bachelors' degree

Postgraduate degree

Others-specify.....

SECTION B

Types of Performance Information utilized in Performance Budgeting

1) Please indicate which institutions in your government play important roles in each of the following functions regarding the generation and use of performance information for use in the budgeting process.

	Chief Executive or elected governing body	CBK	Private consultants
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	(e.g. President or Cabinet)		
Setting performance targets			
Establishing a standard performance budgeting framework or drafting guidelines			
Generating performance information			
Allocation and/or reallocation of funds based explicitly on performance information			
Conducting evaluations			
Developing and maintaining ICT system for managing or supporting data and process needs for performance			

budgeting			
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2 How often do the parastatals utilise the following kinds of performance information in their budget negotiations

	Never 1	Rarely 2	Occasionally 3	Usually 4	Always 5
financial data					
operational data and performance reports (e.g. annual reports, “business plans”, “organisational strategies”, etc.)					
performance evaluations (evaluations of policies or programmes, commissioned and/or conducted by government)					
Spending Reviews (evaluation conducted with explicit purpose of identifying savings or funds for re-allocation)					
Independent					

<p>performance information (of organisations, programmes or policies, not commissioned or conducted by government)</p>					
<p>Statistical information (harmonised/standardised data which allow for comparisons over time or across sectors/organisations, official data produced by governmental or international organisations)</p>					

USE OF PERFORMANCE TARGETS IN BUDGETING

3 When setting performance targets, against what benchmark(s) are they generally set against?

Relative to the programme’s past performance

Relative to the performance of a similar programme

Relative to international benchmarks of similar programmes

According to the performance objectives of the programme

4 If performance targets are not met by parastatals, how likely is it that any of the following consequences are triggered?

	Never 1	Rarely 2	Occasionally 3	Usually 4	Always 5
Programme eliminated					
More intense monitoring of organisation and/or programme in the future					
Budget freezes					
Budget decreases					
Budget increases					
Pay cut for head of programme/organisation (either to performance-variable pay or bonus)					
Organisational or programme's poor performance made public					
More staff assigned to programme/organisation					

5 If performance targets are met by parastatals, how likely is it that any of the following consequences are triggered?

	Never 1	Rarely 2	Occasionally 3	Usually 4	Always 5
Budget increase (beyond what would have been a regular increase despite of performance)					
Remaining budget allowed to be carried over to next fiscal year					
Organisational and/or programme's positive results made public					
Requirements for reporting back on performance are lessened/reduced					
Senior Civil servants receive pay raise to performance variable portion of pay or bonus					

Staff reduction/transfers					
Leadership/staff asked to train others and/or share their practices/lessons with other civil servants					

PERFORMANCE EVALUATIONS AND SPENDING REVIEWS

6 Please indicate which of the following elements are included in regulations and/or formal policy guidelines explicitly governing performance evaluations commissioned or conducted by the government.

Terms of Reference must be published prior to start of evaluations

Advisory committee must be formed

External stakeholders must be involved in conducting the evaluation(s)

Results must be made publically available

Consultation on results required

7 Does the government conduct spending reviews (e.g. evaluations conducted with the intent of identifying savings and or funds for re-allocation, and which propose measures for achieving these savings).

Yes

No

8 which kinds of government expenditures do spending reviews examine

Transfers and/or entitlement expenditures governed by law

Expenditures governed by budget appropriations

9 When, if at all, are non-governmental actors (e.g. NGOs, consultants, citizens, etc.) involved in the spending review process?

Non-governmental actors are consulted ex-ante (before the review takes place) on objectives and/or procedures

Non-governmental actors are consulted during the review process to provide inputs for analysis

Non-governmental actors are consulted following the review on findings, recommendations and/or follow-up

THANK YOU!

Appendix III:List of Parastatals

1. Kenya Ports Authority
2. Kenya Coconut Development Authority
3. Kenya Civil Aviation Authority
4. Retirements Benefit Authority
5. Kenya Revenue Authority
6. Kenya Accreditation Service
7. Kenya Industrial Research and Development Institute
8. Kenya industrial Estates
9. East African Portland Cement Company
10. Industrial Development Bank Capital
11. Kenya Bureau of Standards
12. Kenya Power and Lighting Company
13. Kenya Film Commission
14. Kenya ICT Board
15. Kenya Geothermal Development Corporation
16. Kenya National Youth Service
17. Media Council of Kenya
18. Petroleum Institute of East Africa

19. National Oil Corporation Of Kenya

20. Kenya Energy Regulatory Commission

21. Capital markets Authority

22. Kenya Pipeline Company