

THE EFFECT OF BUDGETARY CONTROL PROCESS IN NYERI COUNTY SACCOS

BY:

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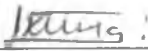
SEPTEMBER 2011

DECLARATION

This is to declare that this research project is my original work that has not been presented to any other University or Institution of Higher Learning for examination.

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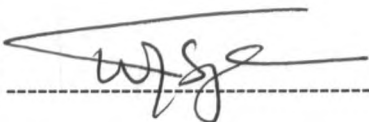
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DECLARATION BY SUPERVISOR:

This is to declare that this project has been submitted for examination with my approval as the university supervisor

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DEDICATION

This study is dedicated to my loving family for being my greatest blessing and source of encouragement throughout my entire MBA course.

ACKNOWLEDGEMENT

I thank the Almighty God for His guidance and providence which enabled me to undertake this project that was too involving in terms of time and resources.

I wish to express my sincere appreciation to the following people during the entire MBA course work and project.

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ABSTRACT

Budgetary control systems are universal and have been considered an essential tool for financial planning. The purpose of budgetary control is to provide a forecast of revenues and expenditures i.e. construct a model of how our business might perform financially speaking if certain strategies, events and plans are carried out. Due to the mandate charged to it on observing budgetary issues in cooperative societies, challenges facing budgetary control would be well identified by focusing on this organization. The objective of this study was to examine the effect of budgetary control process in Saccos with specific reference to SACCOs in Nyeri County. Descriptive research design was chosen because it enables the researcher to generalize the findings to a larger population. The population of this study was the 120 finance officers of SACCOs in Nyeri according to ministry of cooperative development and marketing 2011. From each stratum the study selected 30% of stratum population using simple random sampling method. Primary data is information gathered directly from respondents and for this study the researcher used questionnaires.

The study concludes that finance and administration departments participated in budgetary control processes. Budgetary control processes are not intimately linked with considerations of labor controls. Participation of all the stakeholders makes the budgetary process too lengthy and time consuming. There is no coordination of the Sacco's strategies and budget in a single, integrated process, characterized by continuous feedback.

The study recommends the SACCO to involve all departments in preparation and control of budget. Budgetary controls should be linked with considerations of labor controls. SACCOs need to employ sophisticated corporate planning and corporate financial plans in its budgeting system. There should be coordination of the Sacco's strategies and budget in a single, integrated process, characterized by continuous feedback. Staff and board members need to be involved budgetary process.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Budgetary control systems are universal and have been considered an essential tool for financial planning. These systems are meant to organize and encourage the performance of organizations (Abernethy and Brownell, 1999 pp.189-205). Traditionally, budgets were seen as the primary planning document (Alam and Lawrence, 1994 pp.41-51; Johnston, 1998 pp.352-68). Guthrie (1999) states that corporatization and the application of the National Competition Policy (NCP) meant that Finance Ministry should operate under some commercial principles so as to become more economic, efficient and effective. Budgetary control plays a key role in an organization. It moves the organization from an informal reaction method of management to a formal controlled method of management (Morse et al., 1984). A budget can act as a motivator and communicator, as well as for functional co-ordination and performance evaluation (Dominiak and Louderback, 1988) of an organization.

The SACCOs in Kenya are formally guided by co-operative legislation. SACCOs by their design mobilizes capital primarily through retained earnings and members contribution in form of shares. It is perceived that regulatory bodies in this countries makes them better off in 'providing direction on capital expenditure' as compared to countries without legislation.. Their budgets are therefore mainly intended for authorizing actions and providing ceilings for management actions (Allison and Kaye, 2005). This is unlike the private sector where organizations are profit motivated. Their Budgetary control reflects a conscious effort to plan for certain desirable results and controls to maximize the chances of achieving those results. According to Lewis (2005) the basic reason for requiring estimates from subordinate officials is that higher officials do not have enough detailed information, time or specialized skills to prepare the plans themselves. It is the decision maker at the subunit level who has the relevant facts to effectively classify activities into various categories according to their importance. It is also at this level, that projects and activities requiring attention and hence financial support can be identified and prioritized.

1.1.1 Budgetary control process.

According to Wildavsky, (1986) Budgetary control process involves planning for budget preparation setting out goals and timelines for its production. This is followed by communicating the same to the person preparing the budgets. Information gathering starts after the briefing of staff about the requirements. Thereafter the information is compiled and revised according to awaiting the committee review. When passed by the committee, it is ready for implementation which is done and need for feedback to allow no variance checked.

The purpose of budgetary control is to provide a forecast of revenues and expenditures i.e. construct a model of how our business might perform financially speaking if certain strategies, events and plans are carried out. Enable the actual financial operation of the business to be measured against the forecast. Budgetary control lies at the foundation of every financial plan. Unlike what one might believe, budgetary control isn't all about restricting what one spends money on and cutting out all the fun in life. It really is about understanding how much money one has, where it goes, and then planning how to best allocate those funds, (Burns and Fraser, 2000).

1.1.2 Organizational performance and performance measures

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is used as a general measure of firm's overall financial health over a given period, and can be used to compare similar firms across the industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance but all measures should be taken into aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investors may wish to look deeper into financial statements and seek out margin growth rate or any declining debt (Jensen, (2001).

Performance is the outcome of all of the organization's operations and strategies (Jensen, (2001). Measuring financial performance accurately is critical for accounting purposes and remains a central concern for most organizations. 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 (Pont and Shaw, 2003). 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.

1.1.3 Savings and Credit Cooperative Societies

Savings and Credit Cooperative Societies (SACCOs) are synonymous with credit unions. The International SACCO Alliance (2000) defines credit unions as the legally constituted not-for-profit financial institutions, chartered and supervised, for the most part, under national SACCO law and created to meet the basic financial service needs of primarily low and middle income citizens who generally cannot obtain these services through the existing banking system. The unions provide a means to learn the value of regular savings and wise use of credit. They are a form of economic empowerment, based upon an individual's ability to control and manage the financial institution that provides savings, credit and financial management (Maddox (1999),).

A SACCO is a voluntary' contractual organization of persons having a mutual ownership interest in providing themselves with needed service(s) on a non-profit basis. It is usually organized as a legal entity to accomplish an economic objective through joint participation of its members. In a SACCO the investment and operational risks, benefits gained, or losses incurred are shared equitably by its members in proportion to their use of the SACCO's services. A SACCO is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the SACCO. SACCO members are individuals, partnerships, corporations, and associations-holding membership in a SACCO organized without capital stock or holding stock. In a SACCO with capital stock these persons are instrumental in starting or keeping the SACCO business going because they realize they can solve their economic problems and attain their goals only by working together. They voluntarily affiliate with the SACCO.

1.2 Statement of the problem.

Budgetary control and Financial Management have been at the core of economic reform programs in most nations around the world, Schick (1999). They have also been the principle instruments of transformation and restructuring of cooperative sectors organizations. With the

growing challenges posed by financial mismanagement and budgetary framework, the need for enhanced budget processes and innovative financial management techniques are increasingly felt in developing countries and transition economies. Budgets can be used to allocate funds optimally by funding projects that promise the highest returns (Hongren, 2003).

The development of SACCOs in Kenya is a product of both history and politics. As new saving needs have emerged since independence, the tendency has been to create new SACCOs under separate management, rather than incorporate new functions into existing institutions of cooperative societies. The creation of additional SACCOs in the country seems to have had more to do with national pride and domestic politics than with any real need for these institutions (www.kussco.or.ke). Although a number of previous studies have treated participation as a one-dimensional construct, there is evidence that it may be at least bi-dimensional (Brownell, 1982 and Milani, 1975). First, there is the extent that communication occurs within the budgetary process and, second, the extent that a participant feels that he or she influences the budget finally allocated.

The current research literature has unfilled gaps about the challenges of budgeting. Within the last decade, most academic studies have focused on understanding budgeting with regard to tools, techniques, process and control. The literature has not given much emphasis on the factors that influence outsourcing. Further, most of the literature is from the developed countries whose company's strategy approach is different from that of Kenya. Thus there is a dearth of literature focusing on challenges of budgeting in the local company. The researcher aims to find out impact of budgetary control process in the Sacco industry with specific reference to SACCOs in Nyeri County.

Locally, several studies have been conducted on budgetary control in Kenyan organizations. There has been a wide variety of previous studies with many focusing on Budgetary control practices of private sector organizations while others have dwelt on specific aspects of Budgetary control. Muleri (2001) performed a survey of budgetary control practices among the major British non-governmental organizations in Kenya while Kadondi (2002) carried out a survey of capital budgetary control techniques used by companies listed at the Nairobi Stock Exchange. Ambetsa (2004), conducted a survey of the Budgetary control practices adopted by commercial

airlines operating at Wilson Airport in Nairobi, and more recently Ndiritu (2007) conducted a case study on the effectiveness of cash Budgetary control at Telkom Kenya, which is a public institution. This study will focus on challenges of budgetary control at the Kenyan Sacco industry. Due to the mandate charged to it on observing budgetary issues in cooperative societies, challenges facing budgetary control would be well identified by focusing on this organization. This scenario presents a challenge in its budgetary process, and which is the focus of the study. No study has been done on budgetary control in the Sacco industry. Therefore this study attempts to study the use of budgetary control techniques on this sector and provide a concrete base for future studies as well as current use of the information by the management of the Kenyan Sacco industry to meet achieve their goals and objectives. This study seeks to answer the question what is the impact of budgetary control on the performance of SACCOs?

1.3 Research Objective

The objective of this study was to examine the effect of budgetary control process in Saccos with specific reference to SACCOs in Nyeri County.

1.4 Significance of the study

This study would help to sensitize SACCOs in Kenya on the importance of budgetary control. The organization in focus would benefit from the documentation and analysis of its budgetary process and the challenges faced therein, and how these challenges can be overcome.

Policy makers would benefit from the issues raised in the study, which would be useful in refining the existing budgetary policy framework.

The study would be of help to Scholars and academicians who may wish to use its findings as a basis for further research on this subject.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

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

2.2 Theoretical Review

Budgeting plays a key role in an organization. It moves the organization from an informal reaction method of management to a formal controlled method of management (Morse et al., 1984). A budget can act as a motivator and communicator, as well as for functional co-ordination and performance evaluation (Dominiak and Louderback, 1988) of an organization. Concerns regarding a number of limitations and weaknesses that have been linked to traditional budgeting processes are becoming increasingly widespread, with the primary “fear” being that they could potentially hinder and damage an organization’s performance (Bunce and Fraser, 1997). For the most part, these concerns fall into one of two main categories: that the process is inefficient and, furthermore, that it is ineffective.

As budgets are prepared in advance there are likely to be price increases between the time of preparation and the time when the amount is spent or received. There is need to take this into account when an organization 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 organization will charge in fees for services or in sales of products. There is also need to keep the budget calculations for the organization budget because some stakeholders may be willing to provide a supplementary revenue if the management can show clearly that the budget calculations were based on a smaller rate of inflation than actually proved to be the case (Hope and Fraser, 1997).

2.2.1 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 (1995:322) 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 (1992:16-17) 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 (1992:17) 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 and Lindberg (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 (1994a).

In larger enterprises, the high degree of detail in budget planning also is an important influence. Decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis consumes large quantities of human and monetary resources. Moreover, wasteful resource consumption occurs every time negotiating partners loop through the planning cycle until they finally approve the annual operating budget. Large firms usually commit 75 per

cent to 95 per cent of their total controlling capacity to operational planning during the time they are engaged in budget preparation (Kopp and Leyk, 2004). Unfortunately, top management seldom considers the high cost involved relative to the meager benefit derived from such detailed instruments. It then is no wonder that cost, product, and strategic controlling often get little attention in the process.

2.2.2 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 (1977) 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 Concept of Budgetary control.

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

Anthony et al (1992) list four uses of a budget. First, budgets are used to fine tune the strategic plan; second, to help co-ordinate the activities of the several parts of the organization; third, to

assign responsibilities to managers; and last, to obtain a commitment that is a basis for evaluating a manager's actual performance. According to Garrison (1988) there are four major advantages of budgetary control. First, it gives planning top priority; second, it provides managers with a way to finalize their planning efforts; third, it overcomes potential bottlenecks before they occur; and last, it co-ordinates the activities of the entire organization by integrating the plans and objectives of the various parts.

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

Budgetary control systems are universal and have been considered an essential tool for financial planning. These systems are meant to organize and encourage the performance of organizations (Abernethy and Brownell, 1999 pp.189-205). Traditionally, budgets were seen as the primary planning document (Alam and Lawrence, 1994 pp.41-51; Johnston, 1998 pp.352-68). Guthrie (1999) states that corporatization and the application of the National Competition Policy (NCP) meant that Finance Ministry should operate under some commercial principles so as to become more economic, efficient and effective.

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

2.3.1 Traditional Budgetary control Systems

Concerns regarding a number of limitations and weaknesses that have been linked to traditional budgetary control 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 organization is doing its budgetary control 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 Budgetary control committee also estimate for an increase in what the organization will charge in fees for services or in sales of products. There is also need to keep the budget estimates for the organization budget because some stakeholders may be willing to provide a supplementary revenue if the management can show clearly that the budget estimates were based on a smaller rate of inflation than actually proved to be the case (Hope and Fraser, 1997).

2.3.2 Budget Cycle in the SACCO industry.

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

The budget cycle in the cooperative sectors passes through three major phases. The first stage is budget planning and preparation, which is usually done by the Ministry of cooperatives and alongside other players. After every five years, each district develops a District Development Plan outlining development priorities and aspirations at the district level. The plan is supposed to

benefit from broad-based participation by the citizens. The districts' aspirations are collated into a National Development Plan, which, in addition, spells out macro policies and programs to be implemented in a five-year period. The medium term expenditure framework (MTEF), the latest budgetary system in Kenya, links policy making with planning and implementation of budgeted projects in a three-year rolling framework.

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

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

2.4 Challenges of Budgetary control in SACCCOs

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

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

When auditing or benchmarking highlights, a gap in management performance, a strategy should be developed and targets defined, within an improvement plan, in order to attain the higher standards identified. However, the application of the highest standards available, per se, does not ensure success because a company operating to the highest standards but failing to make a profit will not remain in business for very long. Weisenfeld and Tyson (1990), therefore, the desire to raise standards must be put into the context of overall business performance and profitability. Although benchmarking can provide short-term solutions to some problems, by identifying how other companies address the same issues, the main benefit of benchmarking is more related to changing business culture in the medium and long term. To achieve this, managers need an understanding of the underlying principles, strengths and limitations of the benchmarking process and an appreciation of the impact that economic constraints have on achievable performance standards. Benchmarking should therefore be supported by management models, which describe the issues and predict how changes in management strategy affect company performance.

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

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

markets. However, the aims and achievable objectives of the benchmarking process may be significantly different in each situation. For example, one company may benchmark in order to improve profitability by identifying the most cost-effective way of maintaining their current standards, while another company may benchmark to identify industry best practice.

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

2.4.1 Budget Planning and Control

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

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

Not only are plans and budgets no longer appropriate for the conditions currently prevailing at the time of their execution, often enough they already are obsolete before their approval. This obsolescence arises from long duration of the bargaining and negotiations typically involved in planning and budgetary control. In larger enterprises, the high degree of detail in budget planning also is an important influence. Decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis consumes large quantities of human and monetary resources. Moreover, wasteful resource consumption occurs every time negotiating partners loop through the planning cycle until they finally approve the annual operating budget. Large firms usually commit 75 per cent to 95 per cent of their total controlling capacity to operational planning during the time they are engaged in budget preparation (Kopp and Leyk, 2004). Unfortunately, top management seldom considers the high cost involved relative to the meager benefit derived from such detailed instruments. It then is no wonder that cost, product, and strategic controlling often get little attention in the process.

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

There has been some evidence that companies have been showing considerable interest in preparing long-range plans. In a survey of Fortune 500 companies in the USA, Sinha (1990) concluded that formal strategic planning contributed to decisions that were important, risky, global, and involved divestments. Similarly, in another study, Capon et al. (1994) found that a majority of firms employed sophisticated corporate planning and corporate financial plans in their Budgetary control system. Powell (1992) found that strategic planning was important in the US companies but depended on the type of industry. A study by Wijewardena and Zoysa (1999) found that 95 percent of the Japanese companies and 83 percent of the Australian companies do prepare long-range plans. Furthermore, Chenhall and Smith (1998 pp.1-19) found

that more than 90 percent of the respondent companies adopted long range planning and long range forecasting in Australia. Joshi (2001) and Anderson and Lanen (1999) found that Indian companies were using strategic formal planning and long range forecasting techniques in budget planning. Other studies in Europe found extensive use of long range planning (for example, Germany: Scherrer (1996); Greece: Ballas and Venieris (1996); Italy, Barbato et al. (1996).

2.4.2 Budget Participation and Rewards

The topic of budget participation has always received a considerable interest among researchers. There are conflicting findings on the significance of budgetary participation. Cherrington and Cherrington (1973) reported negative relationship between budget participation and performance. On the other hand, Merchant (1987) and Brownell (1982) reported a positive relationship. Furthermore, Cress and Pettijohn (1985) surveyed 219 publicly traded US companies and found that in 79 percent of the companies surveyed, lower level managers have a significant role in both the initial and revision stages of budget preparation. Similarly, Shields and Young (1993) found that participative budgeting is used more frequently when lower level managers have more knowledge than central management and also when part of the manager's remuneration package is linked to budget performance. Additionally, Mufti and Lyne (1997) found that the degree of budget participation is more in large size firms than smaller firms. Milani (1975) provided evidence that participation in budgeting increases acceptance and motivation as well as it makes the budgeter to a greater extent feel responsible for the organization goals.

Rewards are productivity-boosting (behavioral management) techniques that are intended to provide positive motivation. This is based on the idea that a behavior leading to a positive consequence (reward) tends to be repeated. By providing the right rewards one can change a person's behavior. Participation of employees in the process of budget preparation also motivates them to achieve budget goals. Srinivasan (1987) posits that budgets should be used to motivate subordinates to increase their output and efficiency by encouraging their participation during budget preparation. Hopwood's (1972) study contains ample evidence that the association of extrinsic rewards with budgetary achievement is a powerful means to motivate managers. Bails

and Asada (1991) in their study found that bonus and promotion or new assignments are positively correlated with budget performance, while salary is not.

2.5 Empirical Studies

Most of the local literature available so far has studied budgetary control in the private sector and cooperative sectors. Obulemire (2006) conducted a survey of Budgetary control practices in Secondary schools where he found that budget committees and interdepartmental discussion groups were the most used Budgetary control tools with less emphasis on brainstorming. He further asserts that top management support, clear and realistic goals, influence of external environment on availability of resources and the strategic plan were key factors to consider. In addition, failure to consider motivation of employees and participation by all staff in the budgetary control process was a challenge. Possible consequences of not tying budget targets achievements to rewards include lack of a sense of responsibility, perception that budgets are pressure devices and budget padding among the employees (Obulemire, 2006).

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

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

2.6 Summary

The purpose of this literature review has been to investigate the effect of budgetary control on financial performance of SACCOs.

Thus, the above literature review sheds light on the use of budgets as a planning and control tool. However, these studies were mainly confined to advanced countries, and very limited evidence is available on budgetary practices in developing countries, especially from the Middle Eastern region.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter involves the methods the researcher used to collect the data for the study. These included research design, target population, sampling procedure, data collection instruments, data collection procedure and Data analysis procedures were reviewed with expected result as a representation of the study.

3.2 Research Design

The research design was a descriptive survey study aimed at investigating the impact of budgetary control process on Saccos in Nyeri County. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive surveys were 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. This study was therefore able to generalize the findings to all the SACCOs in Nyeri County.

3.3 Population

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. 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 the 120 finance officers of SACCOs in Nyeri according to ministry of cooperative development and marketing 2011. This is the group from which the sample was drawn.

3.4 Sampling Procedure

According to Ngechu (2004) Sampling ensures that some elements of a population are selected as riding representative of the population. Stratified random sampling technique was used to select the sample. According to Kerry and Bland (1998) the technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aimed to reduce standard error by providing some control over variance. From each stratum the study selected 30% of stratum population using simple random sampling method. According to Cooper and Schindler (2003), random sampling frequently minimizes the sampling error in the population. This in turn increased the precision of any estimation methods used.

3.5 Data Collection

According to Ngechu (2004) there are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results. Primary data is information gathered directly from respondents and for this study the researcher used questionnaires. Secondary data involved the collection and analysis of published material and information from other sources such as annual reports, published data. Thus in this study the researcher employed the use of survey questionnaire for data collection.

The researcher administered a survey questionnaire to each member of the target population. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected for the study. Secondary data was also collected for this study. The researcher administered the questionnaire individually one finance officer of the Sacco was the Target population. The researcher exercised care and control to ensure all questionnaires issued to the respondents were received and to achieve this, the researcher maintained a register of questionnaires, which were sent, and which were received. The interview was done to the respondents directly.

3.6 Pilot Test

The researcher carried out a pilot study to pre-test and validate the questionnaire. According to Cooper and Schindler (2003), the pilot group can range from 25 to 100 subjects depending on the method to be tested but it does not need to be statistically selected. This was in line with a qualitative research design methodology employed in this research project. According to Berg and Gall (1989) validity is the degree by which the sample of test items represents the content the test was designed to measure. 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. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field.

To establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the researcher's supervisor and lecturers in the department of educational administration, planning and curriculum development. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity. According to Shanghverzy (2003), reliability refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures (*ibid*).

The researcher selected a pilot group of 120 individuals from the target population in SACCOs in Nyeri County to test the reliability of the research instrument. This was achieved by first stratifying the individuals according to level of management, level of education, number of years worked. The researcher also put in consideration gender equity and geographical background of individuals. The pilot data was included in the actual study. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents was established so as to enhance the instrument's validity and reliability. The pilot study enabled the researcher to be familiar with research and its administration procedure as well as identifying items that require modification. The result helped the researcher to correct inconsistencies arising from the instruments, which ensured that they measured what was intended.

3.7 Data Processing and Analysis

The researcher perused completed questionnaires and document analysis recording sheets. Qualitative data collected, was analysed by use of content analysis while quantitative data which was descriptive statistics was analysed using SPSS and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. According to Baulcomb, (2003), content analysis uses a set of categorization for making valid and replicable inferences from data to their context. The data was broken down into the different aspects of the effects of outsourcing on performance of SACCOs.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

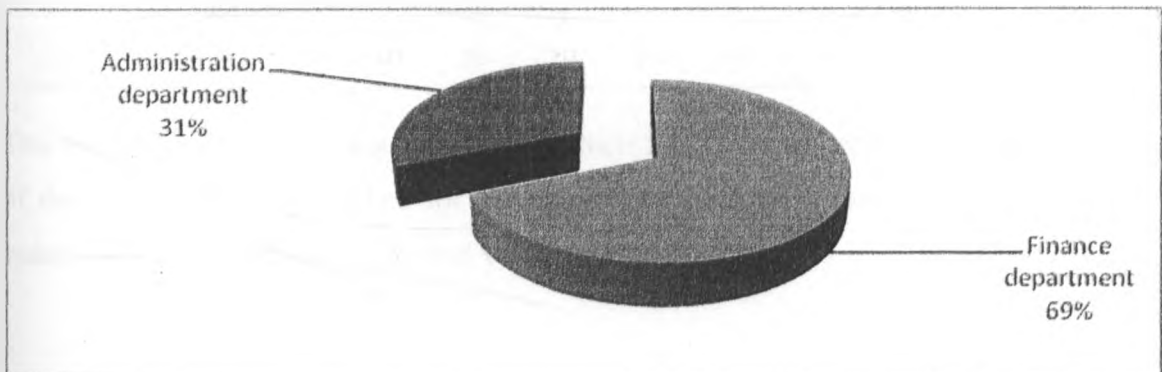
This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on the effect of budgetary control process on financial performance of Saccos with specific reference to SACCOs in Nyeri County. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.1.1 Response Rate

The study targeted 36 respondents in collecting data with regard to the effect of budgetary control process on financial performance of Saccos with specific reference to SACCOs in Nyeri County. From the study, 32 out of the 36 sample respondents filled-in and returned the questionnaires making a response rate of 89%. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

4.2 Demographic information

Figure 4. 1: Department of the respondents



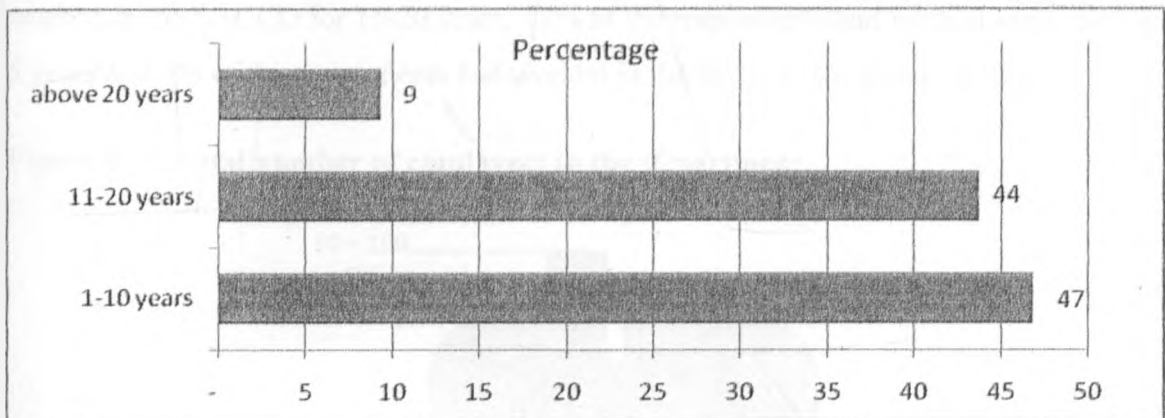
The study sought to find out the department of the respondents. According to the findings, 69% of the respondents were in finance department and 31% of the respondents were in administration department.

Table 4. 1: Designation of the respondents

Designation	Frequency	Percentage
Finance officer	12	38
Senior accountant	11	34
Accountants	6	19
Manager	3	9
Total	32	100

The study sought to find out the designation of the respondents. According to the findings, 38% of the respondents were finance officers, 34% of the respondents were senior accountants, 19% of the respondents were accountants and 9% of the respondents were managers.

Figure 4. 2: Total work experience of the respondents



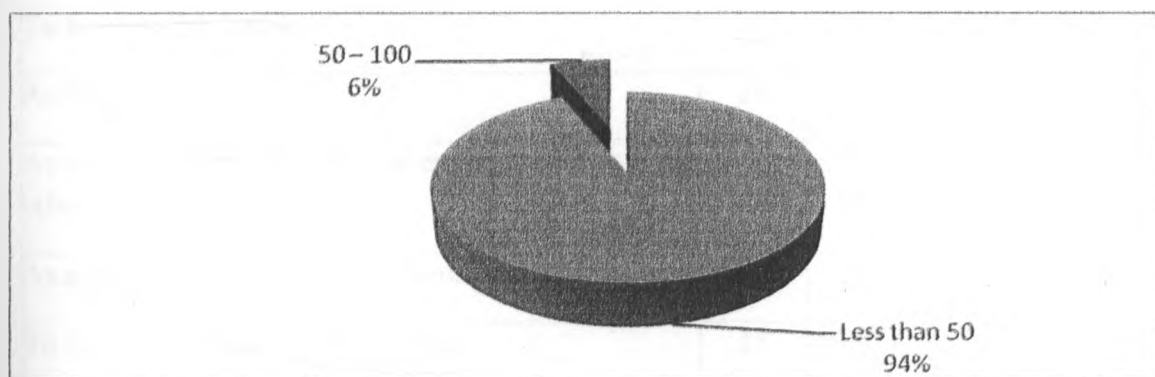
The respondents were requested to indicate their total work experience. From the findings, 47% of the respondents had worked for 1-10 years, 44% of the respondents had worked for 11-20 years and 9% of the respondents had worked for above 20 years.

Table 4. 2: Length of time the respondents had been in the SACCO

No. of years	Frequency	Percentage
0-5 years	4	13
5-10 years	11	34
10-15 years	10	31
15-20 years	6	19
Above 20 years	1	3
Total	32	100

The study sought to find out the length of time the respondents had been in the SACCO. According to the findings, 34% of the respondents had worked in the SACCO for 5-10 years, 31% of the respondents had worked in the SACCO for 10-15 years, 19% of the respondents had worked in the SACCO for 15-20 years, 13% of the respondents had worked in the SACCO for 0-5 years and 3% of the respondents had worked in the SACCO for above 20 years.

Figure 4. 3: Total number of employees in the department



The study sought to find out the total number of employees in the department. According to the findings, 94% of the respondents indicated that total number of employees in the department were less than 50 and 6% of the respondents indicated that total number of employees in the department were 50-100.

4.3 Challenges of Budgetary Control

Table 4. 3: If the department participated in budgetary control

Response	Frequency	Percentage
Yes	28	88
No	4	13
Total	32	100

The study sought to find out if the department participated in budgetary control. From the findings, 88% of the respondents indicated that the department participated in budgetary control while 13% of the respondents indicated that indicated that the department did not participate in budgetary control.

Table 4. 4: Respondents' agreement level with Budgets purposes for the department

Factors	strongly agree	Agree	Neutral	Disagree	disagree	Mean	Stdev
To forecast the future	35	35	6	16	6	3.8	0.7
Assist in control	16	32	23	23	3	3.3	0.3
As a means by which management communicates to other levels of department	23	10	32	23	13	3.1	0.2
As a means of performance appraisal	23	29	29	10	10	3.5	0.2
To motivate employees to do better	13	10	39	29	10	2.9	0.3

The study sought to find out the respondents' agreement level with Budgets purposes for the department. According to the findings, the respondents agreed that budgets purposes for the department were to forecast the future as shown by a mean of 3.8, the respondents agreed that budgets purposes for the department were as a means of performance appraisal as shown by a mean of 3.5, the respondents were neutral that budgets purposes for the department were assist in control as shown by a mean of 3.3, the respondents agreed that budgets purposes for the

department were as a means by which management communicates to other levels of department as shown by a mean of 3.1 and the respondents agreed that budgets purposes for the department were to motivate employees to do better as shown by a mean of 2.9.

4.4 Planning and Controlling

Table 4. 5: Extent that challenges faced by the managerial use of budgetary information in planning and controlling in the SACCOs

Challenges	very great extent	Great extent	extent	Little extent	no extent	Mean	Stdev
Poor participation by managers in setting their budgetary targets	55	29	6	6	3	4.3	0.2
Sources of pressure to meet these budgetary targets	19	42	26	10	3	3.6	0.5
Government influence and control	39	29	23	6	3	3.9	0.2
Lack of adequate control measures	39	16	19	13	13	3.5	0.1
Budgetary controls are not intimately linked with considerations of labor controls	45	35	6	6	6	4.1	0.2
Adoption of long range planning and long range forecasting techniques in budget planning at SACCOs.	10	35	32	13	10	3.2	0.3
SACCOs employ sophisticated corporate planning and corporate financial plans in its budgeting system	45	10	19	16	10	3.6	0.6

The study sought to find out the extent that challenges faced by the managerial use of budgetary information in planning and controlling in the SACCOs. From the findings, SACCOs faced poor participation challenge by managers in setting their budgetary targets to a great extent as shown by a mean of 4.3, budgetary controls are not intimately linked with considerations of labor controls to a great extent as shown by a mean of 4.1, government influence and control to a great extent as shown by a mean of 3.9, sources of pressure to meet these budgetary targets to a great

extent as shown by a mean of 3.6, SACCOs employ sophisticated corporate planning and corporate financial plans in its budgeting system to a great extent as shown by a mean of 3.6, lack of adequate control measures to a great extent as shown by a mean of 3.5 and adoption of long range planning and long range forecasting techniques in budget planning at SACCOs to a great extent as shown by a mean of 3.2.

4.5 Budget Participation and Rewards

Table 4. 6: Respondents’ agreement level with statements that relate to Budget Participation and Rewards challenges in the SACCOs

Statement	strongly agree	Agree	Neutral	Disagree	strongly disagree	Mean	Stdev
Participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming	29	29	19	6	16	3.5	0.4
The participation of all stakeholders poses a financial challenge as it requires a lot of funds	16	45	10	19	10	3.4	0.4
Bonus and promotion or new assignments are not correlated with budget performance	39	26	13	13	10	3.7	0.4
Low level management do not have a significant role in both the initial and revision stages of budget preparation at SACCOs	19	29	23	16	13	3.3	0.3
Lower level management and senior management within SACCOs are not linked to budget preparation and implementation.	10	19	35	23	13	2.9	0.5

The study sought to find out the respondents’ agreement level with statements that relate to Budget Participation and Rewards challenges in the SACCOs. According to the findings, the respondents agreed that bonus and promotion or new assignments are not correlated with budget performance as shown by a mean of 3.7, the respondents agreed that participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming as shown by a mean of 3.5, the respondents were neutral that the participation of all stakeholders poses a financial challenge as it requires a lot of funds as shown by a mean of 3.4, the respondents were neutral that low level management do not have a significant role in both the initial and revision

stages of budget preparation at SACCOs as shown by a mean of 3.3 and the respondents were neutral that lower level management and senior management within SACCOs are not linked to budget preparation and implementation as shown by a mean of 2.9.

4.6 Performance Evaluation

Table 4. 7: Extent that challenges of budgeting contribute to the challenges in the organisation

Challenges of Budgeting	very great extent	Great extent	Moderate extent	Little extent	no extent	Mean	Stdev
There is poor feedback in the budgeting process for attainment of the expected quality and standards in planning, control and leadership	16	26	16	26	16	3.0	0.7
The Feedback does not critically focus on the extent to which employees have achieved expected levels of work during a specified time period	88	9	1	2	1	4.8	0.6
Budgets being a standard for performance are not used to evaluate the organizational performance	63	34	1	1	2	4.5	0.7
Budgeting at SACCOs does not place a high importance on the budget-to-actual comparison for performance evaluation purposes	71	13	2	1	1	4.1	0.1
There is no coordination of the SACCOs strategies and budget in a single, integrated process, characterized by continuous feedback	70	25	1	2	2	4.6	0.2

The study sought to find out the extent that challenges of budgeting contribute to the challenges in the organization. According to the findings, the Feedback does not critically focus on the extent to which employees have achieved expected levels of work during a specified time period to a very great extent as shown by a mean of 4.8, there is no coordination of the SACCOs strategies and budget in a single, integrated process, characterized by continuous feedback to a very great extent as shown by a mean of 4.6, budgets being a standard for performance are not used to evaluate the organizational performance to a very great extent as shown by a mean of 4.5, budgeting at SACCOs does not place a high importance on the budget-to-actual comparison for performance evaluation purposes to a great extent as shown by a mean of 4.1 and there is

poor feedback in the budgeting process for attainment of the expected quality and standards in planning, control and leadership to a great extent as shown by a mean of 3.0.

Table 4. 8: Respondents' agreement level with statements that relate to challenges in the budgetary process at SACCOs attributed to staff motivation and commitment

Statement	strongly agree	Agree	Neutral	Disagree	strongly disagree	Mean	Stdev
Motivation level is likely to vary between individuals and may be affected by other factors.	92	2	3	2	1	4.8	0.7
The budgets are not set at a target level, thus giving rise to an unanticipated adverse variance thus de motivation maximum performance	63	32	2	1	3	4.5	0.4
Participation of employees in the process of budget preparation does not necessarily motivate them to achieve budget goals.	75	21	1	2	1	4.7	0.4
Budgets at the organisation are not used to motivate subordinates to increase their output and efficiency by encouraging their participation during budget preparation	63	32	2	3	1	4.5	0.1
complication that to motivate maximum performance, the budget needs to be set at a target level, thus giving rise to an anticipated adverse variance leads to a conflict between the planning function of budgets and the control function.	23	13	50	13	2	3.4	0.5
SACCOs budgeting process faces unwillingness of employees to execute continuous effort for the success of the organization.	12	38	38	13	1	3.5	0.1
It is characterized by a strong belief in, and acceptance of, the organization's goals and values.	38	59	2	1	1	4.3	0.5
Middle level Managers are not allowed to participate in the budgetary process, have lower organizational (affective) commitment and this in turn, leads to drop job performance	25	50	13	11	2	3.9	0.1

The study sought to find out the respondents' agreement level with statements that relate to challenges in the budgetary process at SACCOs attributed to staff motivation and commitment. From the findings, the respondents strongly agreed that motivation level is likely to vary between individuals and may be affected by other factors as shown by a mean of 4.8, the respondents

strongly agreed that participation of employees in the process of budget preparation does not necessarily motivate them to achieve budget goals as shown by a mean of 4.7, the respondents strongly agreed that the budgets are not set at a target level, thus giving rise to an unanticipated adverse variance thus de motivation maximum performance as shown by a mean of 4.5, the respondents strongly agreed that budgets at the organization are not used to motivate subordinates to increase their output and efficiency by encouraging their participation during budget preparation as shown by a mean of 4.5, the respondents agreed that it is characterized by a strong belief in, and acceptance of, the organization's goals and values as shown by a mean of 4.3, the respondents agreed that middle level Managers are not allowed to participate in the budgetary process, have lower organizational (affective) commitment and this in turn, leads to drop job performance as shown by a mean of 3.9, the respondents agreed that SACCOs budgeting process faces unwillingness of employees to execute continuous effort for the success of the organization as shown by a mean of 3.5 and the respondents agreed that complication that to motivate maximum performance, the budget needs to be set at a target level, thus giving rise to an anticipated adverse variance leads to a conflict between the planning function of budgets and the control function as shown by a mean of 3.4.

4.7 Budget Accuracy

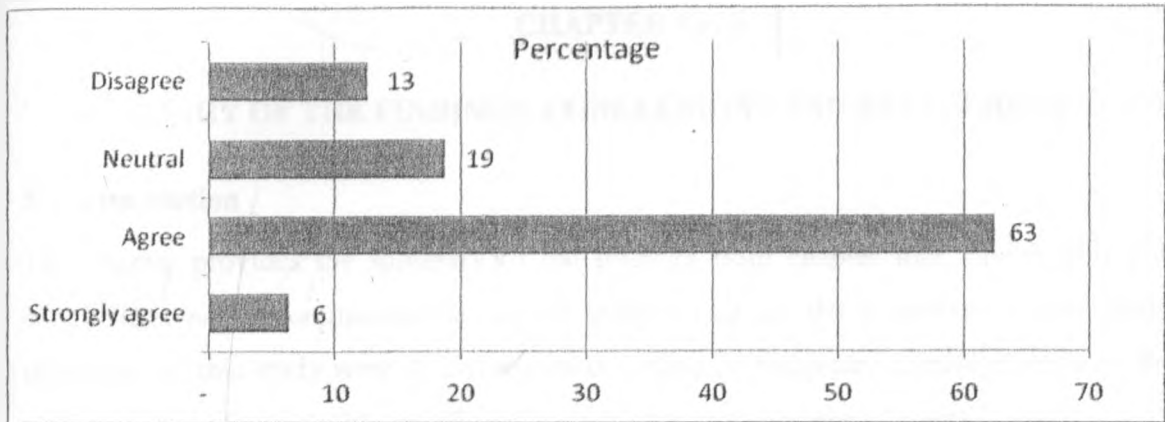
Table 4. 9: Respondents' agreement level with statements that relate Budget accuracy in the SACCOs

Statement	strongly agree	Agree	Neutral	Disagree	strongly disagree	Mean	Stdev
The organization prepares Centralized budgets that have been associated with the problems of either overestimation or underestimation	13	2	38	47	1	2.8	0.6
Participative budgets at SACCOs are not reviewed by a higher level of management thus leading to "budgetary slack"	13	38	38	12	1	3.5	0.7
Noninvolvement of staff and board members in the budgetary process decrease the accuracy of information used in the process	38	38	13	11	2	4.0	0.1
Centralized budgeting increase variations between budgeted and actual expenditure by not placing responsibility for budgeting in the hands of those who are best able to forecast expenditure requirements	38	59	2	1	1	4.3	0.2
The Organization spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating departmental and business unit budgets, thus have no time to ensure the budget is consistent with the strategic objectives	25	50	13	11	2	3.9	0.2
The SACCOs faces budget accuracy challenges because they are no longer appropriate for the conditions currently prevailing at the time of their execution	20	50	13	10	8	3.7	0.7
Budget inaccuracy may result from the long duration of the bargaining and negotiations typically involved in planning and budgeting.	71	13	2	1	1	4.1	0.4
Budget inaccuracy at SACCOs result from the high degree of detail in budget planning	70	25	1	2	2	4.6	0.4
Top management seldom considers the benefit derived from detailed consultation and thus cost, product, and strategic controlling often get little attention in the process resulting in inaccurate budgets	2	47	13	13	1	2.6	0.1

The study sought to find out the respondents' agreement level with statements that relate Budget accuracy in the SACCOs. From the findings, the respondents strongly agreed that budget

inaccuracy at SACCOs result from the high degree of detail in budget planning as shown by a mean of 4.6, the respondents agreed that centralized budgeting increase variations between budgeted and actual expenditure by not placing responsibility for budgeting in the hands of those who are best able to forecast expenditure requirements as shown by a mean of 4.3, the respondents agreed that budget inaccuracy may result from the long duration of the bargaining and negotiations typically involved in planning and budgeting as shown by a mean of 4.1, the respondents agreed that noninvolvement of staff and board members in the budgetary process decrease the accuracy of information used in the process as shown by a mean of 4.0, the respondents agreed that the Organization spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating departmental and business unit budgets, thus have no time to ensure the budget is consistent with the strategic objectives as shown by a mean of 3.9, the respondents agreed that the SACCOs faces budget accuracy challenges because they are no longer appropriate for the conditions currently prevailing at the time of their execution as shown by a mean of 3.7, the respondents agreed that participative budgets at SACCOs are not reviewed by a higher level of management thus leading to “budgetary slack” as shown by a mean of 3.5, the respondents agreed that the organization prepares Centralized budgets that have been associated with the problems of either overestimation or underestimation as shown by a mean of 2.8 and the respondents agreed that top management seldom considers the benefit derived from detailed consultation and thus cost, product, and strategic controlling often get little attention in the process resulting in inaccurate budgets as shown by a mean of 2.6.

Figure 4. 4: Whether management was able to overcome the budgetary control challenges in the SACCO



The study sought to find out whether management was able to overcome the budgetary control challenges in the SACCO. From the findings, 63% of the respondents agreed that management was able to overcome the budgetary control challenges in the SACCO, 19% of the respondents were neutral that management was able to overcome the budgetary control challenges in the SACCO, 13% of the respondents disagreed that management was able to overcome the budgetary control challenges in the SACCO and 6% of the respondents strongly agreed that management was able to overcome the budgetary control challenges in the SACCO.

The possible solution to the major budgeting challenges facing the SACCO is for each department to prepare their own budgets, and then the budgets are combined.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to investigate the effect of budgetary control process on financial performance of Saccos with specific reference to SACCOs in Nyeri County.

5.2 Summary of the Findings

The study aimed at investigating the effect of budgetary control process on financial performance of Saccos with specific reference to SACCOs in Nyeri County.

5.2.1 Challenges of Budgetary Control

The study found that 88% of the respondents indicated that the department participated in budgetary control. Budgets purposes for the department were to forecast the future as shown by a mean of 3.8, budgets purposes for the department were as a means of performance appraisal as shown by a mean of 3.5.

5.2.2 Planning and Controlling

The study found that SACCOs faced poor participation challenge by managers in setting their budgetary targets to a great extent as shown by a mean of 4.3, budgetary controls are not intimately linked with considerations of labor controls to a great extent as shown by a mean of 4.1, government influence and control to a great extent as shown by a mean of 3.9, sources of pressure to meet these budgetary targets to a great extent as shown by a mean of 3.6, SACCOs employ sophisticated corporate planning and corporate financial plans in its budgeting system to a great extent as shown by a mean of 3.6.

5.2.3 Budget Participation and Rewards

The study found that bonus and promotion or new assignments are not correlated with budget performance as shown by a mean of 3.7, participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming as shown by a mean of 3.5.

5.2.4 Performance Evaluation

The study found that the Feedback does not critically focus on the extent to which employees have achieved expected levels of work during a specified time period to a very great extent as shown by a mean of 4.8, there is no coordination of the SACCOs strategies and budget in a single, integrated process, characterized by continuous feedback to a very great extent as shown by a mean of 4.6, budgets being a standard for performance are not used to evaluate the organizational performance to a very great extent as shown by a mean of 4.5, budgeting at SACCOs does not place a high importance on the budget-to-actual comparison for performance evaluation purposes to a great extent as shown by a mean of 4.1. Motivation level is likely to vary between individuals and may be affected by other factors as shown by a mean of 4.8, participation of employees in the process of budget preparation does not necessarily motivate them to achieve budget goals as shown by a mean of 4.7, budgets are not set at a target level, thus giving rise to an unanticipated adverse variance thus de motivation maximum performance as shown by a mean of 4.5, budgets at the organization are not used to motivate subordinates to increase their output and efficiency by encouraging their participation during budget preparation as shown by a mean of 4.5.

5.2.5 Budget Accuracy

The study found that budget inaccuracy at SACCOs result from the high degree of detail in budget planning as shown by a mean of 4.6, the respondents agreed that centralized budgeting increase variations between budgeted and actual expenditure by not placing responsibility for budgeting in the hands of those who are best able to forecast expenditure requirements as shown by a mean of 4.3, the respondents agreed that budget inaccuracy may result from the long duration of the bargaining and negotiations typically involved in planning and budgeting as shown by a mean of 4.1, the respondents agreed that noninvolvement of staff and board members

in the budgetary process decrease the accuracy of information used in the process as shown by a mean of 4.0, the respondents agreed that the Organization spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating departmental and business unit budgets, thus have no time to ensure the budget is consistent with the strategic objectives as shown by a mean of 3.9, the respondents agreed that the SACCOs faces budget accuracy challenges because they are no longer appropriate for the conditions currently prevailing at the time of their execution as shown by a mean of 3.7, the respondents agreed that participative budgets at SACCOs are not reviewed by a higher level of management thus leading to “budgetary slack” as shown by a mean of 3.5. Management was able to overcome the budgetary control challenges in the SACCO. The possible solution to the major budgeting challenges facing the SACCO is for each department to prepare their own budgets, and then the budgets are combined.

5.3 Conclusions

The study concludes that finance and administration departments participated in budgetary control. Budgets purposes for the department were to forecast the future and a means of performance appraisal.

The study concludes that SACCOs faced poor participation challenge by managers in setting their budgetary targets. Budgetary controls are not intimately linked with considerations of labor controls. SACCOs employ sophisticated corporate planning and corporate financial plans in its budgeting system.

The study concludes that bonus and promotion or new assignments are not correlated with budget performance. Participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming.

The study concludes that feedback does not critically focus on the extent to which employees have achieved expected levels of work during a specified time period. There is no coordination of the Sacco’s strategies and budget in a single, integrated process, characterized by continuous feedback. Budgets being a standard for performance are not used to evaluate the organizational

performance. Motivation level is likely to vary between individuals and may be affected by other factors.

The study concludes that budget inaccuracy at SACCOs result from the high degree of detail in budget planning. Noninvolvement of staff and board members in the budgetary process decrease the accuracy of information used in the process. The Organization spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating departmental and business unit budgets, thus have no time to ensure the budget is consistent with the strategic objectives.

5.4 Recommendations

The study recommends the SACCO to involve all departments in preparation and control of budget.

The study recommends the SACCOs to encourage the managers to participate in setting the budgetary targets. Budgetary controls should be linked with considerations of labor controls. SACCOs need to employ sophisticated corporate planning and corporate financial plans in its budgeting system.

The study recommends SACCOs to correlate bonus and promotion or new assignments with budget performance. Budgetary process should be reduced.

The study recommends SACCOs to ensure their feedback focus on the extent to which employees have achieved expected levels of work during a specified time period. There should be coordination of the Sacco's strategies and budget in a single, integrated process, characterized by continuous feedback.

The study recommends SACCOs to have accurate budgets which will result from the high degree of detail in budget planning. Staff and board members need to be involved budgetary process.

5.5 Recommendation for Further Studies

This study has reviewed the study on effect of budgetary control process on financial performance of Saccos with specific reference to SACCOs in Nyeri County. To this end therefore a further study should be carried out to establish the challenges faced by SACCOs

when preparing budgets. The study was carried out in Nyeri County thus the same study should be carried out in other counties to find out if the same findings will be obtained.

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Appendices

Appendix I: Questionnaire

THE EFFECT OF BUDGETARY CONTROL PROCESS IN NYERI COUNTY SACCOS

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

Part A: General information

Department: _____

What is your designation? _____

What is your total work experience in years?

What is your length of time in the SACCO?

0-5 years

5-10 years

10-15 years

15-20 years

Above 20 years

What is the total number of employees in your department? Please tick appropriately.

Less than 50 []

50 – 100 []

Above 100 []

PART B: CHALLENGES OF BUDGETARY CONTROL.

Does your department participate in budgetary control?

Yes No

Budgets have a number of purposes, indicate how important you think that each of the following purpose is relevant for your department (please indicate the influence of each purpose using a rating scale): Use a scale of 1 to 5 where 1 is strongly agreed and 5 is strongly disagree

Factors	1	2	3	4	5
To forecast the future					
Assist in control					
As a means by which management communicates to other levels of department					
As a means of performance appraisal					
To motivate employees to do better					
Other (specify.....)					

PLANNING AND CONTROLLING

To what extent are the following challenges faced by the managerial use of budgetary information in planning and controlling in the SACCOs during the budgetary processes? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent.

Challenges	1	2	3	4	5
Poor participation by managers in setting their budgetary targets					
Sources of pressure to meet these budgetary targets					
Government influence and control					
Lack of adequate control measures					
Budgetary controls are not intimately linked with considerations of labor controls					
Adoption of long range planning and long range forecasting techniques in budget planning at SACCOs.					
SACCOs employ sophisticated corporate planning and corporate financial plans in its budgeting system					
Any other (please specify).....					

BUDGET PARTICIPATION AND REWARDS

What is your level of agreement with the following statements that relate to Budget Participation and Rewards challenges in the SACCOs?

Statement	1	2	3	4	5
Participation of all the stakeholders makes the budgetary process to be too lengthy and time consuming					
The participation of all stakeholders poses a financial challenge as it requires a lot of funds					
Bonus and promotion or new assignments are not correlated with budget performance					
Low level management do not have a significant role in both the initial and revision stages of budget preparation at SACCOs					
Lower level management and senior management within SACCOs are not linked to budget preparation and implementation.					

PERFORMANCE EVALUATION

“One of the major challenging stage in the budgetary process is the Performance Evaluation” To what extent do the following contribute to the challenges in your organisation. Use a rating of 1-5 where 1=very great extent and 5=not at all.

Challenges of Budgeting	1	2	3	4	5
There is poor feedback in the budgeting process for attainment of the expected quality and standards in planning, control and leadership					
The Feedback does not critically focus on the extent to which employees have achieved expected levels of work during a specified time period					
Budgets being a standard for performance are not used to evaluate the organisational performance					
Budgeting at SACCOs does not place a high importance on the budget-to-actual comparison for performance evaluation purposes					
There is no coordination of the SACCOs strategies and budget in a single, integrated process, characterized by continuous feedback					

What is your level of agreement with the following statements that relate to challenges in the budgetary process at SACCOs attributed to staff motivation and commitment? Use a scale of 1-5 in your rating where 1= strongly agree and 5 = strongly disagree.

Statement	1	2	3	4	5
Motivation level is likely to vary between individuals and may be affected by other factors.					
The budgets are not set at a target level, thus giving rise to an unanticipated adverse variance thus de motivation maximum performance					
Participation of employees in the process of budget preparation does not necessarily motivate them to achieve budget goals.					
Budgets at the organisation are not used to motivate subordinates to increase their output and efficiency by encouraging their participation during budget preparation					
complication that to motivate maximum performance, the budget needs to be set at a target level, thus giving rise to an anticipated adverse variance leads to a conflict between the planning function of budgets and the control function.					
SACCOs budgeting process faces unwillingness of employees to execute continuous effort for the success of the organization.					
It is characterized by a strong belief in, and acceptance of, the organization's goals and values.					
Middle level Managers are not allowed to participate in the budgetary process, have lower organizational (affective) commitment and this in turn, leads to drop job performance					

BUDGET ACCURACY

Many organizations worldwide are faced with the problem of either overestimation or underestimation in the budgeting process. To what extent do you agree with the following statements that relate Budget accuracy in the SACCOs? Use a scale of 1-5 in your rating where 1= strongly agree and 5 = strongly disagree.

Statement	1	2	3	4	5
The organisation prepares Centralized budgets that have been associated with the problems of either overestimation or underestimation					
Participative budgets at SACCOs are not reviewed by a higher level of management thus leading to “budgetary slack”					
Noninvolvement of staff and board members in the budgetary process decrease the accuracy of information used in the process					
Centralized budgeting increase variations between budgeted and actual expenditure by not placing responsibility for budgeting in the hands of those who are best able to forecast expenditure requirements					
The Organization spend too much time ensuring calculations and formulas are correct, as well as addressing the mechanical details of rolling up and consolidating departmental and business unit budgets, thus have no time to ensure the budget is consistent with the strategic objectives					
The SACCOs faces budget accuracy challenges because they are no longer appropriate for the conditions currently prevailing at the time of their execution					
Budget inaccuracy may result from the long duration of the bargaining and negotiations typically involved in planning and budgeting.					
Budget inaccuracy at SACCOs result from the high degree of detail in					

budget planning					
Top management seldom considers the benefit derived from detailed consultation and thus cost, product, and strategic controlling often get little attention in the process resulting in inaccurate budgets					

The management can be able to overcome the budgetary control challenges in the SACCO. Do you agree to this statement?

Strongly agree []

Agree []

Neutral []

Disagree []

Strongly disagree []

What are the possible solutions to the major budgeting challenges facing the SACCO?

.....

.....

THANK YOU FOR YOUR COOPERATION.