

**THE EFFECT OF THE BUDGETING PROCESS ON  
BUDGET VARIANCE IN NON-GOVERNMENTAL  
ORGANISATIONS IN KENYA**

**BY**

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**DECLARATION**

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

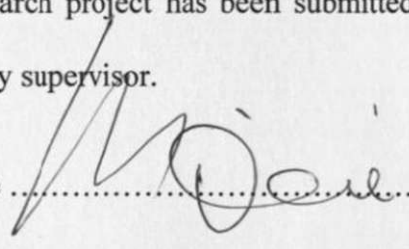
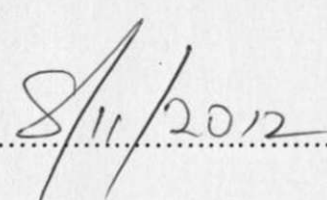
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**Supervisor's Approval**

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## **DEDICATION**

This study is dedicated to my family and son for their encouragement and support

## **ABSTRACT**

Organisations have an overall goal or vision that they are established to achieve. An organisation must ensure that all its segments works towards a common goal. Since the performance of the various segments will be interrelated in many ways, each segment manager must know not only his/her own role but also how it interacts with the rest of the organisation. Otherwise, inefficiency and ineffectiveness will develop in the allocation and utilisation of resources. Budgeting is about making plans for the future, implementing those plans and monitoring activities to see whether they conform to the plan. The objective of the study was to determine the relationship between budgeting process and budget variance in NGOs in Kenya.

The population of this study comprised of 6,075 NGOs in Kenya over the last five years 2007-2011. Convenient sampling was used to select 20 NGOs for this study. The researcher used a questionnaire to collect primary data and the data was analysed by descriptive data analysis using SPSS version 17.

The research findings show that a unit change in budget preparation will lead to a 0.722% change in budget variance; a unit change in budgetary control will lead to a 0.661% change in budget variance; a unit change in budget implementation will lead to a 0.682% change in budget variance. Thus, budget preparation, budgetary control and budget implementation significantly influence budget variance. The study recommends that NGOs should maintain a good budgeting process as the process contributes a lot to their budget variance. This will help them to monitor revenue and expense levels. It also ensures that the cash outflows (payments) and inflows (receipts) remain at adequate levels.

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## **ABBREVIATIONS**

ABB	-	Activity Based Budgeting
CBOs	-	Community Based Organisations
CSOs	-	Civil Society Organisations
GDP	-	Gross Domestic Product
GOK	-	Government of Kenya
NAF	-	Non-profit Assistance Foundation
MTEF	-	Medium Term Expenditure Framework
NGOs	-	Non-Governmental Organisations
NSSF	-	National Social Security Fund
PPBS	-	Planning, Programming, Budgeting System
SPSS	-	Statistical Programme for Social Sciences
UoN	-	University of Nairobi
ZBB	-	Zero Based Budgeting

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Organisations have an overall goal or vision that they are established to achieve. An organisation must ensure that all its segments works towards a common goal (Zimmerman, 2003). Since the performance of the various segments will be interrelated in many ways, each segment manager must know not only his/her own role but also how it interacts with the rest of the organisation. Otherwise, inefficiency and ineffectiveness will develop in the allocation and utilisation of resources (Weetman, 2006).

To achieve the goal, organisations develop strategies which could be short term or long term. Normally the strategic plans for many organisations cover a period of three to five years. A strategic plan need to include a financial plan or the budgets that will be needed to achieve the plans. The strategic plans are further broken to annual plans and hence annual budgets. The annual plans details all the activities that will be undertaken during the year.

In an NGO set up, annual plans besides being broken into activities, the activities are grouped to make a project. Therefore various projects make up the annual plan of an NGO. The success of an NGO can therefore be measured by the extent to which it implements its projects.

Suberu (2010) observed that for any organization to perform creditably, budget and budgeting should facilitate effective utilization of available funds, improve decision making, provide a bench mark to measure and control performance, increase general

communication and analysis within the organization and establish understanding between managers about goals and objectives. According to The Controller's report (2001) on a strategic level, budgeting clarifies organisation competitive priorities, advantages and strategies for the future. It is also a technique for setting the institution priorities by allocating scarce resources to those activities that officials deem to be the most important and rationing it to those areas deemed less vital. (Goldstein, 2005)

### **1.1.1 Budgeting Process**

The budgeting process is an integral part of both planning and control. Key (1940) noted that too often budgets are associated with negative, penny-pinching control activities whereas the full process is much broader and more positive than that. Budgeting is about making plans for the future, implementing those plans and monitoring activities to see whether they conform to the plan (Thomas, 2000). To do this successfully requires top management support, cooperative and motivated middle managers and staff, and well organised reporting systems (Lucey, 2002).

The budgeting process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets (Drury, 2000). A good budgeting process incorporates a long-term perspective, establishes linkages to organisational goals, focuses budget decision on results and outcomes and promotes effective communication with stakeholders. Budgeting is strategic in nature and not a matter of balancing revenues and expenditure every year. The annual budget is often subdivided by months or quarters. The budgeted amounts for a year are frequently revised as the year unfolds. For example, at the end of the first quarter, the budgets of the next three quarters are changed in light of new

information (Muleri, 2001). However, according to Mawathe (2005), budget execution is difficult to control when budget is continually being revised.

Budgeting process creates an opportunity for subordinates to become involved in planning and performance measurement, process that is traditionally perceived to the role of top management. Usually the senior and the experienced staff of the organization are involved in developing the budget. They should be in a position to take responsibility for financial aspects of the organization or a project.

Budget can be defined as a quantitative statement for a defined period of time which may include planned revenue, assets, liabilities and cash flows (Lucey, 2002). A budget is a very important tool for management in all organisations. It serves as a tool for planning and controlling the use of scarce financial resources with the aim of achieving organisational goals (Schick, 1999). Budgets often establish performance goals for the unit in terms of costs, revenues, and/or production (Little et al., 2002). Other benefits of budget include providing managers with realistic performance targets, coordinate the various segments hence achieving goal congruence, serves as a communication tool for managers to exchange ideas and it is a motivator to all staff (Helmkamp et al., 1983).

Horngren defined budget as a quantitative expression of a proposed plan of action by management for a future time period and is an aid to the coordination and implementation of the plan. He further indicates that budgets can cover both financial and non-financial aspects of these plans and acts as blue print for the company in the forthcoming period (Horngren et al., 2005). Even though the focus is so much on for profit organisations, the same principle applies to NGOs in Kenya where budgets serve the same purpose of providing future direction of the organisation.

### **1.1.2 Budget Variances**

Variance is the difference between an actual result and a budgeted amount. The budgeted amount is a bench mark i.e. a point of reference from which comparisons may be made. Variances help managers gain insights into why the actual results differ from the planned performance and by so doing assist them in their planning and control decisions. A variance can be favourable or unfavourable. It is favourable if it increases the operating income relative to the amount budgeted and vice versa if it decreases the operating income of the organisation (Lucey, 2005).

A lot of attention is geared into budget drafting policies and plans. However, it is the actual allocation of resources for these plans that allow the implementation of activities and their transformation into development outcomes (Kavoi, 2001). Budget implementation is about transformation of numbers in the budget books into actual delivery of outputs and successful achievement of organisation objectives.

The road to successful implementation of projects is full of obstacles that must be overcome. One basic problem is that most project managers know more about project formulation than implementation. They are trained to plan not to implement plans. The difficulty could occur in the way of communicating their thoughts and plans to others, so as to enable them attain desired objectives (Garrison, 1985). A previous review of the donor projects by Muleri revealed that; most NGOs policies and programs are target oriented, their implementation is process based as opposed to performance and result based; the management of NGOs is largely not based on performance or results.

The key use of variance analysis is in determining performance evaluation. Performance is attributed by efficiency and effectiveness. The most important task of variance analysis is to understand why variances arise and then to use the knowledge

to promote learning and improve performance. The NGOs use variance analysis also to report to the donors the reasons for the deviations. Some level of deviation from the budget is allowed otherwise variance needs to be investigated.

### **1.1.3 Budgeting Process and Budget Variance**

Projects fail because of many reasons but the root cause of all of them is that people lose touch with reality (Gunningham, 1974). We spend insufficient time exploring assumptions at the start of a project, so people operate from different expectations of what is required or how they will work together. This makes it almost impossible to build meaningful estimates and schedules and follow them throughout the project period. The behavioural aspects of budgeting are of supreme importance but, as with many aspects of human behaviour; they are complex, often contradictory and imperfectly understood. Considerable research has been done on this aspect of budgeting, but broad generalisations are difficult to make. On one point there does seem to be agreement. That is, that budgeting is not considered by participants as a neutral, objective, purely technical process (Lucey, 2005).

Kagiri pointed out that underlying factors contributing to time and cost overruns in projects have the potential of recurring in future projects and therefore there is need to anticipate their occurrence and continually design appropriate strategies and mechanisms to overcome or minimise their potential impacts (Kagiri, 2005). Budget holders are doing reviews and make necessary adjustments to the budget to cater for the realities on the ground which are only realised during implementation period. According to Karani (2007), under estimation of project duration is one among the process related factors causing delays and impacting negatively on delivery reliability of the construction industry in Kenya.

Although the basic project management principles and processes are the same, public project managers face a number of challenges. There are environmental constraints that the project must operate within which include bureaucracy, budget rigidity and stakeholders' diversity (Owuori, 2010). The extent to which any budget target is achieved will essentially include the realism of the budget figures, which is a function of the capacity to accurately predict variables present during the budget implementation period. Factors that are crucial to consider are the inflation rates, political circumstances, exchange rates among others.

Public projects are financed from budgets which, according to Drucker (1993) are allocated from a general revenue stream obtained by tax, levy or tribute and not tied to customer driven results and performance. There is usually no guarantee that projects will be fully funded and the thin spread of financial resources by the government over a large number of projects together with inadequate project preparation, planning and implementation delays (Morris, 1990).

#### **1.1.4 NGOs in Kenya**

The NGO Coordination Act (1990) defines an NGO as "a private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organised themselves nationally or internationally for the benefit of the public at large and for the promotion of social welfare, development, charity or research in the areas inclusive of, but not restricted to, health, relief, agriculture, education, industry and the supply of amenities and services". An NGO cannot become a branch or affiliated with or connected with any organisation or group of a political nature established outside of Kenya. An NGO is required to benefit the public at large and promote social welfare, development charity, or research in areas



including but not restricted to health, relief, agriculture, education, industry, and the supply of amenities and services.

NGOs activities are now spread in every corner of Kenya and cover almost every aspect of the economy. There are currently over 4000 registered NGOs (this includes about 400 international NGOs), employing 50,000 people. It was estimated at the end of 2002 that the wider not for profit sector (including NGOs, self-help groups, women and youth groups) encompassed over 220,000 organisations. It is estimated that the annual income of NGOs was \$1 billion, approximately 3% GDP. The Government now regards NGOs as true partners in development as they complement its efforts. (Mukanga, 2011)

In his survey of budgeting practices among the major British NGOs in Kenya (Muleri, 2001) found that most of the studied organisations prepared annual budgets and they start the process six months prior to the time the budgets are expected to become operative and are approved by the management. He also noted that almost 95% of NGOs funds come from abroad. The funds are secured, availed, managed and evaluated on the basis of project proposals and corresponding budgets. The budgets form part of the contractual basis for such funding.

Donor dependant NGOs can only secure funding with prior establishment of mechanism to assure some extent of effective budgeting practice. It is becoming the custom for a prospective donor to ask for past three year budget on submission of proposal. Besides being very keen on budgeting, donors are increasingly demanding for proper monitoring of the budget and insist on monitoring and evaluation activities/costs included in the proposal.

## **1.2 Problem Statement**

Budgets are the yardstick of any organisation whether for profit making or not. Success of organisation operations depends on how well they plan and also implement the plans. Budgets are financial plans. This therefore makes budgeting process to be paramount to any organisation.

In his study on budgeting practices among the major British NGOs in Kenya, Muleri sought to establish if good budgeting practices can be used as financial management tool by NGOs. He found that budgeting process can mitigate financial misappropriation and corruption among the NGOs (Muleri, 2001).

Mawathe (2008) did a study to investigate the challenges of budget implementation in the commercial banks in Kenya. The researcher wanted to establish if budgets were fully implemented in banking industry and factors that affected budget process. The researcher concluded that there were challenges in budget implementation in the banking sector. Muthinji (2009) did a research on budget implementation in public sector, case studies of Commission of Higher Education and found similar results.

A good budgeting process will ideally translate to a good project. Failure to plan or poor planning is planning to fail. NGOs in Kenya compete for limited resources from the donors and this has made many to divert from their plans and pursued those of the donors. Kavoi, observed that budgets are used to reflect the direction the organisation is moving in the future and used to forecast the future hence good for planning. Gachithi (2010) was of a similar opinion that budgets are a strong tool of planning for the future. She further concluded that, in the implementation of budgets, motivating the staff, good leadership during budget preparation and coordination are the most important factors for the success of budget implementation.

Most NGOs in Kenya do value budgeting and budgets are done for allocation of resources and mobilisation of funds through proposals to donors. Some NGOs may lack a master budget that guides their resource allocation and mobilisation but all NGOs no matter the size of its operation have an element of budgeting process even if not well structured. Some NGOs find themselves under pressure and prepare a budget hurriedly without proper consultation with all stakeholders and also fail to document how the budget is arrived at and it therefore become a challenge at the next stages of implementation and evaluation.

NGOs enter into contractual agreement with donors where they undertake development work on their behalf with several conditions stipulated in the agreement (Muleri, 2001). One of the condition is that the NGO will implement the project as per the agreed upon budget with some donors allowing 5-10% deviation. Despite all the effort to follow the agreement, NGOs are at times unable to undertake the activities as planned resulting to funds not spent or overspent. In most cases unspent funds are returned to the donor and overspent are not refunded to the NGO. It is therefore an area of concern why NGOs are unable to implement the budget yet they prepare it and there is plenty of development work to be done.

Budget implementation is a challenge to many organisations including GOK because they are expected to make accurate forecasts which is not practical as some needs are not foreseen during budget proposals or costs estimate changed significantly (Premchad, 1994). Kavoi in her study she concluded that to overcome this challenge many organisations review budgets to identify slip ups.

The other problem facing NGOs is that they do not know what level of expenditure has been committed but not yet reflected in the financial information at any period of

time. This is a problem facing almost all sectors of the economy and particularly the public sector organisations where there are strict cash limits that cannot be exceeded. Organisations are doing a lot to overcome this challenge for example through having a system of tracking commitments into the financial information and assessing its impact on the budget hence helping budgetary control. However, there are some practical challenges in implementing this system such as the administrative problems caused by contracts and orders being amended and cancelled and the difficulty of measuring the exact amount of commitment in any period. Hence, most NGOs show commitments in memorandum form without making entries in the financial system (Lucey, 2002).

Most of the studies that have been done are of the view that there are challenges in budget implementation in many organisations. This study therefore sought to establish if the NGOs are affected by similar challenges of budget management like other sectors in Kenya and will pay interest on the budgeting process. The budgeting process comprises activities of development, implementation and evaluation of the budgets. As it were a good budget can be watered down if it is not implemented and evaluated well and on the same breath a poor budget can never give good results.

The reason for conducting a case study of NGOs in Kenya was to understand the effect of budgeting process on the budget variance and challenges facing them in management of budget. The research aims at identifying the existing gaps in the NGOs in Kenya budgeting process by evaluating three areas namely budget preparation, budget implementation and budgetary control Yins (1989) believed that the purpose of conducting field research was not to find relationships or causal factors among variables, but to interpret and describe the practice.

### **1.3 Objective of the Study**

To determine the relationship between budgeting process and budget variance in the NGOs in Kenya

### **1.4 Value of the Study**

- i. The study will offer insight to NGOs on factors influencing the achievement of budget targets.
- ii. The study will shed light on the importance of budgeting process in relation to budget variance in NGOs in Kenya
- iii. The study will also enhance understanding of the donors and NGOs of the challenges they may face in implementing projects budget by identifying gaps of budgeting process.
- iv. The study will be used by other scholars and academicians in the field of budgeting or related field to provide a useful basis upon which further studies will be conducted.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter summarized the studies from other researchers who have carried out their research in the same field of study. The specific areas covered was the background of budgeting process, forecasting and budgeting approaches, and empirical studies in budgeting process

#### **2.2 Background of Budgeting Process**

The various activities within an organisation require to be coordinated by preparation of plans of actions for future periods (Drury, 1992). Lucey and Drury emphasise the importance of budgeting to an organisation and indicate that no goal of an organisation can be achieved without planning. Top managers provide the strategic directions of the organisation and select the strategic option that have the greatest potential of achieving the organisation objectives. Long-term plans should be developed to implement the strategies and of course the financial implication is defined through projections.

Generally, a budget translates the long term plans of an organisation into annual operating plans. The budgeting process therefore involves reviewing the projections of the long term plans and revises them in the light of more recent information (Drury, 1992). As such, Drury states that the budgeting process cannot be viewed as being purely concerned with the current year but must be considered as an integral part of the long-term planning process as it is influenced by decisions taken in the past and has implications on programmes that will be undertaken in future. Likewise, Muleri, stated that budgeting practice comprises the whole budget cycle process which entails

the philosophies adopted to guide preparation of a budget, the approval process and the mandate for implementation (Muleri, 2001).

The keys to a successful budgeting process as provided by NAF financial foundation in its handbook on practical financial information for NGOs are that first clearly identify programmatic objectives that are aligned with the mission and strategic plan, determine the financial resources needed and available to achieve program goals, involve staff and board members in the process to improve accuracy of information and commitment to the plan, document indicating the assumptions and formulas and finally customise the process to suit your organisation.

All over the world, participatory budgeting is being advocated. This is based on the belief that stakeholders' participation in the budgeting process improves transparency, accountability and service delivery. In his study on people's budget and the effectiveness of the budget the case of local governments in Uganda, Mukokoma, (2010) found that the participation of CSOs in the budgeting process is still very low and that the relationship between this participation and effectiveness of the budget process is very weak. Therefore, it is recommended that relevant organisations build the capacity of CSOs to participate in the budgeting process, to secure the benefits of budget effectiveness associated with such participation.

Ibrahim (2004) stated that "there is need to determine budget objectives and purposes, as well as finding ways of achieving them. Plans depend upon the existence of alternatives and then discussions have to be made regarding what to do, how to do it, when to do it and by whom it is to be done, planning budget need early preparation, this is because budgeting is a back room activity and can take a lot of time". Budget request usually go through series of stages. Therefore, the early it is started the better.

Some of the key reasons for producing budgets as explained by Drury, Hongren and Lucey are planning, coordination, communication, motivation, control and performance evaluation. This was also confirmed by Kavoi and Gachithi in their study of UoN budgeting process. A sound budgeting system helps to coordinate the separate activities and ensures that all parts of the organisation are in mutual harmony. Everyone in the organisation must be clear on the role they are expected to play in achieving the annual budgets, this way accountability levels of different positions are defined (Mukokoma, 2010).

To measure progress of budget utilization, there is need for a specific check points to be fixed that will allow effective control of budget implementation. The tool not only allows measurement to be made but also allows comparison to be made between the actual results with planned and budget goals. A careful management study should be made to determine the underlying causes (Suberu, 2010).

### **2.3 Forecasting and Budgeting Approaches**

Forecasting is an essential part of budgeting process. It has been said with considerable truth that the budgeting process is more of forecasting skill than anything else. To establish realistic budgets it is important to forecast a wide range of factors. It is not sufficient to add a percentage on to last year's budget and hope that this will produce a realistic result (Lucey, 2002).

There is a wide range of forecasting techniques ranging from simple linear regression using least squares, time series analysis, exponential smoothing systems, and multiple regression analysis methods and specialised mathematical models e.g. Box Jenkins. Regardless of the technique employed or the amount of computer capacity available, it is very difficult to make accurate forecasts. Numerous surveys have shown that the so-



called naive forecasting (where the next period is assumed to be the same as the current one) frequently produces better forecasts than those prepared by experts (Horngren et al., 2005).

To overcome some of the problems of conventional budgeting system also known as line-item budgeting and to make budgeting more effective various approaches have been developed over the years (Lucey, 2002). Whereas conventional budgeting involves adding funds to the previous year's budget to expand or complete projects, this method of budgeting contrasts with unconventional budgeting, as organizations using the unconventional method draw their budget plans afresh at the start of each financial year.

This line item approach has all the advantages of being simple and easy to understand, although the advocates of some of the more recently developed budgetary techniques, such as the Planning, Programming, Budgeting System (PPBS) program budgeting Zero-Based Budgeting (ZBB), Activity Based Budgeting (ABB) have been extremely critical of it. This is so because the budget is a financial and quantitative document of the policy to be pursued; it is easy to be critical of the traditional line budget (Suberu, 2010).

Suberu (2010) further explained that, organisations using conventional budgeting are able to improve accountability. This is because this method of budgeting, allows for inclusion of every item the firm may have as income or expenditure in the budget. The method also offers flexibility over the use of resources, depending on expenditure details like the amount of money an operation consumes. This budgeting method, therefore, gives organizations room to account for their financial decisions and use resources in an innovative way.

Horngren proposes that PPBS as a system that establishes overall objectives, programmes to achieve them, costs and benefits of each programme, and then uses this to allocate resources. He believes this is the best linkage between strategic plans and budgets.

ZBB is a cost benefit approach whereby it is assumed that the cost allowance for an item is zero, and it will remain so until the manager responsible justifies the existence of the cost item and the benefit the expenditure brings. A questioning attitude is developed whereby each cost item and its level has to be justified in relation to the way it helps to meet the objectives and how the expenditure benefits the organisation. This approach is forward looking (Lucey, 2002).

The use of ZBB was pioneered by Phyrri in the United States in the early 1970s and has gained wide acceptance probably because it is a simple idea based on common sense. ZBB is concerned with the evaluation of the costs and benefits of alternatives and, implicit in the technique, is the concept of opportunity cost. ZBB is sometimes referred to as the priority-based budgeting.

ZBB can be applied in any organisation where alternative levels of provision for each activity are possible and the costs and benefits can be identified separately. Lucey (2002) argued that ZBB is concerned with alternatives and means that established activities have to be compared with alternative uses of the same resources. It takes away the implied right existing activities to continue receiving resources unless it can be shown that this is the best use of those resources (Muleri, 2001).

ABB is a method of budgeting based on an activity framework and utilising cost driver data in the budget setting and variance feedback processes. Lucey (2002) described ABB as a planning and control system which seeks to support continuous

improvement. It is a development of conventional budgeting system and is based on activity analysis technique. ABB identifies the cost drivers and gathers costs into cost pools. ABB is based on the premises that It is activities which drive costs and the aim is to control causes (drivers) of costs directly rather than the costs themselves. In the long-run, costs will be managed and better understood and that not all activities add value so it is essential to differentiate and examine activities for their value adding potential.

## **2.4 Empirical Studies**

Gachithi (2010) did a study focusing on the factors that influence budget implementation in public institutions in Kenya, a case study of University of Nairobi. The study aimed at investigating the challenges of budget at University of Nairobi. To achieve objective of these study a descriptive study was done. The researcher used both primary and secondary method of collecting data. The respondents constituted Eight (8) Administrators, six (6) Bursars from the colleges of the university, eight (8) senior representative members of the budget Committee from Finance, Eleven (11) staff in finance and administration involved in budget preparation. A content analysis and descriptive analysis were used. The study concludes that University of Nairobi does not have efficient budget preparation procedures. Other challenges included insufficient funds allocated to department, institutional weakness which hindered effective budget implementation and the methods used to allocate funds to user department were unsatisfactory. The study further concludes that University of Nairobi faces various challenges in budget implementation. The study recommends that for University of Nairobi to curb challenges in budget implementation there is need for effective procedures and guidelines in the allocation of funds and operational implementation policies.

Mukokoma (2010) undertook a study on the People's budget and budget effectiveness, a Case of Local Governments in Uganda. Using evidence from 105 Civil Society Organisations (CSOs) in Kabalore and Kamwenge district local governments. This study set out to analyse the participation of CSO's in the budgeting process and the effectiveness of the budget process, as a result of such participation. The findings were that the participation of CSOs in the budgeting process is still very low and that the relationship between this participation and effectiveness of the budget process is very weak (spearman's correlation coefficient = .08). Therefore, it is recommended that relevant organisations build the capacity of CSOs to participate in the budgeting process, to secure the benefits of budget effectiveness associated with such participation.

Muleri (2001) did a study on budgeting practices among the major British NGOs in Kenya. The aim of the study was to ascertain budgeting practices amongst British NGOs in Kenya and to examine the extent to which budgets are used in management and control of the British NGOs. The researcher targeted four international NGOs and twelve local NGOS they funded. A questionnaire and field study were used to collect data which was analysed through summary, statistics, tables and percentages. The researcher found that most organization used modern practices as zero based and philosophies to reduce financial mismanagement. The study revealed that budgets are normally prepared using such methods as zero based or priority based budgeting. Budgets form an integral part of the planning process and have become a standard practice in NGOs. The study noted that, there is over emphasis on conformity to budgets and donor parameters which tends to relegate proper financial management to the periphery. Many organisation strive to spend with no regard to value for money and impact of their work. The study further revealed that aspects of cost effectiveness

are not considered in the budget management and once budgets are approved little effort is made to use them to control the activities or measure performance of the budget holders. The researcher recommends that budget management should be adopted as the yard-stick to measure performance in NGOs.

Kiringai and West (2002) did a study on budget reforms and the Medium Term Expenditure Framework (MTEF) in Kenya. The study reviewed various budget systems and evaluated the strengths of MTEF process and the threats to its sustained implementation in the context of developing countries like Kenya. The study identified a number of weaknesses in the planning and budgeting process that had continued to contribute to its poor performance namely, poor forecasting ability, lack of medium-term perspective, failure to cost future resource requirements, too many budgets, excessive political interference in budgeting, separation of the planning and budgeting process, failure of planning groups to integrate strategic planning concerns into the budget cycle, failure of expenditure controls by line item, incremental recurrent budgeting especially on on-going programme resulting in redundant and rising programme implementation costs, delays in issuing resources due to unforeseen changes in revenue, emergency expenditures and unplanned activities, inadequate provision for the recurrent implications of development projects; funding of recurrent activities through the development budget to attract donor funding at the expense of accountability and transparency, discrepancies between development estimates and public investment programme poor quality of development projects due to poor targeting, high per unit costs and low completion rates, weak accounting systems, inadequate and at times lack of monitoring and evaluating systems and failure to develop management information systems. The paper concluded that, MTEF was a powerful tool if fully implemented and adopted as the best practice. However the

resource allocation and implementation is flawed citing the following reasons, there was lack of a comprehensive development strategy that were based on realistic national resource constraints, excessive size of the government, failure to achieve aggregate fiscal discipline and poor quality of public expenditure.

Wamae (2008) did a study on challenges of budgeting at NSSF. The aim of the study was to establish the challenges of budgeting process and the challenges faced when drawing up a budget to be used by an organization and how organization can effectively face the budgeting challenges. The population constituted nine (9) boards of directors and sixteen (16) senior managers at NSSF who were concerned with budgeting issues at the organization. The researcher collected data by use of questionnaire, observation and interviews as main instrument of data collection. From the study the researcher found that that the organization faced challenges when drawing up budget and the biggest challenge included on commitment, various head of department did not take budget seriously leading to giving ambitious budgets which would end up not achieving target, leading to complaints from the board. The researcher concluded that budgeting was very effective at NSSF as they served their purpose in assisting control and used by management to communicate to others level of department. The Researcher added that the process of budgeting at NSSF faced some challenges which were inability to achieve the required value of business, inadequate authority to spend despite allocation, cost inflation, poor participation and poor co-ordination of the exercise. The researcher recommends, that all units in the organization should be involved in the budget preparation and enough time is allocated to prepare.

Obulemire (2006) performed a survey of budget practices in secondary schools in Nairobi where he aimed at finding out if the budgeting is beneficial to them and the

factors they consider in the budgeting process. He found that most secondary schools lack a strategic to guide them towards achieving both short-term and long-term objectives of the schools. The head of schools had been trained in financial management and the commonly prepared budget was the income and expenditure with a few schools having cash budget and fixed assets acquisition budget, despite most of them incurring expenditure on long term investment. He concluded that there is lack of a solid base to enforce budgetary approach. He also realised that, activity based accounting was commonly used but this could not be proved if it is actually done based on the principal of ABB.

## **2.5 Literature Review Summary**

In theory, the budgeting process is a good but challenging process to many organisations and those who embrace it fully reaps many benefits. Budgeting is used by managers to complement their work of planning, controlling, staffing, and Motivating. Budgeting process involves prediction of incomes and expenditures of an organisation, implementation of the plans, monitoring the same and the reporting mechanisms. A budget is therefore simply the financial portion of any organisation plans. It is a set of pro-forma financial statements projected over the time period covered by the plan.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the methodology used in the collection of data. This chapter specified the research design, data collection methods, data collection procedures and data analysis, data validity and reliability.

#### **3.2 Research Design**

This was the method and procedures used in gathering information required to answer the research questions. The researcher used a descriptive study. A descriptive study enabled accurate profile of persons, events or situations to be collected. It helps answer the what, why, how, when, by who, and the where. In the past several researchers had employed descriptive technique.

The method attempted to collect data from members of a population and described existing phenomenon by asking individuals the challenges in NGOs budgeting process.

#### **3.3 Research Population**

NGO Coordination Board (2009) by August 2009, the Board had cumulatively registered 6,075 organizations. The study comprised of all these NGOs in Kenya over the last five years 2007-2011. The list was obtained from the NGOs Coordination Board. These organizations are spread all over the country and vary from small organizations operating locally, to international ones with regional programmes. They range from organizations run by small teams of volunteers to mega organizations with



hundreds of fully paid staff of diverse professions and sophisticated systems and processes. They reflect diversity in their activities from welfare, to environment, human rights,

### **3.4 Sample Size and Selection**

The study used convenience sampling to select 20 NGOs. The subjects are selected just because they were easiest to recruit for the study and the researcher did not consider selecting subjects that are representative of the entire population. 20 NGOs selected have offices spread countrywide and therefore the researcher felt that a Nairobi office (the headquarters) data would represent all other offices of the organisation as budgeting activities is normally a centralised process at the head office. Further, the selected NGOs work in partnership with local small NGOs, CSOs and CBOs and they influence the budgeting process adopted by the partners.

In all forms of research, it would be ideal to test the entire population, but in most cases, the population is just too large that it is impossible to include every individual NGO in Kenya. This is the reason why researcher relied on sampling techniques.

NGOs based outside Nairobi were not sampled due to distance, convenience and time. It was also limiting to get resources to reach NGOs outside Nairobi.

### **3.5 Data Collection Method**

The researcher used primary method of collecting data by use of a questionnaire. In order to determine the effect of the budgeting process on variance in NGOs in Kenya a self-administered drop and pick questionnaires were distributed to employees involved in the budgeting process. This enabled the researcher to get adequate and accurate information from people with the experience. The researcher used structured

questionnaires as the main data collection instrument. The questions were close ended. The close ended questions provided more structured responses.

### **3.6 Data Analysis Method**

Before processing the responses, the completed questionnaire was edited for completeness and Consistency. A descriptive analysis was used. The data was processed and grouped into categories. Descriptive analysis was used mainly to summarize the data collected. The data was edited for accuracy, uniformity, completeness and arranged for coding. A computer programme SPSS version 17 was used to analyse the content where some opinions beyond the structured questions were analysed. SPSS is a computer package that can be used to generate frequencies, descriptive statistics, tables and graphs. The data from part one of the questionnaires was presented using statistical measures bar graphs, frequency tables, percentages, and graphical presentations. Correlation and regression analysis was performed on the data from part two of the questionnaire. The regression analysis was utilised to test the effect of budgeting process on the budget variance. Regression is a way of describing how one variable, the outcome, is numerically related to predictor variables. The dependent variable is also referred to as Y, dependent or response. The predictor variables are also referred to as X, independent, prognostic or explanatory variables. A regression model was used to establish if there exist a relationship between budget variance and budget preparation, budgetary control and budgets implementation

The model was presented in the equation below

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Where:

**Y**=Budget Variance, measured by Budget-Actual (in percentage i.e. Budget at 100% -actual %)

**b<sub>0</sub>**-y intercept

**X<sub>1</sub>**- Budget preparation

**X<sub>2</sub>**- Budgetary control

**X<sub>3</sub>**- Budget and variance

**e**- error term

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented to establish the effect of budgeting process on budget variance in NGOs in Kenya. 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

Lucey (1996) defines the response rate as the extent to which the final data set includes all sample members and it is calculated as from the number of people with whom interviews are completed divided by the total number of people in the entire sample, including those who refused to participate and those who were unavailable. The study targeted 20 NGOs in collecting data and they all responded.

#### 4.2 Reliability

**Table 4.1: Summary of the Measurement Reliability (Cronbach's Alpha)**

Cronbach's Alpha	N	Cronbach's Alpha Based on	
		Standardized Items	No of Items
.855	10	.100	3

Reliability is a fundamental issue in any measurement scale. Scale reliability is considered as the proportion of variance attributed to the true score of the latent

construct (DeVellis, 2003). It is usually measured by internal consistency reliability that indicates the homogeneity of items comprising a measurement scale. Internal consistency gives the extent at which items in a model are inter-correlated. Thus, high inter-item correlations explain that the items of a scale have a strong relationship to the latent construct and are possibly measuring the same thing. Usually, the internal consistency of a measurement scale is assessed by using Cronbach's coefficient alpha. It is generally recommended that if a measurement scale having a Cronbach's coefficient above 0.50 is acceptable as an internally consistent scale so that further analysis can be possible. Since alpha value was above 0.5, the study instruments yielded fairly reliable data for this research, thus measuring the relationship between independent variables (Budget preparation, Budgetary control, Budget implementation) and the dependent variable (Budget variance) was reliable and valid.

### 4.3 Demographic Information

#### Time Dimension the Organization Budget Cover

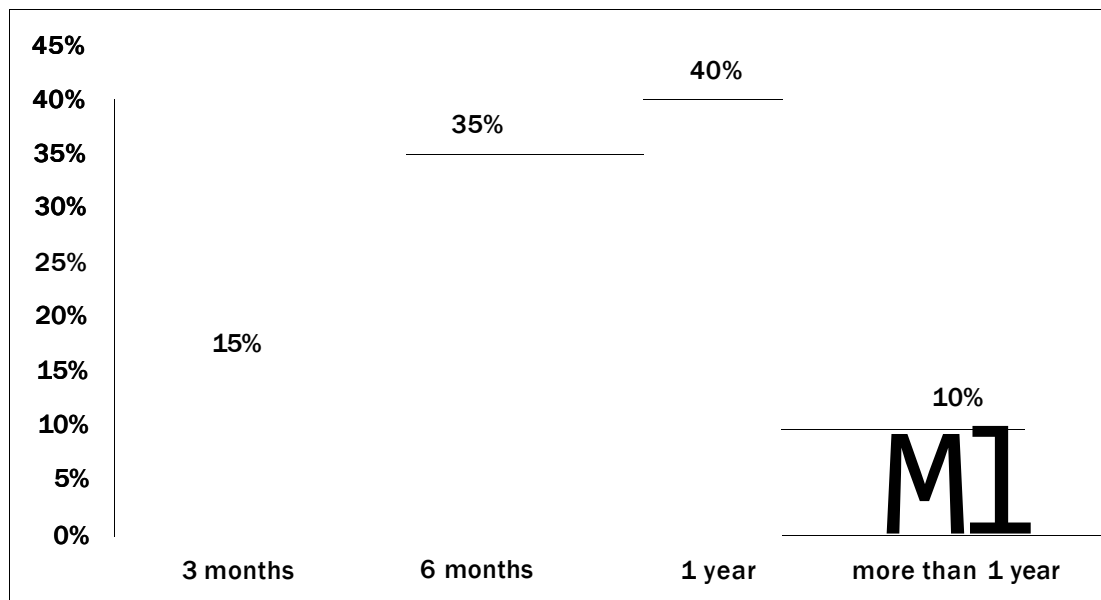
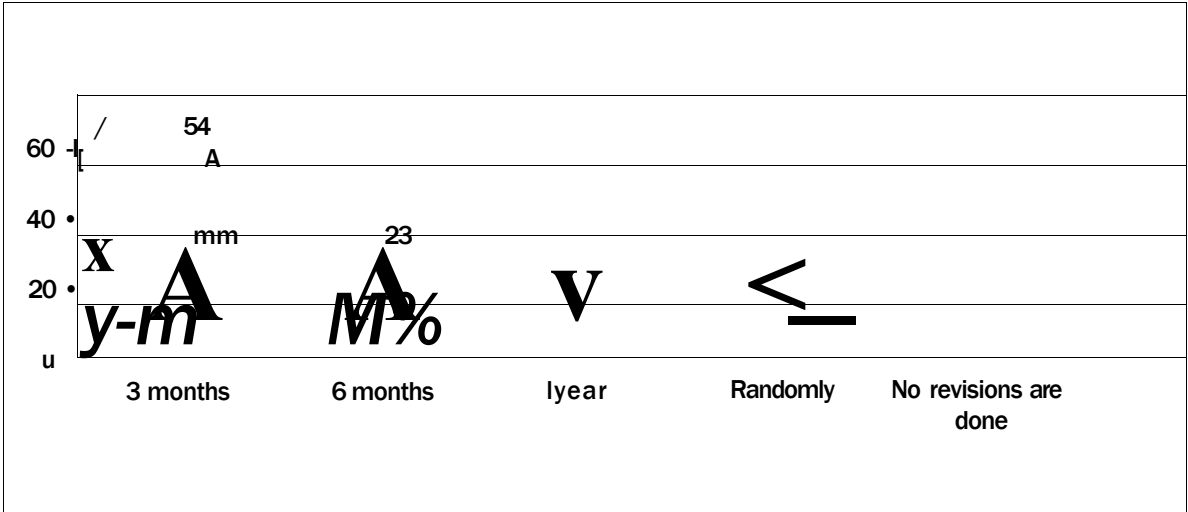


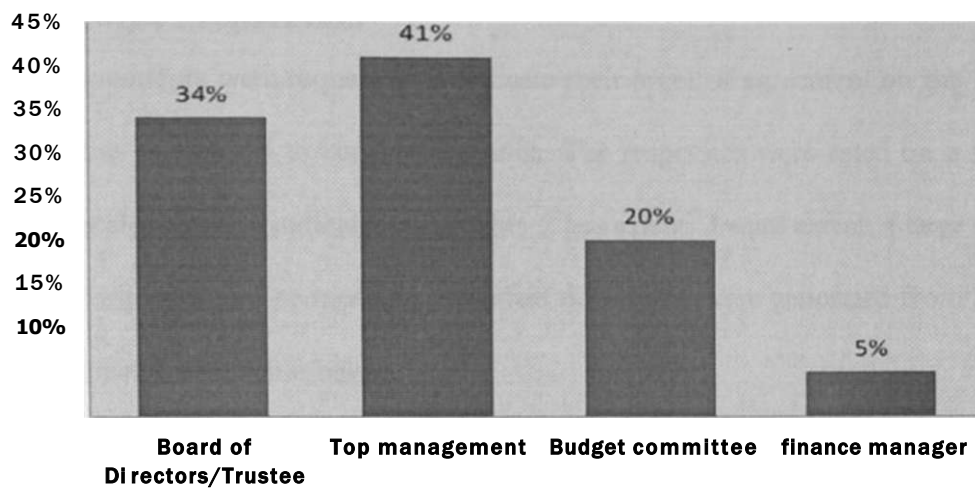
Figure 4. 1: Time Dimension Covered by Organization Budget

From the findings, 40% of the respondents indicated that the organization covered a time dimension of 1 year, 35% of the respondents indicated a time dimension of 6 months, 15% indicated 3 months while 10% of the respondents indicated that the organization covered a time dimension of more than 1 year.



**Figure 4. 2: Frequency of Budgets Review**

According to the findings, 54% of the respondents indicated that the budget was reviewed every 3 months, 23% of the respondents indicated that the budget was reviewed every 6 months, 10% of the respondents indicated that the budgets was reviewed every 1 year, 5% of the respondents indicated that the budgets was reviewed randomly while 8% of the respondents indicated that there were no revisions done on the budgets.



**Figure 4. 3: Who Approves the Final Decision on Budget Proposals**

From the findings, it emerged that most budgets are approved by the top management or board of directors/trustees as shown by 75%, while 25 % of the respondents indicated that the approval is done by budget committee or the finance manager.

**Table 4.1: Budget Variance (Percentage) for the sampled NGOs**

Year/ Variance (%)	0 (1)	1 to 10 (2)	11 to 20 (3)	21 to 30 (4)	above 31 (5)	Mean	STDEV
2007	3	2	4	3	2	2.65	0.375
2008	4	4	5	1	2	2.90	0.449
2009	10	9	4	4	11	2.70	0.412
2010	3	4	7	9	1	3.40	0.626
2011	0	1	0	3	4	3.15	0.538

Grand Mean= 2.96

From the findings, over the period 2007-2011, the sampled NGOs reported a grand mean variance of 2.96, which reflects a budget variance of 11-20 percent.

#### 4.4 Budget Preparation

The respondents were requested to indicate their level of agreement on the following statements in relation to budget preparation. The responses were rated on a five point Likert scale where: 1 indicated no extent; 2 less extent; 3 some extent; 4 large extent and 5 very large extent. The mean and standard deviations were generated from SPSS and are as illustrated in table below.

**Table 4. 1: Budget Preparation in NGO's**

	1	2	3	4	5	Mean	STDEV
Budgets are prepared with reference to the organisation annual plans, strategic plan and overall goal	0	4	3	7	6	3.75	0.727
Budgets are used to allocate the resources	0	4	3	7	6	3.75	0.727
All staff or functions of the organisation are involved in budget preparation.	5	3	4	5	3	2.90	0.499
The budgeting process starts with preparation of forecasts of the expected confirmed income/grants.	2	7	1	4	6	3.25	0.606
The organisation has documented budgeting process which is referenced during the process	1	4	3	4	8	3.70	0.736
The budgets are always approved by the senior management before any execution	0	2	5	3	10	4.05	0.836

**Grand mean= 3.57**

From the findings, the respondents indicated to a large extent that budgets are always approved by the senior management before any execution [M=4.05]; they moderately agreed that budgets are used to allocate the resources and are prepared with reference to annual plans, strategic plan and overall goal [M=3.75], the organization has documented budgeting process, which is referenced during the process [3.70].

The findings further indicate that, to some extent the process starts with preparation of forecasts of the expected confirmed income/grant. However, not all functions/staff are involved in the process (2.9). In general NGOs have a good budget preparation process to some extent as depicted by a mean of 3.57.



#### 4.5 Budgetary Control

The respondents were requested to indicate their level of agreement on the following statements in relation to budgetary control. The responses were rated on a five point Likert scale where: 1 indicated no extent; 2 less extent; 3 some extent; 4 large extent and 5 very large extent. The mean and standard deviations were generated from SPSS and are as illustrated in table below.

**Table 4.2: Budgetary Control in NGO's**

	1	2	3	4	5	mean	STDEV
The approved budgets are shared with all departments and budget holders and ensure they are understood.	3	6	7	3	1	2.65	0.390
Leadership and support provided by managers to the subordinate throughout budget execution is effective.	1	7	6	5	1	2.90	0.449
While striving to implement project the budget holder consider how their action affect achievement of the set target of the organisation as a whole.	3	3	11	2	1	2.75	0.409
Coordination among the various departments during budget execution is achieved through clear communication and consultation.	3	4	8	5	0	2.75	0.409
There is always reference to budget before any request to undertake an activity is approved to ensure that there is adequate funds.	4	6	9	0	1	2.40	0.321
Recording of actual result is accurate and timely	4	2	9	3	2	2.85	0.457
Budget vs actual comparison and identification of variances is done regularly	3	7	5	3	2	2.70	0.417
Budgets are reviewed as need arises to capture the reality during implementation	1	6	3	2	8	3.50	0.679
Reports on budget variance are shared with budget holders and senior management	2	5	9	1	3	2.90	0.464
Variances are investigated	3	6	7	3	1	2.65	0.390
The organisation develops solutions to problems revealed by budgetary control	3	9	4	3	1	2.50	0.354

**Grand mean = 2.78**

From the findings the respondents moderately agreed that budgets are reviewed as need arises to capture the reality during implementation [3.50]; leadership and support provided by managers to the subordinate throughout budget execution is effective and reports on budget variance are shared with budget holders and senior management to a less extent [2.90]; also recording of actual result is accurate and timely to a less extent [ 2.85]; to a less extent, while striving to implement project, the budget holder consider how their action affect achievement of the set target of the organisation as a whole , coordination among departments during budget execution is achieved through clear communication and consultation [2.75]; the approved budgets are shared with all departments and budget holders and ensure they are understood to a less extent [2.65]; In addition, they disagreed that there is always reference to budget before any request to undertake an activity is approved to ensure that there is adequate funds [2.40],

The findings imply that in relevance to budgetary control in NGO's; there are moderate efforts in review of budgets as need arises to capture the reality during implementation; the leadership and support provided by managers to the subordinate throughout budget execution is effective; recording of actual result is moderately accurate and timely; while there is no reference to budget before any request to undertake an activity for approval.

#### **4.6 Budget Implementation**

The respondents were required to point out their level of agreement on the following statements in relation to budget implementation. The responses were rated on a five point Likert scale where: 1 indicated no extent; 2 less extent; 3 some extent; 4 large extent and 5 very large extent. The mean and standard deviations were generated from SPSS and are as illustrated in table below.

**Table 4. 3: Budget Implementation**

	1	2	3	4	5	mean	STDEV
In some period budget include unattainable targets or standards	2	6	7	3	2	2.85	0.447
The budget contain uncertainty which hinders effective implementation	1	4	6	5	4	3.35	0.599
Insufficient funds allocated to department or projects affect budget implementation	3	3	11	2	1	2.75	0.409
Institutional weakness could hinder effective budgeting process	3	3	8	5	1	2.90	0.459
The budget process is time consuming and expensive and may become volatile before implementation	2	3	9	3	3	3.10	0.521
There may be tendency by user department to adhere to budget process just to comply to organization or donor requirement	2	2	9	3	4	3.25	0.571
New projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge to budget implementation	1	7	1	6	5	3.35	0.619
Foreign exchange rate fluctuations in the market hinders organisation to effect their budgets	1	5	3	3	8	3.60	0.708
Change of project staff or implementers of budgets affect the achievements of the budgets.	1	5	7	3	4	3.20	0.554

**Grand mean =3.15**

According to the findings, the respondents moderately agreed that foreign exchange rate fluctuations in the market hinders organisation to effect their budgets [3.60]; new projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge to budget implementation [3.35]; the budget contain uncertainty which hinders effective implementation [3.35]; and change of project staff or implementers of budgets affect the achievements of the budgets [3.20].

From these findings it is clear that during implementation of budget in NGOs; foreign exchange rate fluctuations in the market hinders organization to effect their budgets; new projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge to budget implementation; the budget contain uncertainty which hinders effective implementation; and change of project staff or implementers of budgets affect the achievements of the budget.

**Table 4. 4: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted Square</b>	<b>R</b>	<b>Std. Error of the Estimate</b>
<b>1</b>	<b>.902</b>	<b>.8165</b>	<b>.775</b>		<b>.51038</b>

a. Predictors: (Constant), Budget Preparation, Budgetary Control Budget implementation

b. Dependent Variable: Budget variance

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (budget variance) that is explained by all the 3 independent variables (budget Preparation, budgetary control and budget implementation).

The three independent variables that were studied, explain 81.65% of budget variance as represented by the  $R^2$ . This therefore means that other factors not studied in this research contribute 18.35% of variance in the dependent variable. Therefore, further research should be conducted to investigate into the effect of other factors on budget variance in NGOs in Kenya.

**Table 4. 5: ANOVA (Analysis of Variance)**

Model		SumofSquares	d.f	Mean Square	F	Sig.
1	Regression	1.015	5	.214	10.7	.001 <sup>a</sup>
	Residual	5.001	15	.020		
	Total	6.016	20			

**Source: Research, 2012**

a. Predictors: (Constant), budget preparation, budgetary control and budget implementation

b. Dependent Variable: Budget variance

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The "F" column provides a statistic for testing the hypothesis that all  $\beta = 0$  against the null hypothesis that  $\beta \neq 0$  (Weisberg, 2005). From the findings the significance value is .000, which is less than 0.05 thus, the model is statistically significant. Conversely, if the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable.

The F critical at 5% level of significance was 3.19. Since F calculated is greater than the F critical (value = 10.91), this shows that the overall model was significant. Subsequently, we reject the hypothesis that all the population values for the regression coefficients are 0.

**Table 4.6: Multiple Regression Analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	3.031	.356		8.5140	0.00
	Budget Preparation	0.722	0.151	0.347	4.7814	.000
	Budgetary Control	0.661	.64	0.167	1.0328	.012
	Budget implementation	0.682	.61	0.154	1.1180	.001

**Source: Research, 2012**

From the regression findings, the substitution of the equation

$(Y = p_0 + p_1X_1 + p_2X_2 + p_3X_3)$  becomes:

I  $Y = 3.031 + 0.722 X_1 + 0.661X_2 + 0.682 X_3$

Where Y is the dependent variable (Budget variance),  $X_1$  is budget preparation variable,  $X_2$  is budgetary control variable and  $X_3$  is budget implementation variable.

From the equation, taking all factors (budget preparation, budgetary control and budget implementation) constant at zero, budget variance will be 3.031% . The data findings also show that a unit change in budget preparation variable will lead to a 0.722% change in budget variance; a unit change in budgetary control will lead to a 0.661% change in budget variance; a unit change in budget implementation will lead to a 0.682 change in budget variance. This means that the most significant factor is budget preparation, implementation, and lastly control.

At 5% level of significance and 95% level of confidence, budget preparation had a 0.00 level of significance; budgetary control had a .012 while budget implementation had a 0.001 level of significance. Thus, Budget Preparation, Budgetary Control and Budget implementation significantly influence Budget variance.

## **CHAPTER FIVE**

### **SUMMARY, 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 the budgeting process on budget variance in NGOs in Kenya

#### **5.2 Summary of the Findings**

The study aimed at establishing the effect of the budgeting process on budget variance in NGOs in Kenya

##### **5.2.1 Budget Preparation**

From the findings and in relation to budget preparation in NGO's, budgets are approved by the senior management to a large extent; while budgets are means of resource allocation; the process involves preparation of forecasts of the expected confirmed income/grants; the organization has documented budgeting process, which is referenced during the process; and are prepared with reference to the organisation annual plans, strategic plan and overall goal to some extent. However it was noted that not all functions or staff of the organisation are involved in the process. The study indicated that the process of budget preparation is quite thorough and process based as explained by a grand mean of 3.57.

##### **5.2.2 Budgetary Control**

In relation to budget control the findings implied that there are moderate efforts in review of budgets as need arises to capture the reality during implementation; the leadership and support provided by managers to the subordinate throughout budget execution is

effective; recording of actual result is moderately accurate and timely; while there is minimal reference to budget before any request to undertake an activity for approval; variances are rarely investigated; and the organisation develops solutions to problems revealed by budgetary control. The study showed that, generally the budgetary control measures in place among the NGOs are not adequate with a grand mean of 2.78. There is need to enhance the budgetary controls.

### **5.2.3 Budget Implementation**

In relation to implementation of budget in NGOs the failure to achieve budget targets to some extent is due to; foreign exchange rate fluctuations in the market; new projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge to budget implementation; the budget containing uncertainty which hinders effective implementation; and change of project staff or implementers of budgets; insufficient funds allocated to department or projects institutional weakness; and Institutional weakness.

### **5.2.4 Regression Equation**

From the regression equation the three independent variables that were studied, explain 81.65% of budget variance as represented by the R<sup>2</sup>. This therefore means that other factors not studied in this research contribute 18.35% of variance in the dependent variable. The data findings also show that a unit change in budget preparation variable will lead to a 0.722% change in budget variance; a unit change in budgetary control will lead to a 0.661% change in budget variance; a unit change in budget implementation will lead to a 0.682% change in budget variance. This means that the most significant factor is budget preparation followed by implementation and lastly, control. Thus, Budget Preparation, Budgetary Control and Budget implementation significantly influence Budget variance



### **5.3 Conclusions**

From the foregoing conclusions, the study concluded that the process of budget preparation in NGOs, budget preparation involves forecasting of the expected confirmed income/grants. To some extent they are done in relation to the documented process, which is referred. The budgets are approved by the senior management before execution and are based on the organisation's annual plans, strategic plan and overall goal.

The NGOs undertakes budgetary control involving coordination among the various departments achieved through communication and consultation. Solutions to problems revealed by budgetary control are developed to some extent, budget review to capture the reality during implementation is also done. In addition, there is some reference to budget before undertaking any activity to ensure funds availability; and reports on budget variance are shared with budget holders and senior management.

In conclusion, during implementation of budget in NGOs; change of project staff or implementers of budgets affect the achievements of the budgets; there may be tendency by user department to adhere to budget process; in some period budget include unattainable targets or standards; foreign exchange rate fluctuations in the market hinders organization to effect their budgets while insufficient funds allocated to department or projects affect budget implementation. In conclusion, budget preparation, budgetary control and budget implementation significantly influence budget variance.

### **5.4 Recommendations**

The study recommends that NGOs should keep good budgeting process as this helps them to monitor revenue and expense levels in operating activities. It also ensures that cash outflows (payments) and inflows (receipts) remain at adequate levels.

The study also recommends that NGOs should adopt a good budgeting process incorporating a long-term perspective, establish linkages to organizational goals, focuses budget decision on results and outcomes and promotes effective communication with stakeholders.

Finally, the study recommends that managers in NGOs should undergo training on variances as variances help managers gain insights into why the actual results differ from the planned performance and by so doing assist them in their planning and control decisions.

### **5.5 Recommendations for Further Studies**

This study has investigated into the effect of budgeting process on budget variance in NGOs in Kenya. To this end, therefore a further study should be carried out to establish the challenges facing budgeting processes among the NGOs in Kenya as it is evident that the budgeting process is a major factor that affect budget variance.

Moreover a study should also be carried out to establish the effect of budgeting process on budget variance in public sector and corporates in Kenya.

The findings indicated that the budgeting process attributes 81.65 % of the budget variance and a further study can be done to establish the other factors affecting the budget variance in NGOs in Kenya.

### **5.6 Limitation of the Study**

The findings of this study, however, should be considered in the light of their limitations.

The questionnaire bias: The researcher relied on primary data through the administration of questionnaire. It is likely that some respondents misunderstood the

questions or gave biased opinions. Further, the results are limited to a sample of 20 NGOs.

Another limitation was secrecy of the institution documents. Every organisation has its code of ethics that restricts staff to divulge confidential information to the public.

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**APPENDICES**  
**APPENDIX I: Letter of Introduction**



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**

MBA PROGRAMME

UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA PROGRAMME

UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA PROGRAMME

DATE .....

**TO WHOM IT MAY CONCERN**

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

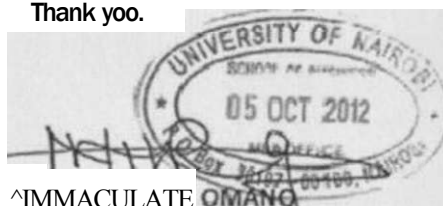
Registration No. ....

If 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.



**IMMACULATE OMBANG**  
**MBA ADMINISTRATOR**  
**MBA OFFICE, AMBANK HOUSE**



## APPENDIX II: Questionnaire

Kindly answer the following questions by ticking the appropriate box

### **PART I; General Information**

1. What is the time dimension does your organisation budget cover?
  - 3 months
  - 6 months
  - 1 year
  - More than 1 year
  - Not specific
  
2. How often are the budgets reviewed
  - 3 months
  - 6 months
  - 1 year
  - Randomly
  - No revisions are done.
  
3. Who approves the final decision on budget proposals?
  - Board of Directors/Trustee
  - Top Management
  - Budget Committee
  - Finance Manager
  - Other specify
  
4. Indicate the budget variance (%) for your organization in the following years

Variance	2007	2008	2009	2010	2011
0					
1 to 10					
11 to 20					
21 to 30					
above 31					

**PART II: SPECIFIC QUESTION TO RESEARCH**

**5. Budget Preparation**

Indicate your view on the following statements on budget preparation to your organisation.

Using a rating of 1 to 5 please indicate your view of the following statement on the budget preparation.

Where 5= very large extent; 4= To large extent; 3 = some extent ; 2= to less extent; 1=to no extent

	5	4	3	2	1
Budgets are prepared with reference to the organisation annual plans, strategic plan and overall goal					
Budgets are used to allocate the resources					
All staff or functions of the organisation are involved in budget preparation.					
The budgeting process starts with preparation of forecasts of the expected confirmed income/grants.					
The organisation has documented budgeting process which is referenced during the process					
The budgets are always approved by the senior management before any execution					

**6. Budgetary Control**

Using a rating of 1 to 4 please indicate your view on the following statement on the budgetary control.

Where 5= very large extent; 4= To large extent; 3 = some extent ; 2= to less extent; 1=to no extent

	5	4	3	2	1
The approved budgets are shared with all departments and budget holders and ensure they are understood.					
Leadership and support provided by managers to the subordinate throughout budget execution is effective.					

While striving to implement project the budget holder consider how their action affect achievement of the set target of the organisation as a whole.					
Coordination among the various departments during budget execution is achieved through clear communication and consultation.					
There is always reference to budget before any request to undertake an activity is approved to ensure that there is adequate funds.					
Recording of actual result is accurate and timely					
Budget vs actual comparison and identification of variances is done regularly					
Budgets are reviewed as need arises to capture the reality during implementation					
Reports on budget variance are shared with budget holders and senior management					
Variances are investigated					
The organisation develops solutions to problems revealed by budgetary control					

**7. Budgeting Implementation**

Using a rating of 1 to 4 please indicate your view on the following statements on budgeting process and its effect on variance.

Where 5= very large extent; 4= to large extent; 3 = some extent ; 2= to less extent; 1=to no extent

	5	4	3	2	1
In some period budget include unattainable targets or Standards					
The budget contain uncertainty which hinders effective implementation					
Insufficient funds allocated to department or projects affect budget implementation					
Institutional weakness could hinder effective					

budgeting process					
The budget process is time consuming and expensive and may become volatile before implementation					
There may be tendency by user department to adhere to budget process just to comply to organisation or donor requirement					
New projects or donors have different budgeting guidelines and come with new set of rules which take time to learn and can be a challenge to budget implementation					
Foreign exchange rate fluctuations in the market hinders organisation to effect their budgets					
Change of project staff or implementers of budgets affect the achievements of the budgets.					

**Thank you for your time and cooperation**

### **APPENDIX III: LIST OF NGOs**

1. Ace Africa
2. Care International
3. Catholic Relief Services
4. Child Fund
5. Childline Kenya
6. Christian Blind Mission
7. Family Health Options Kenya
8. Feed the Children
9. Film Aid
10. Gender Based Violence Recovery Centre
11. International Children Services
12. Inter-Religious Council of Kenya
13. Liverpool
14. Merlin Kenya
15. Plan International Inc, Kenya
16. Save the Children
17. Tere Des Hommes
18. The Cradle
19. World Vision Kenya
20. Youth Initiative Kenya