

**IMPACT OF BUDGETARY CONTROL PROCESS AND THEIR IMPACT
ON FINANCIAL PERFORMANCE IN THE BANKING INDUSTRY IN
KENYA**

BY

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DECLARATION

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

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DECLARATION BY SUPERVISOR

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DEDICATION

This study is dedicated to my loving family, friends and lecturer.

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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 my family for their understanding and support during the project. Further appreciation goes to the entire staffs of the banking industry in Kenya who I consulted during the study.

Lastly, I would also like to express my sincere thanks to the supervisor for having agreed to supervise this research paper and their patience in reading the drafts and occasionally guiding me, without which the research would not have been a reality.

ABSTRACT

Budgetary control and Financial Management have been at the core of economic reform programs in most nations around the world. Locally, several studies have been conducted on budgetary control in Kenyan organizations. Due to the mandate charged to it on observing budgetary issues in banking industry, 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 banking industry. The objective of the study was to examine the impact of budgetary control process in the banking industry in Kenya.

This study was descriptive in nature and the researcher used survey method. The population of this study was 44 commercial banks in Kenya. This is the group from which the sample was drawn. The main instrument in Data collection was through semi-structured questionnaires which were dropped and picked later or e-mailed to the respondents. The completed questionnaires were edited for completeness and consistency. A content analysis and descriptive analysis was employed. The content analysis was used to analyze the respondents' views about the factors affecting budgeting process. The data was then coded to enable the responses to be grouped into categories. Pie charts, tables, graphs were used as appropriate to present the data collected for ease of understanding and analysis.

It was found out that departments participated in budgetary control process. Budgetary control affects the financial performance of the organizations and that financial performance of the organization is affected by budgetary control process to a very great extent. Since departments

participate in budgetary control process, the organizations should use budgets to motivate employees to do better, forecast the future, to assist in control, as a means by which management communicates to other levels of department and as a means of performance appraisal.

The study found that continuance commitment concerns an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization to a very great extent, budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance. The absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behavior and that performance improves if organizations move away from traditional control oriented approach to a commitment-oriented approach to managing people to a great extent.

The study further recommends continued commitment so that an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization; preparation of centralized budgets well checked for errors of either overestimation or underestimation to reduce budget accuracy challenges and shortening the duration of the bargaining and negotiations to reduce budget inaccuracy in the organization.

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LIST OF ABBREVIATION

CBK	Central Bank of Kenya
SME	Small Micro Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The budget is an important instrument that every institution uses to define the direction of its policy, cost implications of its programs and the possible sources of funds during a fiscal year. A budget is therefore, a basic and powerful tool in management. In this regard it serves as a tool for planning and controlling the use of scarce financial resources in the accomplishment of organizational goals as indicated by Schick (1999). The Royal Institute of Public Administration puts it thus budgets occupies a leading place among the special tools of management employed to direct and control the affairs of large and multifarious organizations. Budgets are used not only by governments, where budgeting had its origins, but in other public bodies, in industry and commerce and in private families according to the Institute of Economic Affairs (2000).

Available literature on budgeting suggests that budgets form an important basis for financial control according to Allison and Kaye (2005); Ashton et al. (1995); Coates et al. (1989) and Coombs and Jenkins (1991). To achieve organization-wide control, the same requirement can be applied to expenditure on and within services, and to discrete expenditure items. The recognition of risk as an important component in capital budget decision making has long been recognized. The future is uncertain and investment/project appraisal techniques that fail to recognize this fact will almost certainly lead to incorrect conclusions and erroneous recommendations as indicated by Allison and Kaye (2005).

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 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 Financial Performance

Firm's performance is the measure of standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance. Performance also refers to the metrics relating to how a particular request is handled, or the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. It is the outcome of all of the organization's operations and strategies. It is also the extent to which an individual meets the expectations

regarding how he should function or behave in a particular context, situation, job or circumstance. Oakland (1999) is of the view that performance is what people do in relation to organizational roles.

The financial performance of institutions is usually measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies. The common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial institutions; the institution size, its asset management, and the operational efficiency (Fitzgerald et al, 2000).

Three widely used financial ratios to measure solvency are the debt-to-asset ratio, the equity-to-asset ratio and the debt-to-equity ratio (Quach, 2005). These three solvency ratios provide equivalent information, so the best choice is strictly a matter of personal preference. Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital.

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Copisarow, 2000). There are many different ways to measure financial performance, but all measures should be taken in 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 investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

1.1.3 Banking Industry

The Kenyan Banking sector has demonstrated a solid growth over the past few years. The industry continues to offer significant profit opportunities for the major participants. Profit after tax of the overall banking system increased by 38.61%, or Kshs 5.08 billion, from Kshs 13.15 billion in December 2005 to Kshs 18.22 billion in December 2006. This growth is a continuation of the strong growth in profit after taxes that the industry has achieved for the past several years. (The Kenyan Banking Sector Report ,2009).

Key issues affecting the banking industry in Kenya include; changes in the regulatory framework, where liberalization exists but the market still continues to be restrictive, declining interest margins due to customer pressure leading to mergers and reorganizations, increased demand for non-traditional services including the automation of a large number of services and a move towards emphasis on the customer rather than the product and introduction of non-traditional players, who now offer financial services products.

Among the key trends is what appears to be the strong emergence of technology driven banking services in Kenya .Banking is edging away from over reliance on traditional banking halls to other platforms supported by technology and in particular telecommunications .This is emerging as threat to the banks because it has enabled non bank competitors like safaricom short circuit banks by offering cheap money transfer (The Kenyan Banking Sector Report ,2009).

There is also an emerging strategy of the banks trying to carve out underexploited but potentially viable niches like mortgage financing, Islamic banking, SME banking among others. The distinction between the traditionally big banks and small banks is somewhat fading as far as product offering is concerned.

1.2 Research 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 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 banking industry.

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 nongovernmental 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 facing budgetary control process in the Kenyan banking industry.

No study has been done on budgetary control in the banking 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 banking industry to meet achieve their goals and objectives. This study seeks to answer the question what is the impact of budgetary control process and their impact on financial performance in the banking industry in Kenya?

1.3 Objective of the Study

The study sought to examine impact of budgetary control process in the banking industry in Kenya.

1.4 Value of the Study

This study will help to sensitize banking industry in Kenya on the importance of budgetary control. The organization in focus will benefit from the documentation and analysis of impact of budgetary control process in the banking industry in Kenya.

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

The study will 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 budgeting and types of budgeting techniques.

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. A budget can act as a motivator and communicator, as well as for functional co-ordination and performance evaluation (Dominiak & Louder back, 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 & 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 & 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.

Clarkson (1995) states that companies manage specific stakeholder relationships as a way of engaging their financial performance. His research provides insight into why specific policies, practices, and outcomes toward stakeholders in the same industry differ, and why companies make trade-offs among stakeholder groups in trying to achieve their goals. Bendheim et al. (1998) provide assessment of best practice performances on an industry basis by stakeholder

categories, demonstrating that wide differences exist among industries in dealing with five primary stakeholders.

Stakeholder theory explores the concept and the purpose of a corporation as the intersection of a range of interests (Clarkson, 1995); as a node in a complex web of dependency relationships between, and expectations of various constituencies (Wood,1994); or as an aggregation of constituencies attempting to advance their self interests while respecting the interests of others (Wartick, 1988).

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.

Then an improved version of this theory was capital signaling theory mentioning that all investors are not rational and neither every investor have all amount of information or equal level of information compared to the owners and managers also called insiders of the company. When expected future performance of the company based on the expected future cash flows and earnings will look good, insiders will opt for debt financing with low level of interest and default risk thus reducing the flow of large gains to more shareholders. Whereas in opposite case when expected future performance outlook seems bad, insiders opt for equity financing thus shifting the flow of losses to shareholders, which in case of debt financing would have lead to bankruptcy (Jensen and Meckling, 1976).

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

Budgets are used to communicate organisation's expectations to its clients. The budgets process provides for coordinated planning among different functional areas (Ramsey and Ramsey, 1985; Bremser, 1988). Bruns and Waterhouse (1975 pp.177-203) concluded that when production

processes were relatively routine repetitive, budgets could be used effectively to achieve organizational coordination.

2.3.1 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 organisation budget because some stakeholders may be willing to provide a supplementary revenue if the management can show clearly that the budget estimates were based on a smaller rate of inflation than actually proved to be the case (Hope and Fraser, 1997).

2.4 Impact of Budgetary Control Process on Financial Performance

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing. According to Cook (1998), feedback is generally

positively associated with budget performance. Feedback focuses on the extent to which employees have achieved expected levels of work during a specified time period. Budgets being a standard for performance are also used to evaluate managerial performance (Srinivasan, 2000). Similarly, Douglas (1999) used a case study approach and found that budgeting places a high importance on the budget-to-actual comparison for performance evaluation purposes both at the corporate and the subsidiary levels.

Weisenfeld and Tyson (1990), in a sample of 68 US managers from two companies, found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. A total of 90 percent of the respondents indicated that variances were a good way to measure their performance. All of them agreed that variance reports positively influenced them to improve performance and increase their bonuses.

A study by Joye and Blayney (1990) found that budget variances were used by 93 percent of respondents for setting goals and evaluating performance by Australian firms. In a more recent study, Guilding et al. (2000) found that accountants in New Zealand (NZ) and the UK tend to see variances from budget as being important, and performance appraisal was based mainly on budget achievement. In a recent survey of 250 respondents in the US, Bissfield (2002) found that only 14 percent of companies have a fully integrated planning process that combines long term and operational planning, performance measures and reporting. The survey further underscored the fact that financial executives still struggle with the need to synthesize financial and non-financial data and performance measurements in a single system in which they can also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time.

2.5 Participation and Commitment

Organizational commitment is a dimension of a positive employee attitude, which has been linked to performance (Manogran, 1997). It is defined as the extent of employees' feelings and beliefs about the organization which they work for (George and Jones, 1999). The literature describes two types of organizational commitment; affective (or attitudinal) commitment and continuance commitment. Prior work involving organizational commitment has focused on affective commitment (Nouri and Parker, 1998; Quirin et al., 2001). Thus, following the literature, the present study also examines affective commitment. Affective (or attitudinal) commitment is defined as the willingness to execute continuous effort for the success of the organization. It is characterized by a strong belief in, and acceptance of, the organization's goals and values.

Nouri and Parker (1998) proposed that budgetary participation affects job performance through organizational commitment. The authors reasoned that managers, who are allowed to participate in the budgetary process, will have higher organizational (affective) commitment and this in turn, leads to improved job performance. The authors conducted a study on 135 managers and supervisors in large multi-national corporations involved in chemical production in the USA. The authors used path analysis and found that organizational commitment plays an intervening role in the budget participation and performance relationship.

The results reveal a positive relationship between budgetary participation and organizational commitment. The path analysis also showed a direct relationship between budgetary participation and performance. This led the authors to conclude that budgetary participation

increases organizational commitment, which could lead to positive work outcomes, such as enhanced job performance. On the contrary, a more recent study by Parker and Kyj (2006), examining vertical information sharing as an intervening variable in understanding the performance effects of the relationship between budgetary participation and organizational commitment found that there is no direct relationship between budgetary participation and organizational commitment. Both studies, however, were limited to the private sector.

No work has been done on the role of organizational commitment in the budget participation and performance relationship, within public sector organizations. The present study is an attempt to fill the gap in the public sector literature in this area. The studies above have adopted one of two theoretical models; contingency theory and the intervening variable model view. The present study, therefore, builds upon these prior studies by also using the intervening variable model view as the conceptual framework to explain the mediating effects of organizational commitment and perception of innovation on the budget participation and performance relationship. Moreover, Awio and Northcott's (2001) work suggests that the budgetary process is more effective in a decentralized structure, -as it motivates managers, thus enhancing their performance.

2.6 Organizational Commitment

Organizational commitment is a mind set or psychological state involving feelings of beliefs concerning the employees' relationship with an organization. This psychological state reflects a desire, a need or an obligation to maintain membership in an organization. Meyer and Allen, 1991 (1991) refer to these states as affective, continuance and normative commitments

respectively. Unlike other concepts, organizational commitment has survived as a viable construct due to focused research carried out in the fields of psychology and organizational behaviour (Meyer and Allen, 1991) hence a viable construct for studying the relationship between participation and firm performance. It is argued that the absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behaviour. As such, budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance (Quirin et al, 2001).

Organizational commitment has been described as an attitude held by employees towards their organization (Luthans, 1998). However, Mooday et al (1982) have given a more comprehensive meaning. They see the concept as having three components: a strong belief in and acceptance of organizational goals and values; a willingness to exert considerable effort on behalf of the organization and a strong desire to maintain membership in the organization. They view commitment as giving all of oneself at work by using time constructively, paying attention to detail, putting extra effort, accepting change, cooperating with others, self-development, respecting, trust, pride in ones abilities, seeking improvements and giving loyal support. These scholars have summarized their meaning of commitment into three pillars of commitment namely: a sense of belonging to the organization, a sense of excitement in the job and confidence in management.

An alternative definition of organizational commitment has been suggested by Meyer and Allen (1991). This viewpoint identifies three distinct components of organizational commitment namely: affective, continuance and normative. Affective commitment refers to the extent to

which an individual feels a sense of identification, involvement and emotional attachment to an organization. Continuance commitment concerns an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization. Such costs are those concerned with personal sacrifice such as loss of advancement, promotion, budgetary pressure or limited job opportunities in the labour market. Normative commitment refers to commitment that is influenced by society's norms about the extent to which people ought to be committed to an organization. Put simply therefore, people stay with organizations for three reasons: because they want to (affective commitment); because they need to (continuance commitment) and because they feel they ought to (normative commitment).

Cherrington and Cherrington (1999) highlighted the importance of commitment to organizations. He observed that performance improves if organizations move away from traditional control oriented approach to a commitment-oriented approach to managing people. A control-oriented approach relies on establishing order, exercising control and using efficiency-enhancing methods. On the contrary, a commitment strategy enables workers to respond creatively by giving broader responsibilities, encouraging contribution and helping them achieve satisfaction in their work as opposed to when they are tightly controlled by management, placed in narrowly defined jobs and treated like an unwelcome necessity.

Walton's argument has been supported by several studies, which have shown a positive relationship between organizational commitment and desirable employee outcomes such as low turnover, low absenteeism, low tardiness and enhanced job performance (Chong and Leung, 2003). Armstrong et al (1996) in the prescriptive literature outlines a number of things management can do to develop a commitment strategy in the organization. He proposes that

managers can ensure workforce is informed, involved and sharing in the success of the organization thus, creating a feeling of ownership among employees. A feeling of ownership refers to a sense of employees believing that they are genuinely accepted by management as a key part of the organization. This extends to participating in decisions on change, which affect employees. Participation and involvement in making decisions facilitates acceptance of the change as it is owned and not imposed by management.

Management can create a feeling of excitement in the job by appealing to the higher level needs of pride, trust and accountability for results and other intrinsic motivators. Commitment can further be created by defining and disseminating the mission and values of the organization; ensuring that everyone understands and participates in the strategies of the organization and getting people to own changes and solutions. Management can also provide transformational leadership, which can inspire people with a vision for the future and develop processes and an organizational climate that encourages people's growth in terms of skill and higher levels of achievement performance (Quirin et al, 2001).

The introduction of companywide profit or gain sharing plans encourage people to identify with the organization while the use of induction budgetary pressure programmes ensure new employees form a good impression of the company from the outset. Researches into the use of realistic job previews have shown a positive correlation between provision of job information at entry point and reduced turnover. Encouraging teamwork and getting teams to discuss important issues facing the company and acting on any good ideas that emerge encourages commitment to the organization among employees (Chong and Leung, 2003).

2.7 Budget Accuracy

Centralized budgets have been associated with the problems of either overestimation or underestimation (Kopp and Leyk, 2004). Garrison *et al.* (2008) dedicate a chapter of their textbook, *Managerial Accounting*, to budget formulation and use, which they refer to as profit planning. According to Garrison *et al.*, a budget is part of a master budget in which management establishes goals throughout the organization that result in a budget for cash, a budgeted income statement, and a budgeted balance sheet. Garrison *et al.*, stated that participative budgets have several advantages over imposed budgets, such as, motivation and commitment from participants and increased accuracy. Such participative budgets, however, must be reviewed by a higher level of management to avoid “budgetary slack,” .According to Garrison *et al.* (2008) involving staff and board members in the process to improve accuracy of information and commitment to the plan. Decentralized budgeting is thought to reduce variations between budgeted and actual expenditure (i.e. increase budget accuracy), by placing responsibility for budgeting in the hands of those who are best able to forecast expenditure requirements.

Research has consistently found that accuracy is one of the most important (if not the single most important) objective companies have for their budgeting and planning process yet it poses a lot of challenges to meet (Jones, 2006). Budget accuracy is important to a company’s financial and operational performance, both in the short run and over the long term. At the very least, there must be appropriate financial controls in place to be profitable and ensure there is adequate cash to meet obligations. Companies must allocate the right resources to the activities that will produce the highest returns. Accuracy is critical to the effectiveness of Performance Management. Assessments of how well objectives are met depend on how realistic these

objectives were from the start. Organizations that 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, often have no time to ensure the budget is consistent with their strategic objectives.

2.8 Financial Performance

Blair (1995) puts forward five major areas in which financial performance can be examined. These include: Liquidity, Solvency, Profitability, Financial efficiency and Repayment capacity. The association between quality of corporate governance and firms' profitability is quite a major focus in corporate governance studies, but one cannot predict much on the direction as prior literatures show mixed results. Jensen and Meckling (1976) have proven that better-governed firms might have more efficient operations, resulting in a higher expected future cash-flow stream. In Brown and Caylor (2004), the result of the Pearson Correlations used in the study provides evidence that all measures of return except for one-year return; and all measures for profitability are significantly positively correlated with the CGQ scores that represent quality of corporate governance.

Klapper and Love (2003) use return on assets as measure for performance found evidence that firms with better governance have higher operating performance. Contrast results are seen in Gompers et al. (2003), Beiner et al. (2004) and Bauer et al. (2004). According to Cho and Kim (2003), company would enhance their corporate governance when the company's performance is poor because changes in corporate governance structure are expected to bring out positive result on their performance. Many factors inform performance in organizations.

According to Senge (1999) organization is considered as a structural process in which individuals bound together in a formal relationship and interacts with each other to accomplish certain common objectives. The success of any organization depends highly on the efficiency, role performance and job satisfaction of its employees. The study revealed that factors like affiliation, recognition, behavior of superior and self perception of job responsibility had positive and significant relationship with the job performance. The overall level of job performance was moderate.

2.9 Empirical Studies

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

Most of the local literature available so far has studied budgeting in the private sector and public sector. Obulemire (2006) conducted a survey of budgeting practices in Secondary schools where

he found that budget committees and interdepartmental discussion groups were the most used budgeting tools with less emphasis on brainstorming. He further asserts that top management support, clear and realistic goals, influence of external environment on availability of resources and the strategic plan were key factors to consider. In addition, failure to consider motivation of employees and participation by all staff in the budgeting process was a challenge. Possible consequences of not tying budget targets achievements to rewards include lack of a sense of responsibility, perception that budgets are pressure devices and budget padding among the employees (Obulemire, 2006).

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

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

manufacturing firms (Simiyu, 1977). This study wishes to investigate the challenges of budgeting in the public sector and the Kenyan government ministries in particular as no previous study has done this.

A further study in the USA by Argyris (1993) examined the behavioral dynamics of budgeting in four firms. The study uncovered some very unhelpful attitudes and de-motivating behaviors. For example, budgets were frequently used as an oppressive tool by an authoritarian, autocratic management with a focus on mistakes; an undue attention on their own departments, rather than on the whole organization; the emergence of budget slack and a blame culture". Supervisors, however, were able to see that the budgets included unrealistic targets; were backward looking; rigid and inflexible; and were used to apply pressure to increase production. All in all, the focus was upon outputs, not processes, and the result was de-motivating. Indeed, the supervisors tried to redress what they saw as an imbalance by not referring to budgetary targets and control.

2.10 Conclusion

Budgeting is one of the fundamental decision-making processes in organizations. During budget formulation and implementation, officials determine the portion of the organization's resources that the manager of each unit will be authorized to spend. Budgets often establish performance goals for the unit in terms of costs, revenues, and/or production (Little et al., 2002). This is a succinct and accurate summation of the importance of the budgeting function within the majority of organizations. Budgets are used in differing degrees and for different purposes across different industries. Some industries use budgeting as a control of expenditures, where other businesses use budget functions as a tool for planning, a means of communication, or as a goal to measure performance. The benefits of budgeting were not minimised despite the source of initial funding

(public funds, taxpayer funds, shareholder investments or privately acquired monies). Although organizations institute budgeting formats in different ways, all organizations benefit from its use, and budgeting functions perform an important mechanism in a firm's organizational architecture- corporate and business success depends on it.

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

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used in gathering the data, analyzing the data and reporting the results. Here the researcher aims at explaining the methods and tools used to collect and analyze data to get proper and maximum information related to the subject under study.

3.2 Research Design

This study was descriptive in nature and the researcher used survey method. This is a descriptive survey study aimed at establishing the impact of budgetary control process in the banking industry in Kenya. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon. A survey research attempts to collect data from members of a population and describes existing phenomena by asking individuals about the budgeting implementation. Primarily data collected from such a population or census is more reliable and up to date. The descriptive research enhanced a systematic description that was as accurate, valid and reliable as possible regarding the responses on the challenges affecting budget implementation.

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 44 commercial banks in Kenya. This is the group from which the sample was drawn.

3.4 Data Collection Methods

In order to identify the challenges facing budgetary control process in the Kenyan banking industry in Kenya, self-administered mail questionnaires were distributed among targeted population of bankers currently employed by banks in Kenya. Questions are designed to identify the challenges facing budgetary control process in the banking industry in Kenya.

The main instrument in Data collection was through semi-structured questionnaires targeting finance managers, accountants, in each Bank. This is because they are the ones well versed with budgeting procedures in the banking industry in Kenya. Questionnaires were dropped and picked later or e-mailed to the respondents.

3.4.1 Data Validity and Reliability

Piloting was carried out to test the validity and reliability of the instruments. Validity indicates the degree to which the instrument measures the constructs under investigation (Mugenda and Mugenda, 2003). There are three types of validity test which include content, criterion, and related construct validity. This study used content validity because it measured the degree to which the sample of the items represents the content that the test was designed to measure.

A pilot study was conducted by the researcher taking some questionnaires to the respondents which was filled by some respondents at random. From this pilot study the researcher was able to detect questions that need editing and those that are ambiguous. The final questionnaire was then printed and used to collect data for analysis.

3.5 Data Analysis

The completed questionnaires were edited for completeness and consistency. A content analysis and descriptive analysis was employed. The content analysis was used to analyze the respondents' views about the factors affecting budgeting process. The data was then coded to enable the responses to be grouped into categories. Pie charts, tables, graphs were used as appropriate to present the data collected for ease of understanding and analysis. Descriptive statistics were used mainly to summarize the data. This included percentages and frequencies.

3.5.1 Model Specification

The researcher adopted a regression model to test the relationship between the independent variables (Participation and commitment, Organizational commitment, Performance Evaluation and Budget Accuracy) and the organizations' financial performance.

3.5.2 Participation and Commitment

Under this, the model was to bring out the different processes followed in the budgetary control and their influence on organization financial performance.

3.5.3 Organizational Commitment

Under this, the model was to bring out the key parties involved in the budget preparation and whether their inclusion positively or negatively affects financial performance.

3.5.4 Performance Evaluation

Under performance evaluation the model was to measure the influence of Performance Evaluation in the financial performance. To measure performance evaluation, the results obtained after conducting the evaluation exercise are good factors of financial performance.

3.5.5 Budget Accuracy

Under budget accuracy the model was to measure the influence of budget accuracy in the financial performance. Budget accuracy was measured by the deviation between the budgeted amounts expressed in monetary terms and the actual (true) values realized.

The regression equation $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

Whereby Y = Financial Performance

β_0 = Constant

X_1 = Budgetary Control Process

X_2 = Participation and commitment

X_3 = Organizational commitment

X_4 = Budget accuracy

e = Error Term

The study used the F-test, ANOVA and coefficients of determination to test for significance of the model and the independent variables.

CHAPTER FOUR

DATA ANALYSIS ,FINDINGS AND DISCUSSION

4.1 Introduction

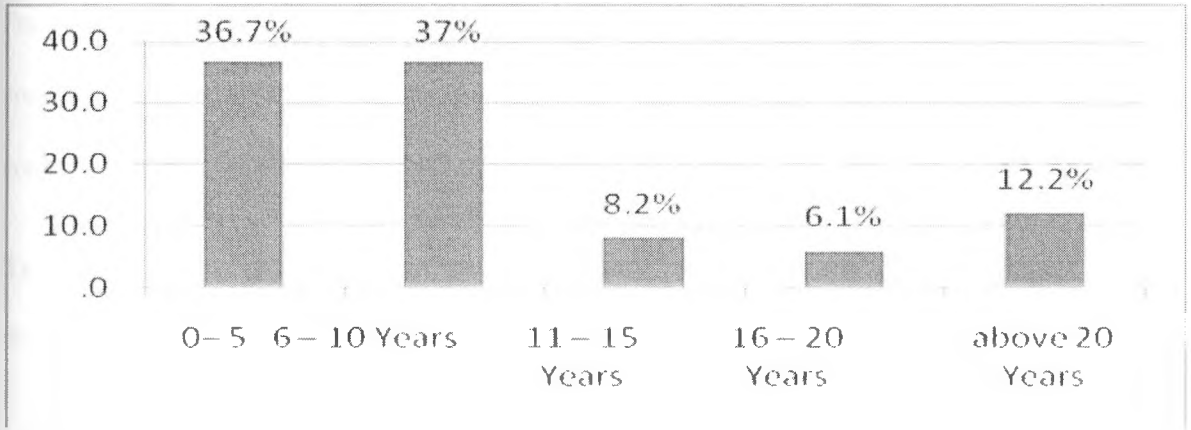
This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on to establish the impact of budgetary control process in the banking industry in Kenya. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.1.1 Response Rate

The study targeted 44 respondents in collecting data with regard to the impact of budgetary control process in the banking industry in Kenya. From the study, 44 out of the 44 sample respondents filled-in and returned the questionnaires making a response rate of 100%. 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: Number of years respondents had worked in their current positions



Source: Research Findings

The study sought to find out the years respondents had worked in their current positions. From the findings, 37% of the respondents indicated that they had worked in their current positions for 6-10 years, 36.7% for 0-5 years, 12.2% for above 20 years, 8.2% for 11-15 years and only 6.1% for 16-20 years.

4.3 Study Variables

4.3.1 Impact of Budgetary Control Process

The study sought to find out the Impact of Budgetary Control Process on financial performance in the Banking Industry in Kenya. Particularly, the study focused on whether the departments participate in budgetary control process and if the budgetary control affects the financial performance of respondents' organization.

Departments participate in budgetary control process

The study sought to find out whether the departments participate in budgetary control process. From the findings, 55% of the respondents indicated that departments participate in budgetary control process and 45% of them indicated that departments did not participate in budgetary control process as shown in the figure above.

Table 4.1: Respondents' opinion on relevance of statements about budgets for their department

	1	2	3	4	5	Mean	Stdev
To forecast the future	65.3	22	4.1	6.1	2.0	4.4	0.3
Assist in control	40.8	35	8.2	14. 3	2.0	4.0	0.2
As a means by which management communicates to other levels of department	55.1	29	8.2	6.1	2.0	4.3	0.3
As a means of performance appraisal	34.7	29	14. 3	18. 4	4.1	3.7	0.3
To motivate employees to do better	73.5	16	6.1	2.0	2.0	4.6	0.1

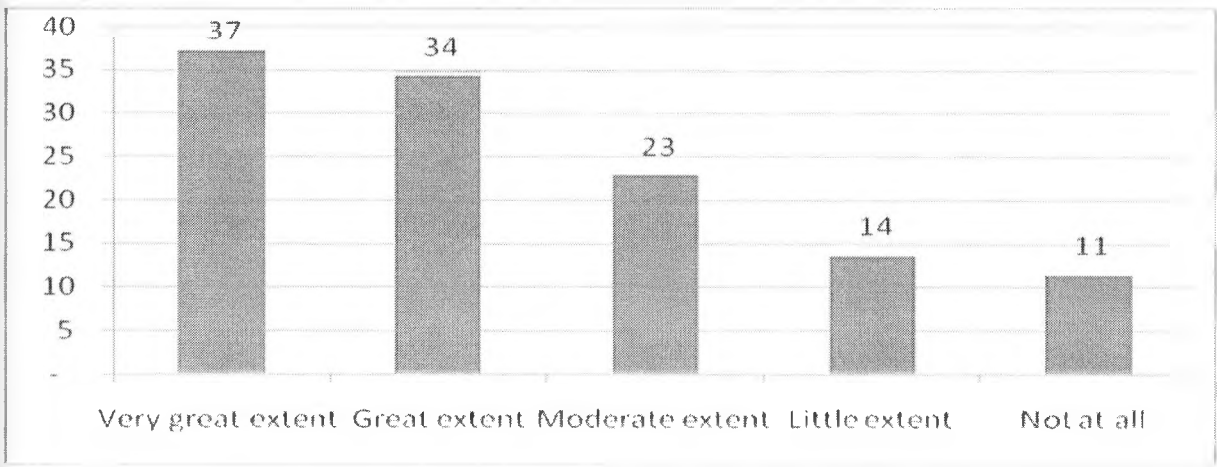
Source: Research Findings

The study sought to find out the respondents' opinion on relevance of statements about budgets for their department. A scale of 1 to 5 was used where 1 was strongly agreed and 5 was strongly disagreed. From the findings, respondents agreed that it was relevant to use budgets to motivate employees to do better as shown by a mean of 4.6, to forecast the future as shown by a mean of 4.4, to assist in control as shown by a mean of 4.0, as a means by which management communicates to other levels of department as shown by a mean of 4.3, as a means of performance appraisal as shown by a mean of 3.7.

If budgetary control affects the financial performance of respondents' organization

The study sought to find out if budgetary controls affect the financial performance of respondents' organization. From the findings, 59% of the respondents indicated that budgetary control affects the financial performance of respondents' organization while 41% of the respondents indicated that budgetary control affects the financial performance of respondents' organization.

Figure 4. 2: Extent to which financial performance of respondents’ organization is affected by budgetary control process



Source: Research Findings

The study sought to find out extent that financial performance of respondents’ organization is affected by budgetary control process. From the findings, 37% of the respondents indicated that financial performance of respondents’ organization is affected by budgetary control process to a very great extent, 34% to a great extent, 23% to a moderate extent, 14% to a moderate extent, and 11% of the respondents indicated not at all.

4.3.2 Participation and Commitment

The study was out to investigate the influence of Participation and commitment in the banks during the budgetary processes on financial performance. The study began by investigating if participation and commitment affects the financial performance of respondents’ organization and the extent that financial performance of respondents’ organization is affected by Participation and commitment.

Table 4.2: Extent to which statements on Participation and commitment in the banks during the budgetary processes affect financial performance.

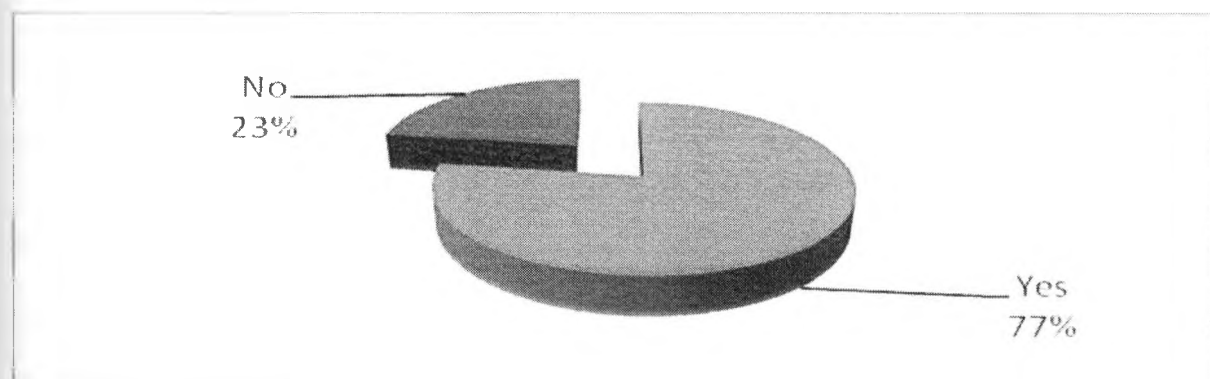
	1	2	3	4	5	Mean	Stdev
Poor participation by managers in setting their budgetary targets	36.7	27	12.2	12.2	12.2	3.6	0.3
Sources of pressure to meet these budgetary targets	30.6	31	16.3	12.2	10.2	3.6	0.2
Government influence and control	40.8	31	16.3	8.2	4.1	4.0	0.3
Lack of adequate control measures	22.4	33	26.5	8.2	10.2	3.5	0.1
Budgetary controls are not intimately linked with considerations of labor controls	38.8	35	16.3	4.1	6.1	4.0	0.3
Adoption of long range planning and long range forecasting techniques in budget planning at banks.	32.7	24	22.4	18.4	2.0	3.7	0.2
Banks employ sophisticated corporate planning and corporate financial plans in its budgeting system	24.5	22	24.5	18.4	10.2	3.3	0.4

Source: Research Findings

The study sought to find out the extent that statements on participation and commitment in the banks during the budgetary processes affect financial performance. A scale of 1 to 5 was used where 1 is to a very great extent and 5 is to no extent. From the findings, respondents indicated that government influence and control and budgetary controls are not intimately linked with considerations of labor controls affect financial performance to a great extent as indicated by a mean of 4.0 respectively, adoption of long range planning and long range forecasting techniques in budget planning at banks affects financial performance to a great extent as shown by a mean of 3.7, poor participation by managers in setting their budgetary targets affect financial

performance and that sources of pressure to meet these budgetary targets affect financial performance to a great extent as shown by a mean of 3.6 respectively, lack of adequate control measures affect financial performance to a great extent as shown by a mean of 3.5, and that banks employ sophisticated corporate planning and corporate financial plans in its budgeting system affect financial performance to a great extent as shown by a mean of 3.3.

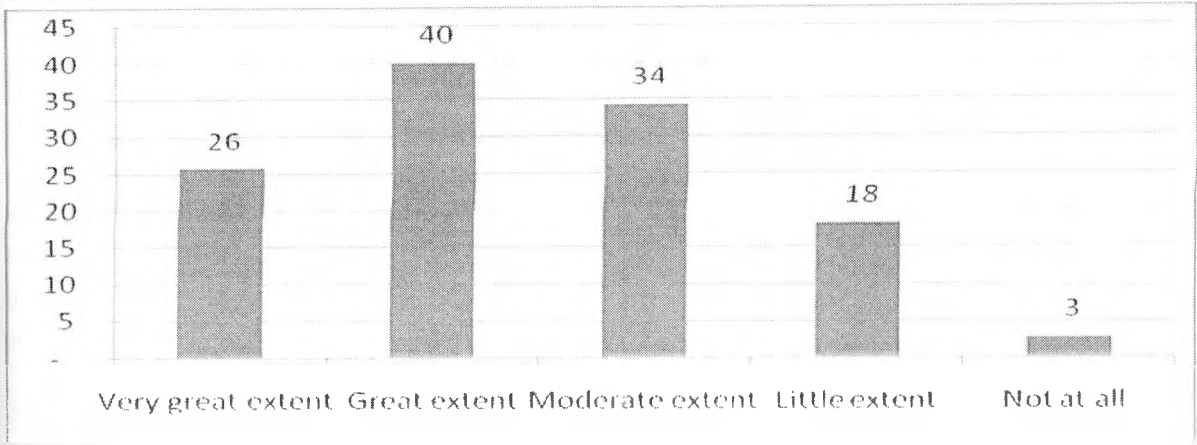
Figure 4.3: If participation and commitment affects the financial performance of respondents' organization



Source: Research Findings

The study sought to find out if participation and commitment affects the financial performance of respondents' organization. From the findings, 77% of the respondents indicated that budgetary participation and commitment affects the financial performance of respondents' organization while 23% of the respondents indicated that participation and commitment affects the financial performance of respondents' organization.

Figure 4.4: Extent that financial performance of respondents' organization is affected by Participation and commitment



Source: Research Findings

The study sought to find out extent that financial performance of respondents' organization is affected by participation and commitment. From the findings, 40% of the respondents indicated that financial performance of respondents' organization is affected by budgetary control process to a great extent, 34% to a moderate extent, 26% to a moderate extent, 18% to a little extent, and 3% of the respondents indicated not at all.

4.3.3 Organizational Commitment

According to Meyer and Allen (1991), organizational commitment has survived as a viable construct due to focused research carried out in the fields of psychology and organizational behavior hence a viable construct for studying the relationship between Organizational Commitment and firm performance. The study therefore sought to establish the effect of organizational commitment on financial performance of organizations. The study findings are presented on below.

Table 4.3: Respondent's level of agreement with statements that relate to organizational commitment in the banks

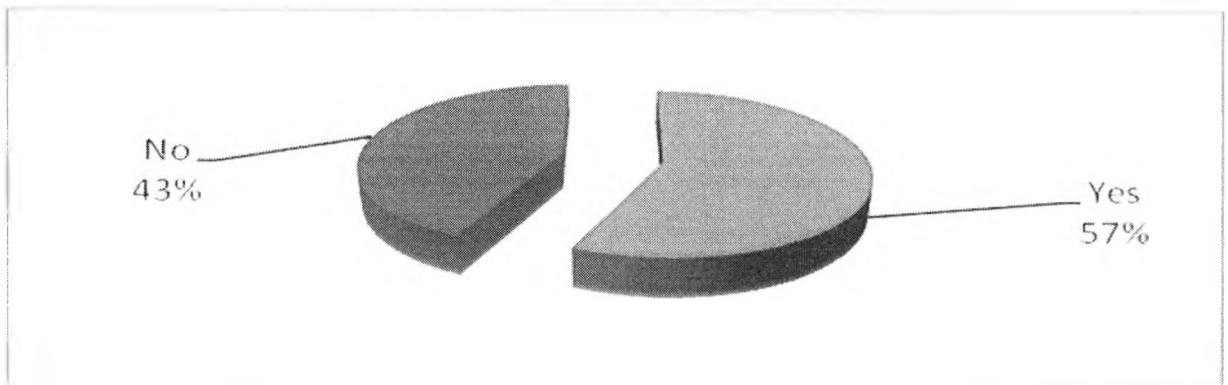
	1	2	3	4	5	Mean	Stdev
Continuance commitment concerns an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization	78	14	6	2	0	4.7	0.1
Budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance	24	66	8	2	0	4.1	0.1
The absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behaviour.	32	34	32	2	0	4.0	0.3
Performance improves if organizations move away from traditional control oriented approach to a commitment-oriented approach to managing people.	34	36	26	4	0	4.0	0.2

Source: Research Findings

The study sought to find out the respondents' opinion on relevance of statements about budgets for their department. A scale of 1 to 5 was used where 1 is to a very great extent and 5 is to no extent. From the findings, respondents indicated that continuance commitment concerns an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization to a very great extent as shown by a mean of 4.7, budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance to a great extent as shown by a mean of 4.1, the absence of organizational commitment leads to low rates of employee participation, psychological

withdrawal manifested in lower degrees of personal investment and poor risk-taking behavior and that performance improves if organizations move away from traditional control oriented approach to a commitment-oriented approach to managing people to a great extent as shown by a mean of 4.0 respectively.

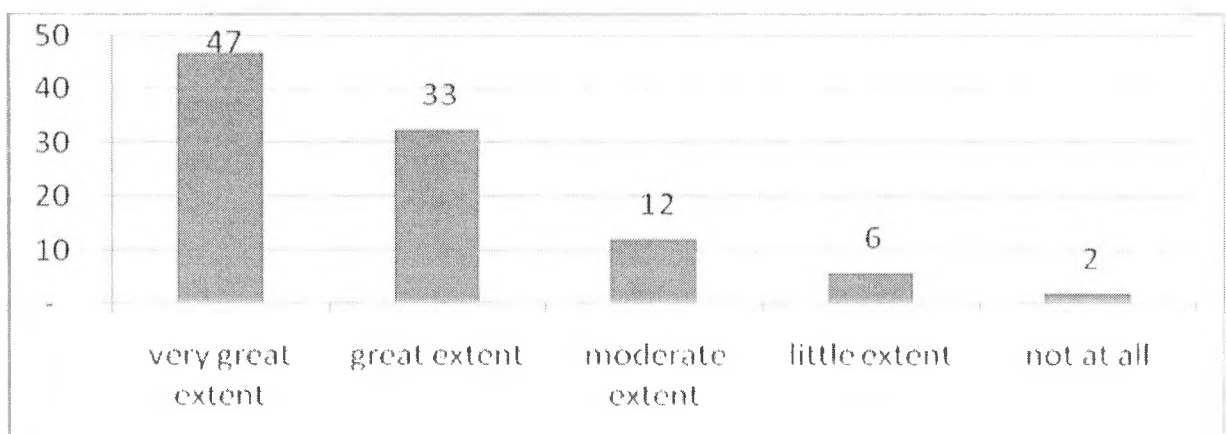
Figure 4.5: Whether organizational commitment affects the financial performance of organizations



Source: Research Findings

The study sought to find out whether organizational commitment affects the financial performance of organizations. From the findings, 59% of the respondents indicated that organizational commitment affects the financial performance of organizations while 41% of the respondents indicated that organizational commitment affects the financial performance of organizations.

Figure 4.6 Extent that financial performance of the organization is affected by organizational commitment



Source: Research Findings

The study sought to find out extent that financial performance of the organization is affected by organizational commitment. From the findings, 47% of the respondents indicated that financial performance of respondents' organization is affected by organizational commitment to a very great extent, 33% to a great extent, 12% to a moderate extent, 6% to a moderate extent, and 2% of the respondents indicated not at all.

4.3.4 Budget Accuracy

The study also sought to find out the influence of Budget Accuracy on financial performance in the Banking Industry in Kenya. Particularly, the study focused on whether budget accuracy affects the financial performance of the organization.

Table 4. 4: Extent that statements that relate to Budget accuracy in the banks influence the performance of the organization financially

	1	2	3	4	5	Mean	Stdev
The organisation prepares Centralized budgets that have been associated with the problems of either overestimation or underestimation	46.9	22	10.2	12.2	8.2	3.9	0.3
Participative budgets at banks are not reviewed by a higher level of management thus leading to "budgetary slack"	8.2	16	16.3	34.7	24.5	2.5	0.2
Noninvolvement of staff and board members in the budgetary process decrease the accuracy of information used in the process	10.2	10	12.2	20.4	46.9	2.2	0.3
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	14.3	33	32.7	14.3	6.1	3.3	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	26.5	39	12.2	12.2	10.2	3.6	0.3
The banks faces budget accuracy challenges because they are no longer appropriate for the conditions currently prevailing at the time of their execution	32.7	43	10.2	10.2	4.1	3.9	0.3
Budget inaccuracy may result from the long duration of the bargaining and negotiations typically involved in planning and budgeting.	22.4	47	16.3	10.2	4.1	3.7	0.2
Budget inaccuracy at banks result from the high degree of detail in budget planning	22.4	37	10.2	20.4	10.2	3.4	0.3
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	18.4	47	12.2	16.3	6.1	3.6	0.3

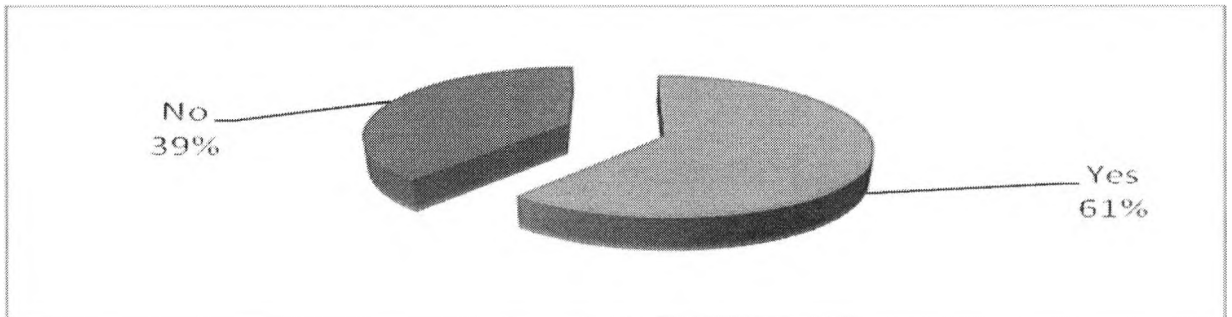
Source: Research Findings

The study sought to find out the extent that statements that relate to Budget accuracy in the banks influence the performance of the organization financially. A scale of 1 to 5 was used where 1 is to a very great extent and 5 is to no extent. From the findings, respondents indicated that the organization prepares Centralized budgets that have been associated with the problems of either overestimation or underestimation and the banks faces budget accuracy challenges because they are no longer appropriate for the conditions currently prevailing at the time of their execution to a great extent as shown by a mean of 3.9, budget inaccuracy may result from the long duration of the bargaining and negotiations typically involved in planning and budgeting to a great extent as shown by a mean of 3.7, 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 to a great extent as shown by a mean of 3.6.

The findings also established that the 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 to a great extent as shown by a mean of 3.6, budget inaccuracy at banks result from the high degree of detail in budget planning to a moderate extent as shown by a mean of 3.4, 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 to a moderate extent as shown by a mean of 3.3, participative budgets at banks are not reviewed by a higher level of management thus leading to “budgetary slack” to a moderate extent as shown by a mean of 2.5 and that non-involvement of staff and board

members in the budgetary process decrease the accuracy of information used in the process to a little extent as shown by a mean of 2.2.

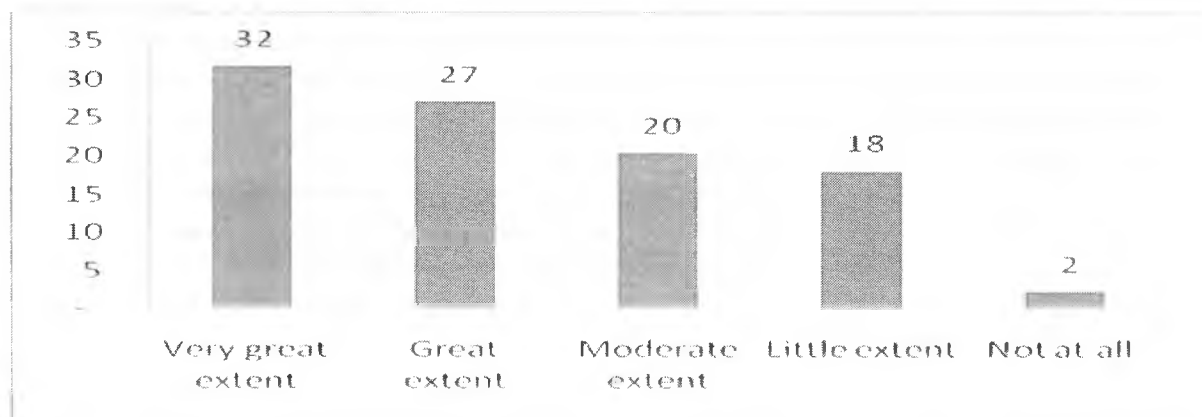
Figure 4. 7: Whether budget accuracy affects the financial performance of the organization



Source: Research Findings

The study sought to find out whether budget accuracy as a factor of budgetary control process affects the financial performance of the organization. From the findings, 61% of the respondents indicated that budget accuracy affects the financial performance of respondents' organization while 39% of the respondents indicated that budget accuracy affects the financial performance of the organization.

Figure 4. 8: Extent that financial performance of the organization is affected by Budget Accuracy



Source: Research Findings

The study sought to find out extent that financial performance of the organization is affected by budget accuracy. From the findings, 32% of the respondents indicated that financial performance of respondents' organization is affected by budget accuracy to a very great extent, 27% to a great extent, 20% to a moderate extent, 18% to a moderate extent, and 2% of the respondents indicated not at all.

4.4 Regression Analysis

In addition, the researcher conducted a linear multiple regression analysis so as to test the relationship among variables (independent) on the financial performance in the banking industry. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Table 4. 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.897 ^a	.880	.133	.3195

Source: Research Findings

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 (Financial performance in the banking industry) that is explained by all the five independent variables (Impact of Budgetary Control Process on financial Performance, Participation and commitment, Organizational Commitment, Budget Accuracy).

The five independent variables that were studied, explain only 88% of the financial performance in the banking industry as represented by the R^2 . This therefore means that other factors not studied in this research contribute 12% of the financial performance in the banking industry. Therefore, further research should be conducted to investigate the other factors (12%) that affect financial performance in the banking industry.

Table 4. 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.534	5	2.878	52.400	.0073
	Residual	186.555	27	2.129		
	Total	198.089	32			

Source: Research Findings

The significance value is .0073 which is less than 0.05 thus the model is statistically significant in predicting Impact of Budgetary Control Process on financial Performance, Participation and commitment, Organizational Commitment and Budget Accuracy. The F critical at 5% level of significance was 3.23. Since F calculated is greater than the F critical (value = 52.400), this shows that the overall model was significant.

Table 4. 7: Coefficient of determination

Model		Unstandard ized Coefficient s		Standardi zed Coefficie nts	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.657	1.033		0.787	0.255
	Impact of Budgetary Control Process on financial Performance	1.654	0.107	0.159	1.091	0.002
	Participation and commitment	0.988	0.139	0.085	0.687	0.005
	Organizational Commitment	0.568	0.097	0.145	0.97	0.013
	Budget Accuracy	0.444	0.069	0.210	0.349	0.032

Source: Research Findings

The researcher conducted a multiple regression analysis so as to determine the relationship between financial performance in the banking industry and the four variables. As per the SPSS generated table 4.11, the equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$) becomes:

$$Y = 1.654X_1 + 0.988X_2 + 0.568 X_3 + 0.444 X_4 + 3.657$$

Where Y is the dependent variable (financial performance of banking industry in Kenya), X_1 is the Impact of Budgetary Control Process on financial Performance variable, X_2 is Participation and commitment variable, X_3 is control activities and X_4 is Budget Accuracy. The regression equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$)

According to the regression equation established, taking all factors into account (Impact of Budgetary Control Process on financial Performance, Participation and commitment, control activities and Budget Accuracy.) constant at zero, financial performance in the banking industry will be 3.657. The data findings analyzed also show that taking all other independent variables at zero, a unit increase in Impact of Budgetary Control Process on financial Performance will lead to a 0.451 increase in Financial performance in the banking industry ; a unit increase in Participation and commitment will lead to a 0.27 increase in Financial performance in the banking industry , a unit increase in Organizational Commitment will lead to a 0.15 increase in Financial performance in the banking industry and a unit increase in Budget Accuracy will lead to a 0.121 increase in Financial performance in the banking industry . This infers that Organizational Commitment contribute more to the Financial performance in the banking industry followed by the Participation and commitment.

At 5% level of significance and 95% level of confidence, Impact of Budgetary Control Process on financial Performance had a 0.002 level of significance; Participation and commitment showed a 0.005 level of significant, Organizational Commitment showed a 0.013 level of significant, Budget Accuracy had a 0.032 level of significant, hence the most significant factor is Impact of Budgetary Control Process on financial Performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four. The chapter also gives the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to investigate the impact of budgetary control process in the banking industry in Kenya.

5.2 Summary

The study aimed at investigating the impact of budgetary control process in the banking industry in Kenya.

It was found out that departments participated in budgetary control process. Respondents agreed that it was relevant to use budgets to motivate employees to do better as shown by a mean of 4.6, to forecast the future as shown by a mean of 4.4, to assist in control as shown by a mean of 4.0, as a means by which management communicates to other levels of department as shown by a mean of 4.3, as a means of performance appraisal as shown by a mean of 3.7. Budgetary control affects the financial performance of the organizations and that financial performance of the organization is affected by budgetary control process to a very great extent.

Government influence and control and budgetary controls are not intimately linked with considerations of labor controls affect financial performance to a great extent as indicated by a mean of 4.0 respectively, adoption of long range planning and long range forecasting techniques

in budget planning at banks affects financial performance to a great extent as shown by a mean of 3.7, poor participation by managers in setting their budgetary targets affect financial performance and that sources of pressure to meet these budgetary targets affect financial performance to a great extent as shown by a mean of 3.6 respectively, lack of adequate control measures affect financial performance to a great extent as shown by a mean of 3.5, and that banks employ sophisticated corporate planning and corporate financial plans in its budgeting system affect financial performance to a great extent as shown by a mean of 3.3. Further, participation and commitment affected the financial performance of the organization and financial performance of respondents' organization is affected by budgetary control process to a great extent.

It was found out that continuance commitment concerns an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization to a very great extent as shown by a mean of 4.7, budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance to a great extent as shown by a mean of 4.1, the absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behavior and that performance improves if organizations move away from traditional control oriented approach to a commitment-oriented approach to managing people to a great extent as shown by a mean of 4.0 respectively. It was found out that organizational commitment affects the financial performance of organizations and the financial performance of the organization was affected by organizational commitment to a very great extent.

The study found out that the organization prepares Centralized budgets that have been associated with the problems of either overestimation or underestimation and the banks faces budget accuracy challenges because they are no longer appropriate for the conditions currently prevailing at the time of their execution to a great extent as shown by a mean of 3.9, budget inaccuracy may result from the long duration of the bargaining and negotiations typically involved in planning and budgeting to a great extent as shown by a mean of 3.7, 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 to a great extent as shown by a mean of 3.6

The study also found out 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 to a great extent as shown by a mean of 3.6, budget inaccuracy at banks result from the high degree of detail in budget planning to a moderate extent as shown by a mean of 3.4, 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 to a moderate extent as shown by a mean of 3.3, participative budgets at banks are not reviewed by a higher level of management thus leading to “budgetary slack” to a moderate extent as shown by a mean of 2.5 and non-involvement of staff and board members in the budgetary process decrease the accuracy of information used in the process to a little extent as shown by a mean of 2.2. The study further found out that budget accuracy affects the financial

performance of respondents' organization and that that financial performance of respondents' organization is affected by budget accuracy to a very great extent.

5.3 Conclusion

The study concludes that departments participated in budgetary control process. It is relevant to use budgets to motivate employees to do better, to forecast the future, to assist in control, as a means by which management communicates to other levels of department, as a means of performance appraisal. Budgetary control affects the financial performance of the organizations and that financial performance of the organization is affected by budgetary control process to a very great extent.

Government influence and control and budgetary controls are not intimately linked with considerations of labor controls affect financial performance to a great extent, adoption of long range planning and long range forecasting techniques in budget planning at banks affects financial performance, poor participation by managers in setting their budgetary targets affects financial performance and that sources of pressure to meet these budgetary targets affect financial performance to a great extent, lack of adequate control measures affect financial performance to a great extent, and that banks employ sophisticated corporate planning and corporate financial plans in its budgeting system affect financial performance to a great extent. Further, participation and commitment affected the financial performance of the organization and financial performance of respondents' organization is affected by budgetary control process to a great extent.

The study further concludes that continuance commitment concerns an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization to a very great extent, budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance to a great extent, the absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behavior and that performance improves if organizations move away from traditional control oriented approach to a commitment-oriented approach to managing people to a great extent.

The study further concludes that organizational commitment affects the financial performance of organizations and the financial performance of the organization was affected by organizational commitment to a very great extent. The study concludes that the organization prepares Centralized budgets that have been associated with the problems of either overestimation or underestimation and the banks faces budget accuracy challenges because they are no longer appropriate for the conditions currently prevailing at the time of their execution to a great extent as shown by a mean of 3.9, budget inaccuracy may result from the long duration of the bargaining and negotiations typically involved in planning and budgeting to a great extent as shown by a mean of 3.7 and that the Organization spends 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 to a great extent as shown by a mean of 3.6. The study further concludes that budget accuracy affects the financial performance of the organizations and

that that financial performance of respondents' organization is affected by budget accuracy to a very great extent.

5.4 Recommendations for Policy

Since departments participate in budgetary control process, the organizations should use budgets to motivate employees to do better, forecast the future, to assist in control, as a means by which management communicates to other levels of department and as a means of performance appraisal. This will in turn improve the financial performance of the organizations.

Since control and budgetary controls are not intimately linked with considerations of labor controls they should be employed by the firm to improve financial performance, adopt long range planning and long range forecasting techniques in budget planning at banks. The organizations should ensure full participation by managers in setting their budgetary targets and put in place adequate control measures to improve financial performance, employ sophisticated corporate planning and corporate financial plans in its budgeting system.

The study further recommends continued commitment so that an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization. The organization should prepare centralized budgets well checked for errors of either overestimation or underestimation to reduce budget accuracy challenges. Duration of the bargaining and negotiations should be made shorter to reduce budget inaccuracy in the organization.

5.5 Limitations of the Study

One of the major limitations encountered in the study emanated from the fact that information from the banking industry is secured through strict confidential policies which make it classified and hence inaccessible to unauthorized persons only. Therefore accessing fully some of the crucial data by way of questionnaires was quite a difficult task. However the researcher sought permission from the relevant authorities so as to facilitate the process of introduction to the banks in a formal way. The researcher also assured the respondents that the research was for academic consumption only and suggested offering them a copy of the findings on request. This gave them more reassurance and confidentiality.

Secondly, most academic staff had a busy schedule and more so due to the fact that many private sector researchers from different disciplines of knowledge frequently targeted these institutions for their case studies. Thus, the financial department saw this as very usual occurrence and did not seriously consider answering questionnaires. The researcher however presented himself in a friendly and interactive manner and persuaded them to exhaustively answer the questionnaires.

5.6 Recommendations for Further Studies

This study has investigated the impact of budgetary control process in the banking industry in Kenya. To this end therefore a further study should be carried out to assess the impact of budgetary control process in other industrial sectors.

Moreover, a study should be carried out to investigate the challenges facing budgetary control process in the banking industry in Kenya.

Finally, a study should be carried out to investigate the policies governing the budget control process.

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APPENDICES

Appendix 1: Introductory Letter

**SUBJECT: MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE TO THE
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI RESEARCH PROJECT**

STUDY TOPIC: IMPACT OF BUDGETARY CONTROL PROCESS

**STUDY TITLE: Impact of Budgetary Control Process and Their Impact on Financial
Performance in the Banking Industry**

Dear Sir / Madam,

Re: Request for Research Data

I am a post-graduate student in the School Of Business, University of Nairobi.

You have been selected to form part of this study. Kindly assist by filling in the attached questionnaire. The information given is needed purely for academic purposes and will be treated in strict confidence. In no way will your name appear in the final report. A copy of the final report will be availed upon your request.

Your assistance and cooperation will be highly appreciated.

Yours Sincerely

.....
Daniel Mahinda Mwangi

Reg. No: D61/70689/2008

Appendix II: Questionnaire

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

Part A: General Information

1. Department Name:

.....

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

0– 5 ☐ ☐

6 – 10 ☐ ☐

11 – 15 ☐ ☐

16 – 20 ☐ ☐

Above 20 ☐ ☐

PART B: IMPACT OF BUDGETARY CONTROL PROCESS.

1. Does your department participate in budgetary control process?

☐ Yes ☐ No

2. 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.....)					

3. Does budgetary control affect the financial performance of your organization?

Yes [☐]

No [☐]

i. If yes explain how

.....

.....

4. To what extent is financial performance of your organization affected by budgetary control process?

Very great extent []

Great extent []

Extent []

Low extent []

Very low extent []

Participation and commitment

1. To what extent do you agree with the statements on Participation and commitment in the banks during the budgetary processes affect financial performance? 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 banks.					
Banks employ sophisticated corporate planning and corporate financial plans in its budgeting system					
Any other (please specify).....					

2. Does Participation and commitment affect the financial performance of your organization?

Yes []

No []

ii. If yes explain how

.....

.....

3. To what extent is financial performance of your organization affected by Participation and commitment?

Very great extent []

Great extent []

Extent []

Low extent []

Very low extent []

Organizational Commitment

1. What is your level of agreement with the following statements that relate to organizational commitment in the banks?

Statement	1	2	3	4	5
Continuance commitment concerns an individual's need to continue working for the organization based on the perceived costs associated with leaving the organization					
Budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance					
The absence of organizational commitment leads to low rates of employee participation, psychological withdrawal manifested in lower degrees of personal investment and poor risk-taking behaviour.					
Performance improves if organizations move away from traditional control oriented approach to a commitment-oriented approach to managing people.					

2. Does organizational commitment affect the financial performance of your organization?

Yes []

No []

- i. If yes explain how

.....

.....

ii. To what extent is financial performance of your organization affected by organizational commitment?

- Very great extent []
- Great extent []
- Extent []
- Low extent []
- Very low extent []

Budget Accuracy

1. To what extent do you agree with the following statements that relate Budget accuracy in the banks that influence the performance of the organization financially? **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 banks 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 banks 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 banks 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					

3. Does Budget Accuracy as a factor of budgetary control process affect the financial performance of your organization?

Yes [☐]

No [☐]

iii. If yes explain how

.....

.....

iv. To what extent is financial performance of your organization affected by Budget Accuracy?

Very great extent []

Great extent []

Extent []

Low extent []

Very low extent []

THANK YOU FOR YOUR COOPERATION.

Appendix III: List of Commercial Banks in Kenya

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Charterhouse Bank Ltd
8. Chase Bank (K) Ltd.
9. Citibank N.A Kenya
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd.
12. Co-operative Bank of Kenya Ltd.
13. Credit Bank Ltd.
14. Development Bank of Kenya Ltd.
15. Diamond Trust Bank (K) Ltd.
16. Dubai Bank Kenya Ltd.
17. Ecobank Kenya Ltd
18. Equatorial Commercial Bank Ltd.
19. Equity Bank Ltd.
20. Family Bank Ltd
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First community Bank Limited
24. Giro Commercial Bank Ltd.
25. Guardian Bank Ltd
26. Gulf African Bank Limited
27. Habib Bank A.G Zurich
28. Habib Bank Ltd.
29. Imperial Bank Ltd
30. I & M Bank Ltd
31. Jamii Bora Bank Ltd.
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd

39. Prime Bank Ltd
40. Standard Chartered Bank (K) Ltd
41. Trans-National Bank Ltd
42. Victoria Commercial Bank Ltd
43. UBA Kenya Bank Ltd.
44. Housing Finance Ltd.