

**SI RYE'S OF OPERATIONAL BUDGETAR'S PROCESS AND CHALLENGES IN
THE MORTGAGE FINANCING INSTITUTIONS IN KEN'S A**

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University Of Nairobi for academic credit.

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This project has been presented for examination with my approval as the appointed supervisor.

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Mr. Odipo

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To my whole family for their encouragement, patience and understanding when I was away from home for long hours.

DEDICATION

To my dear parents, Joseph Chemweno Kibiego and the late Catherine Chemweno.

ABSTRACT

The study involves understanding the operational budget process and its effectiveness in the mortgage financing firms in Kenya. The study attempted to evaluate how the firm has employed an operational budget as a management tool. It set out to determine how operational budgeting practice is actually done, the basis of budget formulation and to what extent the budgets are used as a management and control tool.

The study concentrated on companies offering mortgage financing in Kenya. The data was collected mainly through detailed questionnaires and analyzed using descriptive statistics by way of summary statistics, tables and percentages.

The study reveals that budgets are normally prepared on an annual basis. The budget form an integral part of the planning process .once budgets are prepared and approved little effort is made to use the budgets to control the activities or measure performance by the budget holders.

Budgets are an important management control tool if effectively drafted and implemented. To ensure that operational budget process is valuable and effective, the firm needs to place emphasis on stringent budget management practices and strive to achieve set standards and where variances are prevalent, they be addressed and accommodated in the following years budget so that the issues faced are addressed.

fhe study shows that all the major Kenyan mortgage financing institutions have an operational budgeting process which they considered extremely important since it outlines the organizations objectives, targets, means of achievements, cost of achievement and responsibilities. Majority of the mortgage firms drafts their budgeting process annually; this is in line with the accepted practice of the yearly review to match with the budget planning for the coming fiscal year.

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ABBREVIATIONS

MFI- Mortgage Financing Institutions

OC- Organizational commitment

POI - Perception of Innovation

BPP- Budgetary Participation and Performance

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Budgets are financial blueprints that quantify a firm's plans for a future period. Budgets require management to specify expected sales, cash inflows and outflows, and costs; and they provide a mechanism for effective planning and control in organizations (Flamholtz, 1983). The budget is a standard against which the actual performance can be compared and measured. The literature on budget practices focuses on the relevance and applications of budgets to large, complex and manufacturing organizations and less on services and small organizations. Furthermore, most studies report on practices in advanced countries. The reasons for this scenario may be that the budget preparation is frequently a time consuming exercise, and it involves many people in various departments of the firms.

Operational budgeting impacts operating decisions. It contains forecasts of sales, net income, the cost of goods sold, selling and administrative expenses, and other expenses. The cornerstone of an operational budget is forecasted sales. Therefore, the Sales Budget is the basic building block for the operational budget. Once the sales budget is prepared, then the Production Budget can be formulated. It is generally a budget covering operating expenses, for normal operations. Operating expenses can be budgeted (planned for) and accounted for on a monthly, quarterly, and/or annual basis. Operating budgets are usually fixed through a process different from that used on capital budgets (in some companies, all management above a certain level participate in the process). Operating budgets, once fixed, are usually not changed during the period—except maybe for emergency reductions following unexpectedly poor sales results or other disasters.

The key to a successful financial reporting system is an operating budget in order to compare actual operating results. Managers use the operating budget for planning in setting goals and developing strategies to achieve those goals. Budgets will demonstrate how resources will be

developed to implement strategy. Managers use the operating budget for strategy, long-run planning strategic plans, long-run budgets, short-term planning operating plans, and short-run budgets. The operating budget will aid management for a specific period and is an aid to coordinating that needs to be done to implement that plan.

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

1.1.1 Operational budgetary process

Budgeting is cited as the most commonly used management accounting tool (Puxty and Lyall, 1989; Drury *et al.* 1993), so it is important to understand fully how and why it is used in organizations. The budget is an important instrument that every organisation uses to define the direction of its policy, the cost implications of company programmes, and the possible sources of revenues during a fiscal year (DeFranco, 1997). The basic functions of the budget therefore entail: collection and allocation of scarce resources to priority sectors; provision of goods and services; and re-distribution of incomes. In addition, the budget strives to ensure economic stabilization, social order and harmony, as well as acting as a measure of company performance and accountability (Dugdale and Lyne, 2004). Though the concept of the budget as an indicator of performance is relatively new in many developing countries, it is steadily gaining ground with the advent of an increasing demand for transparency and accountability in organisation's action plans.

The budgetary process proceeds in three main stages, namely: the drafting stage, the legislation stage, and the implementation and audit stage (Jones, 1998). Its contents include a

policy statement, an inventory of programme priorities and distribution/allocation of the corresponding resources as well as budget implementation/evaluation reports for the previous budget cycle (Jones, 2006). Any good budget process needs to attain three important objectives, namely, maintenance of fiscal discipline, attaining allocative efficiency, and operational or technical efficiency. Attainment of fiscal discipline has been the main goal of budget reforms in most companies (Jones, 2006). This means that realistic ceilings should be set in order to remain within aggregate resource constraints. The budget is an end product of a lengthy process of monitoring and controlling company finances. Historical evidence also indicates that legislatures had fiscal powers before the executive, and the result was that legislative action became an inadequate means of fiscal control. This means that the legislature's role must be defined more in terms of policy, accountability and performance, and less in terms of control and restriction (Kosturakis and Eyster, 1979).

Budget formulation is the phase where resources are used to implement policies incorporated in the budget. It is possible to implement a well-formulated budget; it is not possible to implement well a badly formulated budget. Good budget preparation comes first, logically as well as chronologically. However, budget formulation processes do not come down simply to mechanisms for ensuring compliance with the initial programming (Jones, 2006).

Even with good forecasts, unexpected changes in the macroeconomic environment will occur during the year, and need to be reflected in the budget (Jones, 2006). Of course, changes should be accommodated in a way that is consistent with the initial policy objectives to avoid disrupting the activities of agencies and project management. Successful budget formulation depends on numerous other factors as well, such as the ability to deal with changes in the macroeconomic environment, and the implementation capacities of agencies (Dugdale and Lyne, 2004). Budget formulation involves a greater number of players than budget preparation, and calls both for assuring that the "signals" given in the budget are transmitted, and for taking into account feedback from actual experience in implementing the budget.

Hence, budget formulation calls for: (i) ensuring that the budget will be implemented in conformity with the authorizations granted in the law, both in the financial and policy aspects; (ii) adapting the formulation of the budget to significant changes in the macroeconomic environment; (iii) resolving problems arising during implementation; and, (iv) managing the purchase and use of resources efficiently and effectively. A budget formulation system should ensure compliance with budgetary authorizations and should have adequate monitoring and reporting capabilities to be able to identify budget implementation problems promptly while giving flexibility to managers (Aaron Wildavsky, 1972).

According to Premchand, (1994), implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available; identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate. He states further that budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work. First an allocation system under which expenditure is controlled by release of funds is put in place. Secondly there is supervision of the acquisition of goods and services to ensure value for the money spent. Thirdly an accounting system that records government transactions and provides a framework for an analysis of their implications is implemented. The final phase involves a reporting system that permits a periodic appraisal of the actual implementation of policies (Premchand, 2004).

Budget should be implemented as planned to avoid shifting the actual budgeting stage to implementation from formulation (Schmidgall and DeFranco, 1998). At the same time, measures need to be built in for unplanned occurrences such as learning how to do a job better while managing resources. Authority to transfer and reprogram funds during the year should be available and transparent. Overly rigid and time-consuming processes frustrate management, reduce efficiency and maximize incentives for making end-runs around around the system.

1.1.2 Challenges of operational budgetary process

Budgeting is a key success factor for most businesses, but it is a painful process that takes too much time and effort (Heller and Aghvelli, 2005). Two key factors influence budgeting process namely, the level of revenues collected and the availability of external resources to bridge the gap occasioned by shortfall in revenues. When revenues fall short of the projected level then budget implementation is affected to the extent that the expenditures have to be reduced and some projects and programmes postponed altogether. External resources in the form of loans and grants are also factored into the budget following commitment by donors. The funds may however not be available at all as may be released late into the financial year as the budgeted amount may be reduced or a result of some donor refusing to release funds as result of the non-fulfillment of donor conditions (Pollitt and Bouckaert, 2004).

Cost increases due to inflation, unexpected difficulties, insufficient initial study of projects, and budget overruns are some of the challenges of operational budgetary process. Budgeting is historical in nature and overruns are sometimes caused by noncompliance of budget managers with the spending limits defined in the budget, when committing expenditures. Since cash allocated to spending units for appropriated expenditures is generally controlled, these overruns turn into arrears generation. Overruns are often the result of off-budget spending mechanisms. The budget is sometimes underspent. This does not necessarily mean that there is good discipline. Concerning the development component of the budget, under spending is often related to insufficiencies in project/program preparation. All of the above has led to failure in budget implementation as the company runs out of funds for financing projects.

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

finance institutions, the budget has a special significance as a statement of how the mortgage and finance institutions intends to spend it's funding in the year ahead, and has an important role as a control mechanism.

1.1.3 Mortgage and Finance Institutions in Kenya

MFIs finance individual dwelling houses, flats & commercial properties. They also sponsor estate development to ensure a continuous output of new houses. Loans given are for construction, to purchase houses or to extend existing houses. The development of mortgage industry in Kenya dates back to 1965 on 18th November when the premier Housing Finance Company of Kenya Limited was incorporated. Their main objective was carrying out the government's policy of "promoting thrift and home ownership". This was to be achieved by providing savings and mortgage facilities to the Kenyan public at their incorporation. The policy made all the more urgent by the fact that Kenya had just gained its national independence two years previous to their incorporation.

The Company started responding to the growing demand from indigenous Kenyans of having their own homes. Indeed by the end of their first year of business in 1966, 34 applications had been considered and approximately Kshs. 400,000 advanced to the successful applicants.

Initially the Commonwealth Development Corporation (CDC) held 60% of equity, while the Kenyan government held 40%. In 1970, the Kenyan government acquired another 10% of the shareholding and with that equity was equally divided between the founding partners. It was also agreed between the two parties that the board should consist of six people of whom three would be nominated in writing by the Kenyan government, and of these three one would be chairman.

In 1992 Housing Finance Company of Kenya offered part of its equity to the public and became a quoted company on the Nairobi Stock Exchange. Shareholding was distributed at 30.4% to the Kenyan government, 30.4% to the Commonwealth Development Corporation

and 39.2% to the general public. Later, the Company issued a prospectus dated 26th February 1999 in which 30million government shares were offered to the public.

Major Players in Kenya include Housing and Financing Company of Kenya (HFCK), Standard Chartered, Savings and Loans, CFC Stanbic Bank, National Housing Corporation (NHC), Barclays bank, Co-operative bank, Consolidated bank, Commercial Bank of Africa, British American Insurance and I&M bank.

Kenya's changing mortgage climate, which according to an article in the Washington post (www.washingtonpost.com), began when . . . "Kenya's financial laws changed, requiring banks to have less cash in reserve. {Also}Lower interest rates on treasury bonds encouraged banks to find other ways to invest money. These days, Barclays offers interest rates around 13 percent (from a previous high of 30 %) and is opening six new branches in Kenya". This has made banks to venture into mortgage business in order to supplement their business income. Premier mortgage financier, Housing Finance and UN Habitat have signed a framework agreement establishing the terms for future cooperation in provision of affordable housing.

1.2 Statement of the Problem

Mortgage and finance institutions that undertake budgeting on a hierarchical basis face a challenge at each level in the hierarchy, there is a possibility that the original requests will be changed in one way or another as the various budgets are processed further and aggregated. One of the major challenges therefore that affect these budgets with regard to implementation since those that made the initial budgets, which were later amended during aggregation, may resist the proposed budgets (Heller and Aghvelli, 2005).

Implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available (Premchand, 1994). Premchand continues to state that this framework should include the following; identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate.

Issue management in the mortgage and finance institutions demand that they should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved, the budgeting approach adopted should represent an accepted top-down methodology for corporate strategic planning and while it identifies critical success factors, it can highlight the key information requirements of top management. In addition, if the budgeting process factors are identified and controllable, management can take certain steps to improve its potential for success.

Operational budgeting involves the development of financial plans for the organization, typically for a year. While annual budgets need not be subdivided into shorter periods, monthly or quarterly budgets are especially useful for anticipating cash needs and for comparing actual experience with plan. A comprehensive master budget requires planning for all phases of the operation: sales, marketing and general administration. Development of an operating budget requires meticulous organization of relatively large amount of information. Careful attention to detail is essential. Effective operational budgeting supports the achievement of cash contribution goals, which in turn help in financing capital acquisition. An

operational budget consist of a forecast of the revenues expected from sales of goods and services and the expenses expected to be incurred, under efficient operations, for the goods and services to be produced and delivered to the customers. The operational budget specifies the ongoing expenses to maintain existing products and customers, as well as the expenses incurred to launch new products and attract new customers during the next period.

Operational planning and budgeting is clearly a hot topic on the corporate agenda and companies are developing improved processes and systems to deliver better visibility into future financial performance. Improving operational planning and budgeting will undoubtedly require a clear understanding of the challenges faced by the same. This will in turn assist in developing strategies to overcome the challenges in the operational budgeting process. Challenges that face operational budgeting include; they require significantly more time to design, they create a level of dissatisfaction with the process approximately equal to that occurring under strategic budgets in cases in which the effects of managerial participation are negated by top-management changes, they create an unachievable budget in cases in which managers may be ambivalent or unqualified to participate, may cause managers to introduce slack into the budget, may support "empire building" by subordinates and starting the operational budget process earlier in the year when there is more uncertainty about the future year.

Locally, many researchers have studied operational planning and budgeting practices in different contexts .e.g. Odundo, (2002) studied budget implementation in the public sector the case of the office of the president and Ndiritu (2007) researched on effectiveness of cash budgeting in public institutions the case of Telkom Kenya. Others have also researched on the challenges encountered in the practices e.g. Simiyu (1977) conducted a study of the problems of budgeting and motivation at the supervisory level in manufacturing firms in Kenya, Wamae (2008) studied the challenges of budgeting at National Social Security Fund while Mburu (2008) conducted a survey of operational budgeting challenges in the insurance industry in Kenya. None of these studies have focused on the operational budgetary process in mortgage and finance institutions operating in Kenya. Owing to the limited research on

operational budgetary process in Kenya's organizations, this study therefore seeks to fill the knowledge gap existing by investigating the operational budgetary process in mortgage and finance institutions operating in Kenya

1J Objectives of the Study

13.1 General Objectives

The general objective of this study is to determine the process of operational budgetary process among the mortgage and finance institutions in Kenya.

13.2 **Specific Objectives**

More specifically, this study discusses the following objectives:

- i. To investigate the process of operational budget formulation and implementation among mortgage and finance institutions.
- ii. To establish the challenges faced by mortgage and finance institutions in operational budgetary processes if any.

1.4 Research questions

- i. What is the process of operational budget formulation and implementation among mortgage and finance institutions
- ii. What are the challenges faced by mortgage and finance institutions in operational budgetary processes

1.5 Scope of the Study

In attaining its objective, the study will be limited to 8 mortgage financing institutions in Kenya. The study will also be limited to the degree of precision of the data obtained from the respective respondents.

1.6 Importance of the study

The study is valuable to the mortgage and finance institutions management in that it will provide an insight into the various approaches towards operational budgeting process and how operational budgets can be used to ensure efficient utilization of resources. Managers use the operating budget for planning in setting goals and developing strategies to achieve those goals. Budget will demonstrate how resources will be developed to implement strategy. Managers use the operating budget for strategy, long-run planning strategic plans, long-run budgets, short-turn planning operating plans, and short-run budgets. The operating budget will aid management for a specific period and is an aid to coordinating that needs to be done to implement that plan. It will therefore help them to critically review how well they use the strength of the budget as a management and control tool.

The study will form a good literature upon which future research on process of operational budget formulation and implementation will be based and secondary materials drawn.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same study of budgeting. The specific areas covered here are budgeting process various budgeting systems and budgeting systems in the mortgage and finance industry. It is through the budget-making process that the hopes and dreams of educators are adjusted to the cold realities of dollars and cents (Harold W. Dodds, President of Princeton University Dodds, 1962).

2.2 Budget Planning and Control

Most studies on budget practices have been conducted in the advanced countries. The study by Cheung (1986) into the Hong Kong situation revealed that operating budgets were widely used. Pike's (1982) longitudinal survey of manufacturing companies, reports on broad trends in the use of budgets. Lyne's (1988, 1992) surveys of 13 UK companies covered the issues relating to the managerial uses of budgetary information, the extent of participation by managers in setting their budgetary targets, and the sources of pressure to meet these budgetary targets. Chun (1996) replicated Lyne's study, with a larger sample of companies from Malaysia. He reported Malaysian user-groups views on the role of budgets, budget pressure and participation, which were similar to Lyne's findings. Srinivasan's (1988) survey of banks, revealed multiple roles and uses of budgets, especially in successful banks. Skinner's (1990) telephone survey of companies was concerned with the managerial uses of budgetary information particularly profit data. Drury et al. (1993) studied management accounting practices in UK, and they reported the various uses of budgets by management. Armstrong et al. (1996) conducted a survey of budgetary control used in large manufacturing UK companies, and they concluded that budgetary controls are intimately linked with considerations of labor controls.

There has been some evidence that companies have been showing considerable interest in preparing long-range plans. In a survey of companies, Sinha (1990) concluded that formal strategic planning contributed to decisions that were important, risky, global, and involved divestments. Similarly, in another study, Capon et al. (1994) found that a majority of firms employed sophisticated corporate planning and corporate financial plans in their budgeting system. Powell (1992) found that strategic planning was important in companies but depended on the type of industry. A study by Wijewardena and Zoysa (1999) found that 95 percent of the companies prepare long-range of plans. Furthermore, Chenhall and Smith (1998) found that more than 90 percent of the respondent companies adopted long range planning and long range forecasting in Australia. Joshi (2001) and Anderson and Lanen (1999) found that Indian companies were using strategic formal planning and long range forecasting techniques in budget planning.

Amey (1979); Bremser (1988) and Douglas, (1994) reveals that 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 budgeting. Moreover, Hopwood (1972), and Abernethy and Stoelwinder, (1991) argue that budgets can be used as a control mechanism to regulate the behavior by specifying the means to produce a unit of output.

The budgets process provides for coordinated planning among different functional areas (Ramsey and Ramsey, 1985; Bremser, 1988). Bruns and Waterhouse (1975) concluded that when production processes were relatively routine repetitive, budgets could be used effectively to achieve organizational coordination.

23 Budget Participation and Rewards

The topic of budget participation has always received a considerable interest among researchers. There are conflicting findings on the significance of budgetary participation. Stedry (1960) and Cherrington and Cherrington (1973) reported negative relationship between budget participation and performance. On the other hand, Merchant (1987) and Brownell

(1982) reported a positive relationship. Furthermore, Cress and Pettijohn (1985) surveyed publicly traded companies and found that in 79 percent of the companies surveyed, lower level managers have a significant role in both the initial and revision stages of budget preparation. Similarly, Shields and Young (1993) found that participative budgeting is used more frequently when lower level managers have more knowledge than central management and also when part of the manager's remuneration package is linked to budget performance. Additionally, Mufti and Lyne (1997) found that the degree of budget participation is more in large size firms than smaller Firms. Milani (1975) provided evidence that participation in budgeting increases acceptance and motivation as well as it makes the budgeted to a greater extent feel responsible for the organization goals.

Rewards are productivity-boosting (behavioral management) techniques that are intended to provide positive motivation. This is based on the idea that a behavior leading to a positive consequence (reward) tends to be repeated. By providing the right rewards one can change a person's behavior. Participation of employees in the process of budget preparation also motivates them to achieve budget goals. Srinivasan (1987) posits that budgets should be used to motivate subordinates to increase their output and efficiency by encouraging their participation during budget preparation. Hopwood's (1972) study contains ample evidence that the association of extrinsic rewards with budgetary achievement is a powerful means to motivate managers. Bails and Asada (1991) in their study found that bonus and promotion or new assignments are positively correlated with budget performance, while salary is not.

23.1 Role of Organizational Commitment in the Budgetary Participation and Performance

Organizational commitment is a dimension of a positive employee attitude, which has been linked to performance (Manogran, 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 (Quirin et al., 2001). Affective (or attitudinal) commitment is defined as the willingness to execute continuous effort for the success of the organization. It is characterized by a strong belief in, and acceptance of, the organization's goals and values.

Nouri and Parker (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 Budgetary Participation and Performance (BPP) relationship. The results reveal a positive relationship between budgetary participation and organizational commitment. The path analysis also showed a direct relationship between budgetary participation and performance. This led the authors to conclude that budgetary participation increases organizational commitment, which could lead to positive work outcomes, such as enhanced job performance. On the contrary, a more recent study by Parker and Kyj (2006), examining vertical information sharing as an intervening variable in understanding the performance effects of the relationship between budgetary participation and OC, found that there is no direct relationship between budgetary participation and OC. Both studies, however, were limited to the private sector. No work has been done on the role of OC in the BPP relationship, within public sector organizations.

23.2 Role of the Perception of Innovation in the Budgetary Participation

Managers' perception of innovation has been investigated in a few recent BPP studies. This variable, however, has been expressed slightly differently in each of these studies. Subramaniam and Mia (2001) used the term "managers" value orientation towards innovation". Subramaniam and Ashkanasy (2001), described it as "the perception of innovation", while a more recent study by Subramaniam and Mia (2003) uses the term "work-

related values of innovation". Despite the difference in terminology used, the meaning and item used to measure this construct in BPP studies have remained the same.

Of the three recent studies cited above, the work by Subramaniam and Ashkanasy (2001) is the most relevant because they test the BPP relationship using the variable Perception of Innovation (POI). The study involved a questionnaire-survey with 114 managers from 37 companies in the Australian food manufacturing sector. The authors predicted a three-way interaction between budgetary participation, perception of innovation and attention to detail, which in turn, affects managerial performance. The results reveal a direct positive relationship between budgetary participation and performance. They also found that managers who have a high perception of innovation, participation in budget-setting, does contribute to improved performance. Awio and Northcott's (2001) work suggests that the budgetary process is more effective in a decentralized structure, as it motivates managers, thus enhancing their performance.

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

2.4 Performance Evaluation

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing. According to Cook (1968), 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, 1987). Similarly, Douglas (1994) used a case study approach and found that budgeting places a high importance on the budget-to-actual comparison for performance

evaluation purposes both at the corporate and the subsidiary levels. Anderson (1993) also supported this view, stating that in most companies the development of budget is still used as the main performance measurement system. Weisenfeld and Tyson (1990), in a sample of managers from two companies, found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. A total of 90 percent of the respondents indicated that variances were a good way to measure their performance. All of them agreed that variance reports positively influenced them to improve performance and increase their bonuses.

A study by Joye and Blayney (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. (1998) found that accountants tend to see variances from budget as being important, and performance appraisal was based mainly on budget achievement. In a recent survey of respondent, Blansfield (2002) found that only 14 percent of companies have a fully integrated planning process that combines long term and operational planning, performance measures and reporting. The survey further underscored the fact that financial executives still struggle with the need to synthesize financial and non-financial data and performance measurements in a single system in which they can also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time.

2.5 Budgeting Systems in the Financial Industry

It is interesting to note that research undertaken with regard to the use of budgeting systems within the financial industry has identified that operations of all sizes appear to place considerable importance on their traditional budgeting activities (De Franco, 1997), utilizing them on a regular basis and viewing them as a potentially valuable control tool (Brander Brown, 1995). Furthermore, the development of "bottom-up", participative approaches to budget determination as well as other more sophisticated budgetary control techniques are becoming increasingly widespread - especially in multi-unit operations (Schmidgall and Ninemeier, 1987; Schmidgall et al., 1996), while the use of more simplified systems has been

viewed as being more appropriate for smaller and/or single unit operations, or where perceptions of environmental uncertainty are high (Rusth, 1990).

Underpinning this apparently favourable opinion, and related widespread usage of traditional budgeting systems, are a number of perceived benefits including, for example, that such budgets can assist managers in setting positive targets - both for themselves and for other employees (Schmidgall, 1995). Furthermore, Schmidgall also suggests that such targets, when properly used, can provide a positive motivating influence, supporting the achievement of an organization's aims. It has, however, also been apparent for some time that a number of problems and limitations have been associated with the use of such traditional budgeting processes within the financial industry. For instance, it is claimed that banking budgetary control systems typically demonstrate something of an adversarial nature (Pickup, 1985), and that where management and employees either do not actively participate in the budget process and/or where budget targets are seen as being unattainable, then a number of serious dysfunctional consequences - such as game-playing, and feelings of tension and mistrust - may emerge, with potentially detrimental implications for an organization (O'Dea, 1985; Pickup, 1985; Ferguson and Berger, 1986; Brander Brown, 1995). Moreover, it has been noted that multi-unit operations have tended to adopt standardized budgeting systems (Rusth, 1990), which do not permit the particular circumstances of an individual operation to be fully reflected, while it has also been asserted that the form of budgetary control systems typically in use is neither sufficiently flexible nor comprehensive (Schmidgall and Ninemeier, 1987; Ederand Umbreit, 1987).

Suggested improvements to overcome such perceived limitations include the provision of higher levels of properly controlled and co-ordinated information (Schmidgall and Ninemeier, 1987), and the incorporation of a wider range of indicators - including more qualitative data (Eder and Umbreit, 1987). Additionally and, perhaps, reflecting the increasing complexity and competitiveness of the industry, a range of other suggested improvements and developments have also recently begun to (re)materialize. For instance, although the need for more clearly identified management information needs - including in relation to budgets - is long-

established (Geller, 1984), calls for more up-to-date, relevant critical success factors are again being heard (Jones, 1995; Atkinson and Brander Brown, 2000). Similarly, despite the fact that it has been recognized for some time that planning within the mortgage and finance industry should be proactive rather than reactive, involving the anticipation of possible alternative scenarios (Lee and Powell, 1972; Rusth and Lefever, 1988), it is apparent that such associated tools as flexible budgetary control have not, as yet, been widely used (Collier and Gregory, 1995; Harris and Brander Brown, 1998).

2.5 Traditional Budgeting Systems

Concerns regarding a number of limitations and weaknesses that have been linked to traditional budgeting processes are becoming increasingly widespread, with the primary "fear" being that they could potentially hinder and damage an organization's performance (Bunce and Fraser, 1997). For the most part, these concerns fall into one of two main categories: that the process is inefficient and, furthermore, that it is ineffective.

As budgets are prepared in advance there are likely to be price increases between the time of preparation and the time when the amount is spent or received. There is need to take this into account when an organisation is doing its budgeting by estimating what the costs or value will be when the expenditure is made or the income received. If there is likely to be an increase in costs then, there is need to make sure that the budgeting committee also estimate for an increase in what the organisation will charge in fees for services or in sales of products. There is also need to keep the budget calculations for the organisation budget because some stakeholders may be willing to provide a supplementary revenue if the management can show clearly that the budget calculations were based on a smaller rate of inflation than actually proved to be the case (Hope and Fraser, 1997).

2.6 Budgetary Communication

Participation by employees in the budgetary process has received considerable attention in the academic literature (Brownell, 1982 and Milani, 1975). For budgetary participation to occur, a

person must become actively involved in the setting of budget goals by exchanging information and influencing outcomes (Hassel, 1993).

Although a number of previous studies have treated participation as a unidimensional construct, there is evidence that it may be at least bidimensional (Brownell, 1982 and Milani, 1975). First, there is the extent that communication occurs within the budgetary process and, second, the extent that a participant feels that he or she influences the budget Finally allocated. As Hassel and Cunningham (1993) have argued, while a manager may have considerable communication with more senior management over budget allocations, the degree of influence over the final allocation may be minimal.

It is argued that, if budget allocations are to gain any support within an institution, communication within the budgetary process will be critical. This communication is needed if those responsible for budgeting outcomes are to have any knowledge of proposed budgetary practices and procedures, budget rationale, and intended budget goals (Katz and Kahn, 1978). As Brownell and Dunk (1991) have stated, budgetary communication provides an important information exchange role.

While previous research has found that relevant communication can improve initial attitudinal responses to budgetary allocations (Ivancevich and Matteson, 1990), Freedman, Carlsmith J. and Sears D, (1974), have argued that the likelihood of success is dependent on three factors: the general environment at the time, the message content, and trust in the communication provider by the message receiver. The majority of academics will relate easily to at least two of these factors. First, the general environment currently facing public organisations is one of reduced funding (Deutschman, 1990, Hardy, 1992; O'Reilly, 1994). Second, the message content that a reduction in external funding (general funding provided by the government) translates to a reduction in internal funding; funds distributed within public organisations like parastatal by way of budgetary allocations. However, while there may be a degree of acceptance of both these factors, there is evidence of a general lack of trust in the communication provider (that is the funding agencies and management (Dahllof, Harris,

Shattock, Staropoli and in't Veld, 1991 and Ezzamel and Bourn, 1990). This was highlighted in Ezzamel and Bourn (1990), where those responsible for distributing information regarding major budget cuts were questioned both from a technical competence perspective and a neutrality perspective. Further they were blamed "for undermining the quality and ethos of the workplace, and for challenging the culture of academic freedom by promoting a 'financial' or accounting 'culture' with a different mix of values".

2.7 Summary

This section has reviewed literature review related to budgetary process and control in the financial sector. The literature review has showed that most companies do not follow through the budgetary process stages and that they encounter challenges regarding to implementation. There is indeed conflicting results on the relationship between various budgeting aspects and budget implementation. Given this knowledge and the fact that studies have not been done in Kenya in the Mortgage financing sector, the present study seeks to fill this gap. The results of this study will be important in adding to the growing debate on the challenges in budget implementation. The present study differs from the previous ones on two fronts; first, it is set in Kenya, a developing nation as opposed to other studies which were mainly based in the developed nations, secondly, the study focusses on Mortgage financing institutions which has not been explored in the previous studies.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that will be followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question. In this stage, most decisions about how research will be executed and how respondents will be approached, as well as when, where and how the research will be completed. Therefore in this section the research will identify the procedures and techniques that will be used in the collection, processing and analysis of data. Specifically the following subsections should be included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

This study is going to adopt a descriptive research design meant to investigate the operational budgetary process among the mortgage and finance institutions in Kenya. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. The subject is being observed in a completely natural and unchanged environment.

3.3 Population

The population of interest of this study will be the mortgage financing institutions that are operating in Kenya. There are 8 such institutions in Kenya. The study being a survey implies that data will be collected from the eight mortgage financing institutions in Kenya. This therefore means that census method will be used.

3.5 Data Collection Instruments

The study will use both primary and secondary data. Secondary data will be found from management report and Annual General Meetings, management books and research reports. The primary data will be collected through the use of a structured questionnaire which will be dropped and picked later at the selected employee's desks. The questionnaire will consist of both open and closed ended questions. It is divided into 2 sections, budget process and its effectiveness and challenges of Operational budgeting.

The study being a survey means that one employee will be selected from each of the ten mortgage financing institutions and administered with the questionnaire. The staff in the mortgage and finance institutions will be those in managerial positions. This is because they are more conversant with the budgets and its challenges. It will also make it easier to get adequate and accurate information necessary for the research.

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

Secondary data sources will be employed through the use of previous documents or materials to supplement the data received from questionnaires. Secondary data will be found from management report and Annual General Meetings, management books and research reports. This will gather all the relevant information relating to budgeting within the company. This will include budgeting policies and laws and regulations that should be adhered to. A summary on the previous year's income and /or expenditures and projections for the upcoming years using financial documents including: audit, end-of-year financial statement, previous year's budget, mortgage and finance institutions statements and receipts will also be used.

3.6 Data Analysis

Data analysis will be done by the use of statistical package for social science which is the process of bringing order, structuring and interpreting the mass of collected data. The data will be analyzed using descriptive statistics—percentages and frequencies, bar charts and pie charts will also be used.

CHAPTER FOUR

4.0 DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1: Introduction

The chapter presents data analysis, findings and discussion of the study in line with the research objective. The research objective was to investigate the operational budgeting process among the major Kenyan Mortgage Financing Institutions in Kenya. The findings are presented in percentages and frequency distributions, mean and standard deviations.

4.2: Budget Formulation and Implementation

Budget Formulation is all the steps, actions, and informational output of the budget process which are required in advance of the enactment of a budget by the organization. It is the process by which the resources necessary to accomplish organizational goals and objectives are determined and justified to decision-makers.

4.2.1: Institution has an Operational Budget

The analysis in table 4.1 shows that all (100%) of the respondents have put in place an operational budget for the year. However, the concept of operational budgeting acts as a guide only and therefore the mortgage firms needs to ensure that the budget drawn is realistic to avoid situations where the costs exceeds the budgeted amount by a bigger margin.

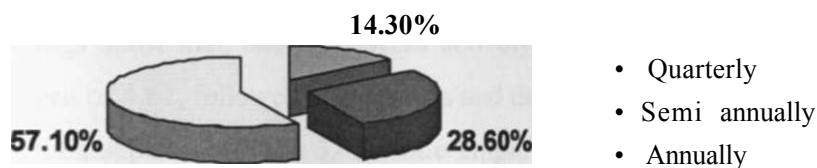
Table 4.1: Existence of operational budget

	Frequency	Percent	Cumulative Percent
Yes	7	100.0	100.0
No	0	0	
Total	7	100	

42.2: Frequency of review of the operational budgets

The findings in figure 4.1 show that majority of the mortgage firms drafts their operational budget annually (57.1%), 28.6% carry out their budgeting semi annually and 14.3% review their budgets on quarterly basis. This will assist the organization to gauge whether they are achieving the set targets on time and also whether the funds set aside to fund the project are still within the budget.

Figure 4.1 Frequency of review of the operational budgets



4.23: Involvement of the various parties in organizational budget formulation

The respondents were to give their independent opinion on the rate of involvement of some staff in operational budget formulation in a five point Likert scale. The range was 'very active (5)' to 'not at all' (1). The scores of not at all have been taken to present a variable which had mean score of 0 to 2.4 on the continuous Likert scale ;($0 < S.E < 2.4$). The scores of 'Neither not at all nor very active have been taken to represent a variable with a mean score of 2.5 to

3.4 on the continuous Likert scale: $2.5 < M.E. < 3.4$) and The score of very active have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 < L.E. < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.2: Involvement of the following in organizational budget formulation

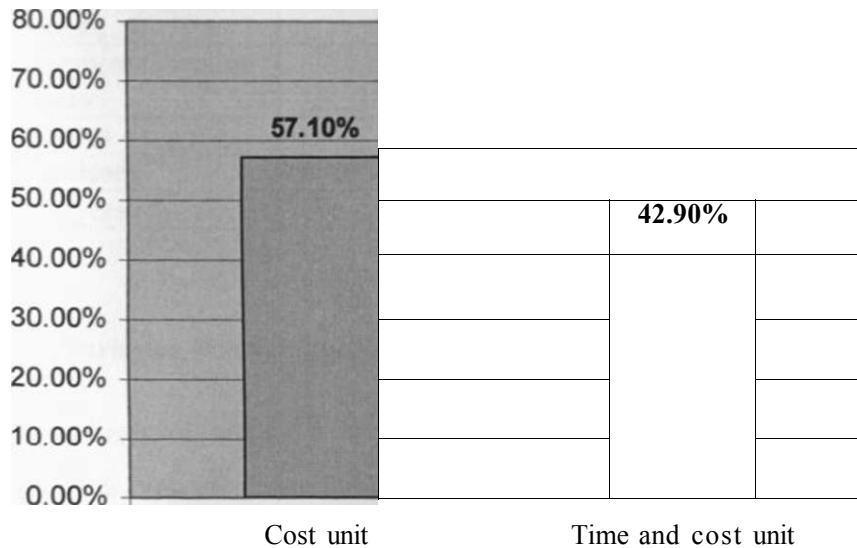
	Minimum	Maximum	Mean	Std. Deviation
Directors	2.00	5.00	3.7500	1.28174
Departmental/sectional heads	3.00	4.00	3.7500	.46291
Managers	4.00	5.00	4.6250	.51755
Supervisors	2.00	5.00	3.6250	1.18773
Employees	1.00	5.00	2.8750	1.24642

the findings show that, managers were actively involved in operational budget formulation with a mean of 4.62, followed by directors and departmental/sectional heads each with a mean of 3.75, then supervisors with 3.62 while employee's participation was ranked as the lowest with a mean of 2.87. The low rate of employee's participation may impact negatively on the performance of the mortgage firm in that they will be the ones to carry out the task of implementation and they may sabotage the process due to their non participation in budget formulation.

4.2.4: Basis of breaking down the Operational Budget

The basis of breaking down the operational budget being used depends with firms and its for this that 57.1% of the respondents said it breaks down the budget using cost unit while 42.9% of the respondents said it uses the time and cost unit basis. The basis used by the firms may be attributed to the nature of tasks they pursue and therefore needs a basis that allocates costs adequately.

Figure 42: Basis of breaking down the operational budget



4.2.5: Involvement of the various parties in Organizational Budget Implementation

From the analysis below, supervisors were rated as the ones involved mostly in the implementation of organizational budget with mean 4.5, followed by employees and managers each with a mean of 4.37 then departmental/sectional heads with mean 4.12 while directors were less involved with a mean of 3.5. Generally, the lower cadre members of staff are involved in budget implementation as they are required to carry out the day to day tasks and implement what has been agreed by the management and that may be the reason for low participation of directors in operational budget implementation.

Table 43: Involvement of the various parties in organizational budget implementation

	Minimum	Maximum	Mean	Std. Deviation
Directors	3.00	4.00	3.5000	.53452
Departmental/sectional heads	3.00	5.00	4.1250	.83452
Managers	3.00	5.00	4.3750	.91613
Supervisors	4.00	5.00	4.5000	.53452
Employees	3.00	5.00	4.3750	.74402

4.2.6: Variance between budget formulation and implementations

The findings in table 4.4 show that 71.4% of the mortgage and financial institutions operational variance was narrow /small variance while 14.3% were not sure and wide variance each. A proper worked out operational budget should be one which exceeds the target by a small margin or fall short of reaching the set target by a small margin and therefore the findings indicate that majority of the firms were within the range.

Table 4.4: Variance between Budget Formulation and Implementations

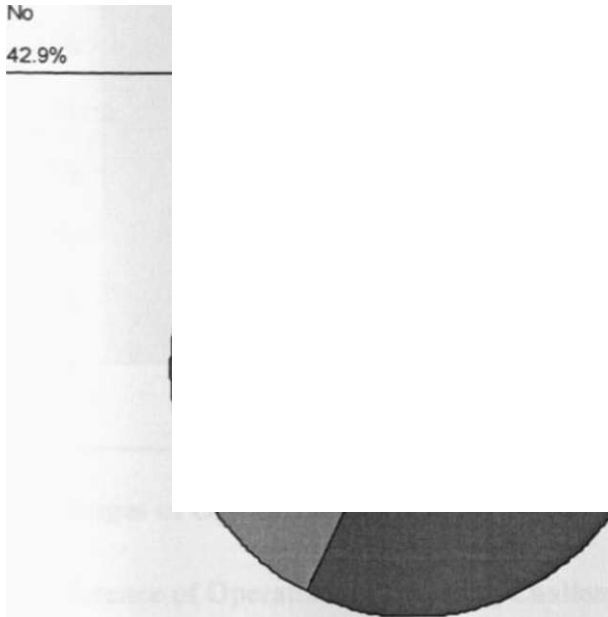
Variance	Frequency	Percent	Cumulative Percent
Not sure	1	14.3	14.3
Narrow/small variance	5	71.4	85.7
Wide variance	1	14.3	100.0
Total	7	100.0	

4.2.7: Operational Budgeting Process and appropriate time duration

The respondent's opinion on whether the operational budgeting process takes appropriate time duration varied with 57.1% of the respondents saying it took appropriate time while 42.9% felt it did not. The small margin difference between those who thought it took appropriate time and those who thought it did not may imply that the operational budgeting process varies

from one organization to another and also the rate at which decisions are made in an organization.

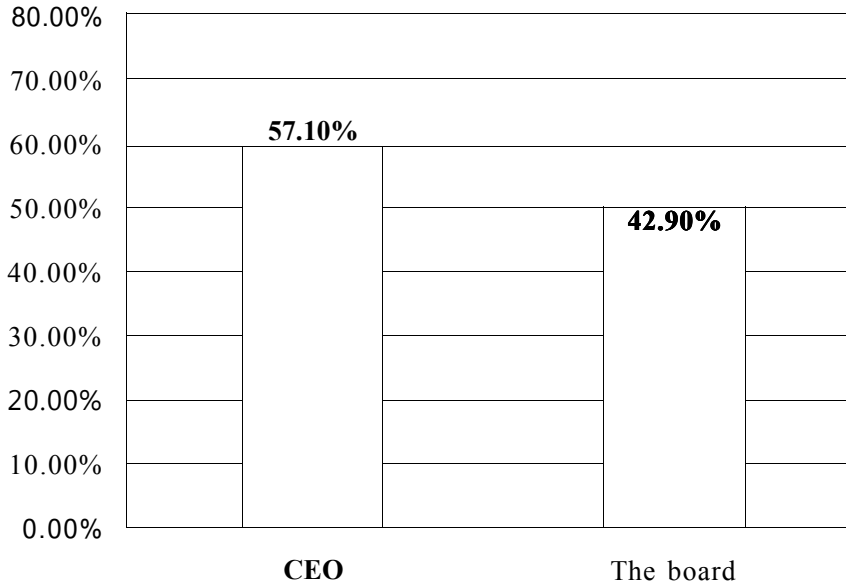
Figure 4.3: Operational budgeting process takes appropriate time duration



4.2.8: Final decision and evaluation on the Operational Budget Process

The analysis in table 4.5 shows that 57.1% of the respondent firm's final decision and evaluation on the operational budget proposals rests with the chief executive officer (CEO) while 42.9% of the respondents said it rests with the board of directors. The type of decisions to be made determines who approves the budget as those involving huge investment needs the approval of the board while those with lesser amount can be approved by the CEO. It also follows that for faster decision making the final decisions should rest with somebody who is usually available.

Figure 4.4: Final decision and evaluation on the operational budget process



4J Challenges of Operational Budgeting

4J.1: Existence of Operational Budgeting Challenges

The respondents unanimously agreed that there exist challenges facing operational budgeting and therefore may slow down the pace of achieving the set targets and also the budget itself as some the effect of time value takes place.

Table 4.5: Challenges facing operational budgeting in your institution

	Frequency	Percent	Cumulative Percent
Yes	7	100.0	100.0
No	0	0	
Total	7	100.0	

43.2: Extent of challenge the factors pose to budget formulation and implementation

The institution respondents were to give their independent opinion on the extent of challenge the factors pose to budget formulation and implementation. The range was 'very great extent (7)' to 'not sure' (1). The scores of not sure/ not at all have been taken to present a variable which had mean score of 0 to 3.4 on the continuous Likert scale ;($0 < S.E < 3.4$). The scores of to a low extent/moderately have been taken to represent a variable with a mean score of 3.5 to 5.4 pm on the continuous Likert scale: $3.1 < M.E. < 4.9$) and the score of great extent/very great extent have been taken to represent a variable which had a mean score of 5.5 to 7.0 on a continuous Likert scale; $5.5 < L.E. < 7.0$). A standard deviation of >1.2 implies a significant difference on the impact of the variable among respondents.

Table 4.6: Extent of challenge the factors pose to budget formulation and implementation

	Mean	Std. Deviation
Poor forecasting/prediction of budget	6.0000	1.15470
Changing environmental needs	6.2857	.75593
Lack of adequate personnel to implement the budget	4.7143	1.11270
Inaptitude of employees in implementing the budget	5.0000	1.00000
Managers feel of insecurity when following proscribed/ restricted budgets	5.1429	1.34519
Lack of co-ordination	5.0000	1.29099
Poor communication of operational budgets	6.0000	.81650
Lack of clear policy on budgets	6.1429	1.21499

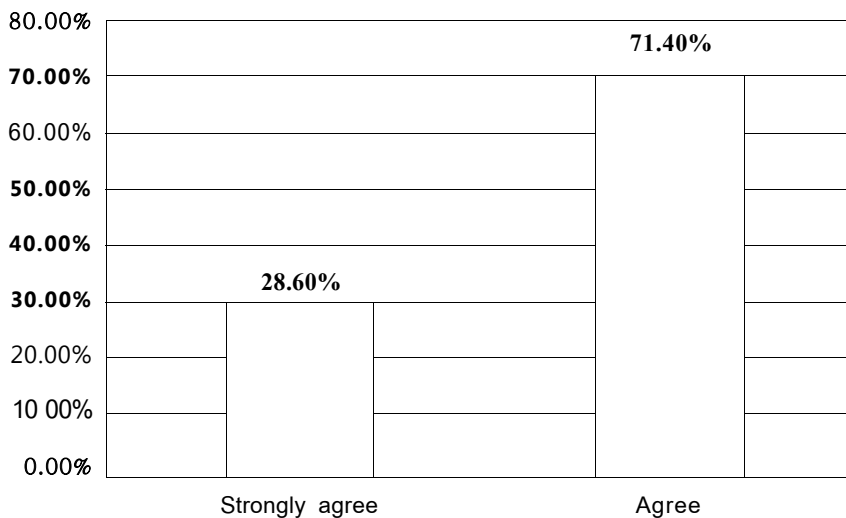
The findings in table 4.6 above show that only four factors had a mean ranking of below 5.4 (moderate extent). These four factors describe instances where the level of challenge is low and their low ratings (mean 5.14 for managers feel of insecurity when following proscribed/ restricted budgets, mean 5.0 for inaptitude of employees in implementing the budget and lack of co-ordination each and 4.71 for lack of adequate personnel to implement the budget) indicate the factors do not pose a serious challenge to operational budgeting in mortgage financing institutions. However there was a high degree of variation among respondents, an indication that some factors do pose a challenge to mortgage financing institutions. This is indicated by standard deviation of 1.34, 1.29, 1.0 and 1.11 for managers feel of insecurity when following proscribed/ restricted budgets, inaptitude of employees in implementing the budget, lack of co-ordination and lack of adequate personnel to implement the budget respectively.

The research findings shows that changing environmental needs (mean 6.28) pose a serious challenge to operational budgeting to a very great extent and thus emphasize need to be accorded to it. The same applies to lack of clear policy on budgets (mean 6.14), poor communication of operational budgets (mean 6.0) and poor forecasting/prediction of budget (mean 6.0). Specifically factors with mean of 5.5 and above are considered to have a great influence on operational budgeting.

4.3.3: Level of agreement of the statement "The mortgage and finance institutions' management can overcome the operational budgeting challenges".

From the findings in figure 4.5 below, an overwhelming majority of the respondents 71.4% indicated that they agreed with the statement while 28.6% strongly agreed. The findings indicates that with proper planning the management can overcome the challenges posed and therefore be able to achieve its objectives as some of the challenges can be avoided with proper planning.

Figure 4.5: Level of agreement of the statement "The mortgage and finance institutions' management can overcome the operational budgeting challenges".



4.4 Summary

This chapter concentrated on the results and findings of the study, Analysis and interpretation of the findings was done in this chapter. From the study it was clear that all Mortgage financing companies prepare budgets on an annual basis. It is also evident that budget implementation is a major challenge and that the changing environmental needs pose a serious challenge to operational budgeting to a very great extent and thus emphasize need to be accorded to it. Proper planning and management was strongly proposed as the solution to budget implementation issues.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

In summary, the study shows that all the major Kenyan mortgage financing institutions have an operational budgeting process which they considered extremely important since it outlines the organizations objectives, targets, means of achievements, cost of achievement and responsibilities. Majority of the mortgage firms drafts their budgeting process annually; this is in line with the accepted practice of the yearly review to match with the budget planning for the coming fiscal year.

It was apparent that in all mortgage financing institutions studied, the managers were the ones who were mostly involved in budget formulation. This corresponds with their nature of work which entails being the leader of other employees and therefore ensuring that their respective projects are well taken into consideration and also prepare them to be responded to any expected environmental changes and also for them to establish common guidelines. Directors and departmental/sectional heads were the others who were actively involved in budget formulation as they may be called upon to justify some matters.

The basis used to break down the operational budget varied from one institution to another with majority of them using the cost unit which shows the cost to be incurred per unit (item) and therefore enables the organization to compare the actual cost incurred and the budgeted later. Supervisors were rated as the one who actively involved themselves in the implementation of the operational budget in the sampled organizations. This may be attributed to situations whereby the task of implementation lies with the employees and therefore the supervisors have to ensure that everything goes as planned.

The budgeting process ensures that all factors have been taken into consideration before its implementation could proceed and therefore the result yields a small/narrow variance which may be more or less than the budgeted. With such results coming in out of the budgeting process, a firm will be motivated to follow the same procedure with the hope that it will achieve the same results. The appropriate time duration which an organization take to come up with a budget depends with organizations as some take a shorter time to make a decision while others takes longer duration, bureaucracy and long chain of command thus prolonging the budgeting process.

From the findings of who makes the final decision and evaluation on the operational budget proposals, majority of the respondents said it was the chief executive officer (CEO) who makes the final decision. The CEO of an organization carries the responsibility of what takes place in an organization and therefore by being the one having the final decision puts them in a position which will not pass responsibility to somebody else however, there were those who said the board has the final decision and the proportion was higher which implies that some decisions are made by the board which may be the ones involving large sums of money.

The respondents agreed that there exist challenges facing operational budgeting process and therefore may slow down the pace of achieving the set targets and also the budget itself as the effect of time value takes place. It was noted that specific factors which have a great influence on the budget formulation and implementation were; changing environmental needs, lack of clear policy on budgets, poor communication of operational budgets and poor forecasting/prediction of budget.

5.2 CONCLUSIONS

From the research findings and the answers to the research questions, some conclusions can be, made about the study. The general objective of the study was to investigate the operational budgeting process among the major Kenyan mortgage financing institutions. From the study it can be concluded that budget formulation and implementation and challenges of operational budgeting have an effect on operational budgeting process in mortgage financing institutions.

5.2.1 Budget Formulation and Implementation

Budget formulation and implementation is very vital for the functioning of any organization. The study however showed that employees were not involved to a large extent on the preparation of the budget and therefore they may scuttle the budget implementation process since they are the ones tasked with the responsibility of ensuring that the approved budget is implemented. The world is dynamic and therefore the annually drafting of the operational budget may not reflect the true position at the end of implementation and therefore the budget should be reviewed often. The time it takes for the budgeting process to be completed should be enhanced to give the implementation stage enough time to implement the budget. The approval stage was cited by majority of the respondents as the one which takes the longest duration.

5.2.2 Challenges of Operational Budgeting

There exist challenges faced by the institutions in trying to come up with an operational budget and therefore the organization should strive to overcome them so that they can achieve their goals. There should be a clear policy on budgets so that every employee is aware of what is expected on them and also taking into consideration the environmental needs. Poor forecasting/prediction of budget were cited among the major challenges and therefore the institutions should ensure that they take into consideration all factors to reduce the chances of wide variance and long duration.

5.3 RECOMMENDATIONS

The study recommends the following:-

5.3.1 Budget Formulation and Implementation

The budget formulation and implementation process being used by the institutions needs to be improved so that all the employees are involved in it and therefore becoming easier to implement since they have the facts on what they should do and also for them to feel to be

part of the organization. The budget should be drafted regularly so that it takes care of the changing times as longer durations may prolong the implementation duration and also increase the variance between the budgeted and the actual costs. The final decision should also rest with a person who can be available whenever needed to reduce scenario whereby decision making takes long to be made.

5J.2 Challenges of Operational Budgeting

There exist challenges before accomplishment of a task and it will be up to the management of the firms to implement some changes such as there being a policy on budgets, good forecasting of budget, there being coordination on budgeting process and improving communication of operational budgets. This will create ownership of the budgets by the employees of all cadres, hence higher achievement of individual and organizations' goals.

5.4. Suggestions for Further Research

Effective operational budget process is an important decision making tool and is indispensable in any organization especially in the financial sector. They should strive to implement and follow up on their budgeting plans which will aid in decision making. The study confined itself to operational budgetary process and challenges in mortgage financing institutions in Kenya. The increase in the urban population necessitates an increase in housing units and therefore need to understand the factors taken into consideration by the mortgage financing institution before advancing credit to those seeking it, that is how effective budgeting can be used to reduce shortage in finances.

5.5 Limitations of the Study

This study was based on a sample limited to major Kenyan mortgage financing institutions. It did not cover other mortgage financing institutions in the Kenyan market.

Considering the high level of confidentiality within the financial sector, it was impossible to acquire secondary data in form of management reports relating to budget and budget participation by the various parties.

The scope and depth of study was also limited by the time factor and financial resource constraints. This caused immense time pressure.

The respondents' unwillingness to complete the questionnaires promptly was also a major deterring factor. Some of them kept the questionnaires for too long, thus delaying data analysis.

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Appendix: Questionnaire

Part A: Budget Formulation and Implementation

1. Does your institution have an operational budget for the year?

Yes No

2. How often is the operational budget drafted?

Monthly

Quarterly

Semi annually

Annually

Every two years

Others please specify

3. Please rate the involvement of the following in operational budget formulation?

1 = not at all, 2 = Less active, 3 = Active, 4 = Moderately active 5 = Very active

Employee	1	2	3	4	5
Directors					
Departmental/sectional heads					
Managers					
Supervisors					
Employees					

4. On what basis does the mortgage and finance institution break down the operational budget?

Time

Cost unit

Time and cost unit

Others, please specify

5. Please rate the involvement of the following in the implementation of the operational budget?

1 = not at all, 2 = Less active, 3 = Active, 4 = Moderately active 5 = Very active

Employee	1	2	3	4	5
Directors					
Departmental/sectional heads					
Managers					
Supervisors					
Employees					

6. How has the variance been between budget formulation and implementation?

Not sure

No variance

Narrow/small variance

Wide variance

11. Do you think operational budgeting process takes appropriate time duration?

Yes [] No []

12. Who makes the final decision and evaluation on the operational budget proposals?

The Accountant []

Operational Manager []

CEO []

The Board []

Any other []

13. Please give the stages of formulation and implementation of operational budget?

14. Which stage takes the longest time and why?

PART B: CHALLENGES OF OPERATIONAL BUDGETING

15. Are there any challenges facing operational budgeting in your institution?

Yes No

16. Please rate the extent of challenge that the following pose to budget formulation and implementation?

1 = Not sure, 2 = Negatively, 3 = Not at all, 4 = To a low extent, 5 = moderately, 6 = great extent and 7 = very great extent

	1	2	3	4	5	6	7
Poor forecasting/prediction of budget							
Changing environmental needs							
Lack of adequate personnel to implement the budget							
Inaptitude of employees in implementing the budget							
Managers feel of insecurity when following proscribed/restricted budgets							
Lack of co-ordination							
Poor communication of operational budgets							
Lack of clear policy on budgets							

17. "The mortgage and finance institutions' management can overcome the operational budgeting challenges". What is your level of agreement with the above statement?

a. Strongly agree

b. Agree

c. Neutral

d. Disagree []

e. Strongly disagree []

18. What are the possible solutions to the major operational budgeting challenges facing your mortgage and finance institution?

Thank you

Appendix 2: LIST OF MORTGAGE FINANCING COMPANIES IN KENYA

- Barclays Bank of Kenya
- British American Insurance
- Commercial Bank of Africa
- Housing Finance
- I &M home loan
- Savings & Loan
- CFC Stanbic Bank
- Standard Chartered Bank

Carolyn Chemweno

University of Nairobi

P/OBox 30197

Nairobi.

Dear Sir/ Madam.

RE: RESEARCH INFORMATION

I am a postgraduate student in the School of Business, University of Nairobi. As part of MBA (Finance) course requirement, I am undertaking a research project that investigates the operational budgeting process and challenges among the Kenyan mortgage financing institutions.

To fulfill the information requirements for the study, I intend to collect primary data from your institution. The information requested is needed purely for academic purposes and will be treated in strict confidence, and will not be used for any other purpose other than for research.

I would be most grateful if you can allow me to access to all the relevant information pertinent for this research. Any additional information you might consider necessary for this study is most welcome.

I appreciate your assistance.

Thank you.

Yours sincerely

Supervisor

