

**A SURVEY OF MANAGEMENT PERCEPTION ON THE USEFULNESS OF
ZERO BASED BUDGETING: EVIDENCE FROM NON GOVERNMENTAL
ORGANIZATIONS IN KENYA**

BY:

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DECLARATION

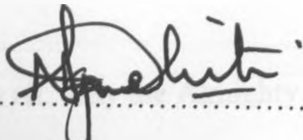
This Research project is my original work and has not been presented in any other University.

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Thank you all. May the Almighty God bless you abundantly

DEDICATION

I dedicate this work to my loving husband Dr.Turoop Losenge for his support and encouragement in writing this project. My dear Sons Loitemwa, Saningo, Salo, all my Siblings and those who supported me in the completion of this project.

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ABSTRACT

Budgeting process is a key activity in the life of any organisation which should be accorded the seriousness it deserves as it guides the activities of the organization. Proper planning, preparation, adherence and control are some of the major processes that should be followed as laid down in the estimates. Budget systems need to be transparent and participatory thus organisations need to have budgetary policies that are clear and well understood by all staff at different levels.

The study sought to establish the managerial perception on the usefulness of Zero Based Budgeting among nongovernmental organizations in Kenya. This study adopted a descriptive survey design. The population of the study constituted all Non- governmental Organizations (NGOs). A sample of 300 Non-Governmental Organizations (NGOs) was drawn from the NGOs based in Nairobi using stratified sampling method. The study collected data using a questionnaire. The data was analyzed by generating descriptive statistics.

From the findings, the study concludes that zero based budgeting is very useful in Non Governmental Organizations in Kenya given that it has flexibility, communicate corporate goals, cost minimization and knowledge sharing. The study revealed the bases of budgeting was the most important factor that affects the managements' perception and effectiveness of Zero Based Budgeting in NGOs followed by organization structure and then frequency of budgeting.

The study recommends that in order to enhance the effectiveness of Zero based budgeting in the NGOs, the management should put in place measures to solve the Zero Based budgeting problems such as enhancing better understanding of zero based budgeting behaviour and institutional dynamics among the staff, developing strong financial integration with performance management and quarterly revision of financial plan to redirect resources at frequent intervals.

CHAPTER ONE:

1.0 INTRODUCTION

1.1 Background to the Study

Accounting information plays a vital role in determining the most appropriate strategic direction for the organization. It guides managerial actions, motivates behaviors, and supports and creates the cultural values necessary to achieve an organization's strategic objectives (Ansari et al. 1997). In particular, cost management information (both financial and nonfinancial information) is a critical type of information to the success of the company. For this reason the role of cost accounting and management has expanded. Accountants are now participants on multifunctional management teams.

Budgeting may be defined as the process of compiling budgets and subsequently adhering to them as closely as possible (Maitland, 2000). It is a process that turns managers' perspectives forward. Thereby looking at the future and planning, managers are able to anticipate and correct potential problems before they arise. This system allows managers to focus on exploiting opportunities instead of figuratively speaking fighting fires. In this way, the system provides sustainability to business process within the company. It is the process of the utmost importance to management (Horngren, Foster and Datar, 2000).

According to Antony and Govindarajan (2007), the budget is an important tool for effective short-term planning and control in organizations and is the result from a budgeting process. Wildavsky (1989) explains that the budget serves diverse purposes and that the budget is translating financial resources into human purposes. The term budget has many different definitions due to the fact that it has somewhat different meaning in the different environments. In this case where the budget is an attempt to predict what is going to happen in the company's near future the amount of definitions are not lacking. Bergstrand et al. (1999) defines a budget as an action plan for the company with goals for its profit centers that describes the expected consequences expressed in economic terms and based on defined assumptions for a limited period.

According to Wallander (1999) the budget is built on forecasts concerning the general development of demand, prices, exchange rates, wages, costs among other factors. The budget has also been playing a central role when looking at motivation in relation to bonuses (Bergstrand et al. 1999). In an survey conducted by Shastri and Stout (2008) it was found that most companies considered budgets most useful in relation to decisions concerning strategy planning, resource/operational planning, communication, incentive rewards determination and operational control.

According to Shastri and Staut (2008), zero based budgeting (ZBB) is an alternative approach that is sometimes used particularly in government and not for profit sectors of the economy. Under zero based budgeting managers are required to justify all budgeted expenditures, not just changes in the budget from the previous year. The base line is zero rather than last year's budget. In traditional approach of budgeting, the managers start with last year's budget and add to it (or subtract from it) according to anticipated needs. This is an incremental approach to budgeting in which the previous year's budget is taken for granted as a baseline. This approach is called incremental budgeting (Buckingham and Loomba 2001).

Zero based budgeting approach requires considerable documentation. In addition to all of the schedules in the usual master budget, the manager must prepare a series of decision packages in which all of the activities of the department are ranked according to their relative importance and the cost of each activity is identified (Shastri and Staut, 2008). Higher level managers can then review the decision packages and cut back in those areas that appear to be less critical or whose costs do not appear to be justified. Zero based budgeting is a good idea. The only issue is the frequency with which a ZBB review is carried out. Under zero based budgeting (ZBB), the review is performed every year. Critics of such type of budgeting charge that properly executed zero based budgeting is too time consuming and too costly to justify on an annual basis. In addition, it is argued that annual reviews soon become mathematical and that the whole purpose of zero based budgeting is then lost. Whether or not a company should use annual reviews is a matter of judgment. In some situations, annual zero based reviews may be justified; in other situations they may not because of the time and cost involved. However, most managers

would at least agree that on occasion zero based reviews can be very helpful (Buckingham and Loomba 2001).

Bergstrand et al. (1999) identifies four different types of budgets including fixed, revised, rolling and flexible budgets. Fixed budgets have many practical advantages. Some of these advantages are that they are easy to understand and make the distribution of responsibility clear and the budget can easily be used in follow-up process. Fixed budgets also have downsides. Having a fixed budget makes the organization less flexible and actions towards surprises during the budget period need to be carefully considered. According to Bergstrand et al. (1999) fixed budgets has been used in many large companies over the years. The revised budgets require more initial work since the budget has to be revised when obstacles appear. Apart from this it would give better guidance for the remaining period.

1.2 Statement of the Problem

Budgeting process is a key activity in the life of any organisation which should be accorded the seriousness it deserves as it guides the activities of the organization. Proper planning, preparation, adherence and control are some of the major processes that should be followed as laid down in the estimates. Budget systems need to be transparent and participatory thus organisations need to have budgetary policies that are clear and well understood by all staff at different levels. All stakeholders should be involved during budgeting to ensure their concerns are incorporated thus ownership of the process. A key challenge that needs to be addressed among NGO budgeting is how to estimate the expenditures despite the ever changing environmental dynamics.

NGO coordination continues to represent a delicate and challenging subject in the sphere of international development and cooperation. However it has still not yet been analyzed in detail and managed with the appropriate competence. Budgeting in NGOs is done differently from the profit organizations. Budgeting among most NGOs in Kenya is based on Zero based Budgeting. Rather than assuming the current level of funding and

operations as a base, zero-base budgeting in NGOs begins at ground zero and builds from there. In practice, it is focused not on a zero-base but on the margins near the current budget level.

Limited studies have been done on managerial perception on the usefulness of ZBB among Non Governmental Organizations in Kenya. The existing studies have concentrated on other areas. For example, Simiyu (1997) studied the problems of budgeting and motivation at the supervisory level in manufacturing firms in Kenya while Biwott (1987) studied the budgetary allocation process in public sector institutions: the case of the University of Nairobi. Makori (2001) was studied budgetary control in NGOs in Kenya using a case for World Vision. This study therefore seeks to fill the knowledge gap by studying the managerial perception on the usefulness of ZBB.

1.3 Objectives of the Study

The study sought to establish the managerial perception on the usefulness of Zero Based Budgeting among nongovernmental organizations in Kenya.

1.4 Importance of the Study

The findings of this study will be important to a variety of interested parties such as: NGO management who will be motivated to increase their monitoring function and overall evaluation of their actions to ensure full realization of planned expenditures.

The study will also be of importance to donor agencies as it will guide them in establishing the appropriateness of the Budgeting adopted by NGOs in the performance of their duties and spending the advanced monies.

NGO regulators will also learn on the best way to regulate budgeting among NGOs to ensure proper management of allocated resources thereby reducing mismanagement and increasing donor confidence in NGO sector in Kenya.

Scholars and researchers will find this study important for the purposes of further research based on the findings of the current study as a source of reference.

CHAPTER TWO:

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter discusses the theoretical framework, empirical studies related to the objective of this study. In particular, the study covers literature related to the study as studied by other scholars. The chapter also gives a summary of the theories and empirical studies.

2.2 Theoretical Framework

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

2.2.1 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) who proposes that the goal of directors and management should be maximizing total wealth creation by the firm. The key to achieving this is to enhance the voice of and provide ownership-like incentives to those participants in the firm who contribute or control critical, specialized inputs (firm specific human capital) and to align the interests of these critical stakeholders with the interests of outside, passive shareholders.

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

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

In larger enterprises, the high degree of detail in budget planning also is an important influence. Decomposing the overall budget problem down to the lowest hierarchical level requisite for detailed analysis consumes large quantities of human and monetary resources. Moreover, wasteful resource consumption occurs every time negotiating

partners loop through the planning cycle until they finally approve the annual operating budget. Large firms usually commit 75 per cent to 95 per cent of their total controlling capacity to operational planning during the time they are engaged in budget preparation (Kopp and Leyk, 2004). Unfortunately, top management seldom considers the high cost involved relative to the meager benefit derived from such detailed instruments. It then is no wonder that cost, product, and strategic controlling often get little attention in the process.

2.2.2 Agency Theory

According to Anthony and Govindarajan (2007), Jensen and Meckling (1976) defined the agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf. As part of this arrangement, the principal delegates some or all of the decision-making authority to the agent. In practice, shareholders from most corporations delegate the decision-making authority to the board of directors (BOD). In turn, the BOD delegates power to the chief executive officers (CEO). The agency problems arise because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal.

The agency theory argues that an agency relationship exists when shareholders (principals) hire managers (agents) as the decision makers of the corporations. The agency problems arise because managers will not solely act to maximize the shareholders' wealth; they may protect their own interests or seek the goal of maximizing companies' growth instead of earnings while making decisions. Jensen and Meckling (1976) suggested that the inefficiency may be reduced as managerial incentives to take value maximizing decisions increased. Agency costs are arising from divergence of interests between shareholders and company managers. "Agency costs" are defined by Jensen and Meckling as the sum of monitoring costs, bonding costs and residual loss.

Since Jensen and Meckling (1976) proposed a theory of the firm (Agency Theory) based upon conflicts of interest between various contracting parties – shareholders, company managers and debt holders – a vast literature has been developed in explaining both

aspects of these conflicts. Jensen and Meckling (1976) further specified the existence of “agency costs” which arise owing to the conflicts either between managers and shareholders (agency costs of equity) or between shareholders and debt holders (agency costs of debt). Financial markets capture these agency costs as a value loss to shareholders.

The NGO world is involved in managing funds advanced to them by project partners and other well wishers. The donors and project partners normally act as principles since the NGOs act on their behalf by implementing their wish. In most cases, NGOs are tied by the conditions of the project partners. The project partners will from time to time dictate how the NGOs are supposed to be run and administered including their expenditures. As such, during budgeting processes, the NGOs prepare budgets in the form of proposal for funding which stipulates the expenditures during the duration of the project. From time to time, the project partners normally do an audit to establish how the funds have been spent. If the audit reveals that the money advanced was not spend as outlined in the proposal/budget for funding, there occurs some conflict which may lead to termination of the funding.

2.2.3 Stewardship theory

Davis, Schoorman and Donaldson (1997) developed the stewardship theory of management as a counter strategy to agency theory. Stewardship theory and agency theory have both focused on the leadership philosophies adopted by the owner’s of an organization. Stewardship theory has emerged from the fields of psychology and sociology. It originated out of the seminal work by Donaldson and Davis (1989, 1991) and was developed as a model where senior executives act as stewards for the organization and in the best interests of the principals. The model is based on the assumption that the manager will make decisions in the best interest of the organization, putting collectivist options above self-servicing options. The steward manager maximizes the performance of the organization, working under the premise that both the steward and the principal benefit from a strong organization.

In contrast to the controls put in place through agency theory, the principal who espouses stewardship theory will empower the steward with the information, the tools and the authority to make good decisions for the organization. The principal will fully enable the steward to act in the best interest of the organization, trusting that the steward will make choices that maximize the long-term return for the organization. In fact, putting control structures on stewards will significantly de-motivate the steward and be counterproductive for both the steward and for the organization (Argyris, 1964). In the influential work done by Davis, Schoorman and Donaldson (1997), they defined a series of factors that describe the management philosophy of stewardship and they include: trust, open communication, empowerment, long-term orientation and performance enhancement. The dimensions of open communication and empowerment are consistent with Walton (1985) in his work on high-commitment organizations. The long-term orientation and empowerment facets are consistent with Lawler (1986) in his work on involvement oriented approaches. The dimension of trust is essential to building the type of relationships necessary to make stewardship work and is consistent with the work done by (Mayer, et al., 1992).

2.2.4 Information Asymmetry

Information forms the basis for any organization's decision making process. It is a vital resource required for the overall growth of any organization. It is therefore necessary for the information to be easily and readily available to all pertinent parties to allow for sound decision making.

Information asymmetry arises when subordinates (agents) possess information that affects the decision process between subordinates and superiors (principals) (Baiman & Evans, 1983; Penno, 1984; Coughlan & Schmidt, 1985). The budgetary process could be improved if the principals were aware of the information that the agents possess that is critical to the process (Magee, 1980). Baiman (1982), Chow, et al. (1988), Blanchard & Chow (1983), and Waller (1988) stipulated that in some organizations, subordinates have had more access to accurate information on the factors influencing performance measurement than their superiors did. Baiman & Evans (1983) suggested that in firms in which subordinates had such information, participation based management control

systems allowed subordinates to reveal or communicate private information, which was then incorporated into the standards or budgets against which their performance was evaluated.

Information asymmetry can lead to the problems of adverse selection (immoral behavior that takes advantage of asymmetric information before a transaction) and moral hazard (immoral behavior that takes advantage of asymmetric information after a transaction). According to Healy and Palepu (2001), through financial reporting and information disclosure, organizations can lower information asymmetry and agency conflicts between management and external investors.

2.3 Concept of Budget

A budget can be described as an amount of money that an organization plans to raise and spend for a set purpose over a given period of time. David (2001) defines budget as a plan that is measurable and timely. Bruns and Waterhouse (1975) define budgets as financial plans that provide the basis for directing and evaluating the performance of individuals or segments of organizations. Merchant (1981) defines budgeting system as a combination of information flows and administrative processes and procedures that is usually an integral part of the short-range planning and control system of an organization. Therefore budget is a quantitative statement, for a defined period of time, which may include planned revenues, expenses, assets, liabilities, and cash flows that provides a focus for an organization, as it aids the coordination of activities, allocation of resources, and direction of activity, and facilitates control.

From the definition of budgets there are three key components. First, is the planning aspect of budget which is regarded as the statement of intent or goal of the organization. The second aspect is the measurability which makes it possible to measure the plan. The third component is time which gives the possibility to say if the plan is timely. The budget is the most important financial planning tool of an organization that comes directly from the activity objectives or outputs of the organization. It shows what the organization expects its activities to cost during within a specific time period.

The difference between the budget and the strategic financial plan is that the budget uses actual existing figures. In other words, the budget is based on the actual amount of money that an organization expects to get and that it expects to spend. It is not only a strategy to help manage an organization's resources but it also shows the actual situation for a given time period. The difficulty with budgeting is that the finances of the whole organisation can depend on the accuracy of a budget. If the budget is too low, the organisation might not be able to meet its financial commitments or deliver the desired outcomes. If the budget is too high, there is a risk that donors might not be interested in funding the project or organisation.

2.3.1 Zero Based Budgeting

Zero-Based Budgeting (ZBB) is the practice of justifying budgeted expenditure in relation to the performance to be achieved without reference to pre-existing plans or achievements (Fopp, 1997). ZBB rests on the philosophy that all spending needs to be justified. Each part of a company will start from a zero base each year and has to justify the budget it requires. The top management of the company will only allow the budget when it is convinced that the proposed activities represent value for money. There are two basic steps to the process of zero-base budgeting. The first step is to develop what is referred to as decision packages and then rank the decision packages. The decision package is a document that identifies and explains the specific activity, its goals and objectives, measurement of performance, costs, benefits, and alternatives action. The ranking of decisions packages is then accomplished at each management level until a comprehensive agency wide ranking is obtained.

2.4 The usefulness of zero base budgets in NGOs

2.4.1 Zero based Budget as a means of forecasting and planning

A Zero base budget has various functions that are important at every stage of a project: First, it acts as a means of forecasting and planning. A zero base budget is necessary for planning a new project, so that managers can build up an accurate idea of the project's cost. This allows them to work out if they have the money to complete the project and if

they are making the best use of the funds they have available. Samuelson (1986) and Imhoff (1986) found that companies often take up to four months to complete the forecasting process and that sales forecasts are revised an average of five times. Lyne (1988), in connection with his empirical study that provided support for the view that forecasting is the most important role of the budget, notes that little has been written on the budget's forecasting and planning roles. Drury (2006) pointed out that the annual budgeting process leads to the refinement of the long-term plans and ensures that managers do plan for future operations and that they consider how conditions in the next year change and what steps they should take now to respond to these changed conditions.

Zero base Budgeting sets clear financial goals for the organisation. Webster (2001) indicates that budgeting provides a basis for judging the financial performance of the organisation. 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.

Zero base Budgets being a standard for performance are also used to evaluate managerial performance (Srinivasan, 1987). 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 US companies the development of budget is still used as the main performance measurement system and that variances are good way to measure their performance.

2.4.2 Zero based Budget as a channel of communication and co-ordination

Simons (1995) provides a frame work for thinking about how management control systems can be used to communicate the corporate mission. In his model, budgeting consists of two primary components: a strategic level and an operational level. The "levels of control" framework defines four types of management controls: belief systems, boundary systems, diagnostic systems, and interactive systems. Belief systems are

programs and statements that impart core values to employees. Boundary systems provide strict prohibitions and limitations on acceptable employee conduct. Diagnostic systems provide lagging indicators of performance. Interactive controls proactively capture critical measures from the business environment and are used to guide corporate strategy. Budgeting can be used to enable each of the levels of control.

Barsky and Bremser (1999) in their analysis of Simon's model realized that management imparts beliefs and boundaries to front line managers. And that management intending to better align employee actions with strategic goals should use budget to emphasize core beliefs and critical interactions. These moves the budgeting process beyond financial targets to include non financial measures. The authors believe these systems and initiatives articulate the primary mission of the organization, the limits on employee action and provide the basis for dialogue between executive and front- line management about the strategic direction of the company. Front- line managers use diagnostic systems to provide feedback on ongoing operational activities.

Drury (2006) stated that budget serves as a vehicle through which the actions of the different parts of an organization can be brought together and reconcile into a common plan by compelling managers to examine the relationship between their own operations and those of other departments, and to identify and resolve conflict in doing so. He also pointed out that through the budget top management communicates its expectations to lower level management, such that, they coordinate their activities toward attaining those expectations.

2.4.3 Zero based Budget as a motivational device

Research evidence has shown that the use of specific, difficult targets can lead to higher performance levels than moderate or easy targets (Chow, 1983). These studies have also shown, however, that as soon as a budget becomes so tight that it is perceived to be unattainable, its motivational impact is reduced, and eventually Executive Management (Strategic Level), Front Line Management (Operational Level and Support staffs) give up trying to meet it, often performing at a lower level than if a less difficult target had been used. The evidence suggests that budgets will provide the highest positive motivation

when they are set at the most difficult level that is seen as achievable by Support staffs. Achieving maximum motivational benefits from budgetary targets is therefore contingent on the use of tight, yet attainable, budgets. This is complicated by the fact that this level is likely to vary between individuals and may be affected by other factors. A further complication is that to motivate maximum performance, the budget needs to be set at a target level, thus giving rise to an anticipated adverse variance (Hofstede, 1968). This leads to a conflict between the planning function of budgets and the control function. Simons (1988) found budget tightness to be positively associated with the use of monitoring and reporting controls and formula-based remuneration. Lau (1999) proposed a two-way interaction between tight budget targets and cost control.

2.4.4 Zero based Budget as a means of evaluation and control

The budget is used as a tool for evaluating the success of an organization, at the end of a given period. It helps to answer the question: 'Did the organization achieve what it set out to achieve?' According to Brian et al (1995), Activity based budgeting can be used in Manufacturing. It is a management process, operating at the activity level for continuous improvement on performance and costs. It provides the foundation for a more effective control. Ejler et al. (2008) in their article considered some of the intersections in the policy cycle where evaluation may be useful. According to the United Nations Development Agency, performance management (in which performance measurement is a constituent part) as a managerial model has four distinguishing features: The definition of strategic goals which provide a focus for action; The specification of expected results which contribute to the strategic goals and align programmes, processes, and resources behind them; ongoing monitoring and assessment of performance, integrating lessons learnt into future planning; and improved accountability based on continuous feedback to improve performance (UNDP, 2001: 2)

The need for ongoing feedback and management control requires companies to measure and evaluate business unit performance at least once a year (Anthony and, 2004). The process of evaluation is a comparison of actual expenses and those that should have been incurred under circumstances. If the circumstances assumed in the budget process are unchanged, the comparison is between budgeted and actual amounts. If circumstances

have changed, these changes are taken into account. Ultimately, the analysis leads to praise or constructive criticism of the responsibility center managers (Anthony and Govindarajan, 2004).

However, relying on financial measures alone is insufficient to ensure strategy will be executed successfully. The solution to this according to Anthony and Govindarajan (2004) is to measure and evaluate business unit managers using multiple measures, nonfinancial as well as financial. They refer to nonfinancial measures that support strategy implementation as key success factors or key performance indicators. Companies used financial and nonfinancial measures in the past. However, they tended to use nonfinancial measures at lower levels in the organization for task control and financial measures at higher organizational levels for management control (Anthony and Govindarajan 2004). According to the authors, it is important for senior executive to track not only financial measures, which indicate the results of past decisions, but also nonfinancial measures, which are leading indicators of future performance. Similarly, employees at lower levels need to understand the financial impact of their operating decisions (Anthony and Govindarajan, 2004).

Drury (2006) stated that by comparing the actual results with the budgeted amounts for the different categories of expenses, managers can ascertain which costs do not conform to the original plan and thus require attention. This enables managers to concentrate attention and effort on significant deviations from expected results (management by exception).

2.4.5 Zero based Budget as a source of information for decision-making

According to Brian et al (1995), the essence of the ZBB is decision making. Zero-based budgeting arose from a need to more closely link intended results with the use of resources. It grew out the deficiencies found in traditional budgeting system. “The budget process forces us to look at what the organization is going to be in terms of its results from the resources to be used”.

2.4.6 Resource mobilization and project implementation

The Zero based budget is a critical part of any negotiation with financiers. The budget sets out in detail what the organization will do with the funds, including what the money will be spent on, and what results will be achieved. An accurate budget is needed to control the project, once it has been started. The most important tool for on-going monitoring is comparing the actual costs against the budgeted costs. Without an accurate budget, this is impossible. Because plans sometimes change, it may be necessary to review the budget after a project has started.

2.5 Limitation of Zero Based Budgeting

In many companies, budgets are carried from one period to the next with only slightly changing goals and expenses. Zero-based budgeting is a type of business budgeting that puts the burden of the budgeting process on the manager of the project the budget directly affects. The budget starts at zero expenses, which means every time the budget is created, the manager must find ways to justify every expense. This is designed to save money but leads to several limitations: Management Distraction plays a large role in zero-based budgeting difficulties. A manager rarely has time to go through every single expense and find a way to justify it to the company in the budget report, so during zero-based budgeting, manager performance might fall. This budgeting practice also requires training for managers not experienced with the process, which leads to the cost of training programs and what some people might view as wasted time (Buckingham and Loomba 2001).

Leadership Decisions whereby upper managers must examine each budget report by either rejecting it because of budget decisions or pass on it and allow the manager to proceed with the project. In larger companies, this can be problematic as managers and executives can find themselves inundated with dozens of budget packages with details on every expense. This leads to hasty decisions and can negate any benefit zero budgeting might have had. (Shastri and Stout,2008)

Department Variance is a significant application limitations whereby for some departments, especially those involved in production or other basic operations, justifying each expense can be a relatively easy process because these departments provide concrete, often self-evident, results. But for research and development departments, expenses are much more nebulous and while the projects might be useful, their expenses can be difficult to justify in a report. This leads to discrepancies in what types of packages are approved.

Dependence on Formula and Accuracy; Zero-based budgeting depends heavily on the formulas used in budgeting and accuracy in reporting. However, there is no guarantee that managers will report expenses accurately, especially if they know that there will be room for adjustment later. If there is no room for expanding budgets, then managers may simply inflate expense expectations to give themselves a cushion of funds. (Shastri and Stout, 2008)

2.6 Empirical Studies

The budgeting process is an essential component of management control systems and has been an effective system by which management can successfully plan, coordinate, and control. The process involves the creation and implementation of the broad objectives of an organization, the detailed objectives, and a short-term and long-term financial plan. The philosophy and procedures used to implement zero-base budgeting in industry and government settings are quite similar, only slightly differing with the mechanics to fit the specific needs of each organization. The basic process of zero-based budgeting is to justify budget requests every budgeting cycle, regardless of prior period budgets.

A budget communicates project expectations to the Project Manager and authorizes the Manager to expend company resources up to the budgeted amount. Control is maintained as the company's owner and project manager reviews the budget report on a certain interval basis. According to Stroud (2003), this process serves several purposes: The budget review disseminates specialized knowledge vertically as the owner learns details of each job that he otherwise was not party to; and the review also provides a formal

method of communication that is necessary in a company with multiple projects occurring at the same time. The knowledge gained during these reviews allows the business owner to re-allocate company resources where they are best utilized. The owner can also investigate the causes of behind-schedule projects and shift resources to ensure the customer is satisfied and the company continues a valued reputation. This in turn will assist in maximizing the company's overall value (Stroud, 2003).

According to Collier (2006), a budget is “a plan expressed in monetary terms covering a future time period. Budgets are based on a defined level of activity; either expected sales revenue or capacity” (p. 243). Therefore, one important function of budgeting is to allocate resources in accordance with strategic goals (Collier, 2006). More specifically, during budgeting process, resources are planned and allocated for the future often for a period of one year (Lovstal, 2001).

However some studies have been done that state the disadvantage of budgeting processes. According to Hansen, Otley and Van der Stede (2003), one main concern regarding budgets in practice is the criticism that by the time budgets are used, their assumptions are typically outdated, reducing the value of the budgeting process. As a result, budgets can never be valid because they cannot capture the uncertainty involved in rapid change. Accordingly, there is an idea calling for abandoning budgets (Hansen et al., 2003). Similarly, Wallander (1999) looked upon budgeting as an “unnecessary evil” and an outmoded way of controlling and steering a company. The author argued that if people believe in the budget they set it might hinder them from adapting to new situations. On the other hand, if they do not believe in it, there is no point in making a budget.

Zero Based Budgeting (ZBB) is an approach to budgeting that starts from the premise that no costs or activities should be factored into the plans for the coming budget period, just because they figured in the costs or activities for the current or previous periods. Rather, everything that is to be included in the budget must be considered and justified.

The great deficit of the federal government in the United States of America was a debated issue in the mid 1970s. In a study conducted by Hilton (2005), it was found that there was a general sense that the annual spending was out of control due to increased permanent

entitlements and multiyear budget authority. In response to this situation, the Congress held a hearing on a proposed legislation that required Congressional authorizing committees periodically to review all federal programs by zero-base. In 1977, President Carter mandated that the executive branch would use ZBB that was used during his tenure as the governor of Georgia (Hilton, 2005). The ZBB required agencies not to automatically fund existing programs and activities, but rather, set spending priorities by developing decision packages that represented different levels of funding for programs on zero-base, being away from the traditional incremental nature of the public budgeting process (Rosenbloom, 1993).

In zero based budgets, past figures are not used as the starting point. The budgeting process starts from “scratch” with the proposed activities for the year. The result is a more detailed and accurate budget, but it takes more time and energy to prepare a budget in this way. This technique is essential for new organizations and projects, but it is also probably the best route to go in a dynamic organization that is proactive in taking on new challenges.

Wildavsky and Caiden (1997), argue that to understand what was happened to budgeting in our time consider the radical changes in the norms of desirable behavior that used to guide budgeters. According to them, budgets emerged at the beginning of the nineteenth century as the result of reforms that replaced centuries of muddle and mismanagement with expenditure control based on norms of annularity, comprehensiveness, legislative appropriation, audit and balance. Public budgets today are evaluated against their long-term implications, they consist of many different kinds of spending, and they are unbalanced, uncertain and dependent on circumstances beyond their control.

According to Hilton (2005), the publicity in the 1970s surrounding zero-based budgeting gave the impression that the system was a relatively new technique, although the system was not new at all. Zero-based budgeting is quite similar to the Planning-Programming-Budgeting system, implemented in the 1960s. Both systems involve evaluating the inputs and outputs for specific activities, as opposed to the traditional line-item format.

The zero-based budgeting system puts the burden of proof on the manager, and demands that each manager justifies the entire budget in detail and proves why he or she should spend the organization's money in the manner proposed (Warren et al, 2005). A decision package must be developed by each manager for every project or activity, which includes an analysis of cost, purpose, alternative courses of action, measures of performance, consequences of not performing the activity, and the benefits.

Zero based budgeting (ZBB) can be very expensive in terms of resource use. The resources expended include manager's time, financial resources as well as huge amounts of paperwork (Hilton, 2005).

2.7 Summary

From the various empirical studies and theories above, it is apparent that the use of zero based budgeting in non-governmental organizations is a very effective technique. Various scholars have highlighted the importance of the consideration of information asymmetry while implementing the planning process. The planning process is effectively carried out through the budget preparation. It further highlights the need for an understanding of the agency theory to help in determination of a budget that involves all relevant parties or stakeholders, that is both agents and principals, and that stakeholders objectives are realized. The research will therefore contribute to the existing body of knowledge on zero based budgeting and will be particularly beneficial to finance managers of non-governmental organizations. This is mainly because the findings will help the managers to determine and prepare budgets that will serve as tools for sound project management and sustainable development.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains the research methodology followed in the execution of the research work, which entails the research design, population intent for the study, the sample size, data collections, data analysis, and reliability and validity.

3.2 Research Design

This study adopted a descriptive survey design. According to Cooper et al, (2003), a descriptive study is concerned with explaining who, what, when and how of a phenomenon. A survey research design was appropriate due to the fact that only a proportion of the population was studied and the findings thereof generalized to the entire population. The survey research method has also got more advantages than other methods of data collection.

3.3 Population of the study

The population of the study constituted all Non- governmental Organizations (NGOs). According to the NGO Directory (2011), there are up to 3164 registered NGOs operating in Kenya. Both local and international, based in Nairobi as at July 2011. Of these NGOs, 1446 are based in Nairobi. These Organizations carry out their various activities in various parts of the country targeting different groups of people and communities.

3.4 Sample Design and Size

A sample of 300 Non-Governmental Organizations (NGOs) was drawn from the NGOs based in Nairobi using stratified sampling method. Mugenda and Mugenda (2003) indicate that a sample size 30 and above of the population is usually sufficient for a study. The NGOs were stratified according to the areas of operation. These included Advocacy, Environmental, Health and other categories. Nairobi has been selected as it is the centre of NGOs activities in Kenya.

3.5 Data collection Method

The study collected data using a questionnaire. The questionnaire contained both open and closed ended questions. The questionnaire collected data that is largely descriptive and quantitative in nature. The target respondents in this study were the program managers, finance managers and finance officers because they are considered to be the ones involved in preparation of proposals and budgets of the various projects/programs through which the organizations delivers services to its clients. The questionnaires were administered through drop and pick method and electronic mail (e-mail) for those respondents whose emails were obtainable.

3.6 Data Analysis

The data collected was edited for accuracy, uniformity, consistency and completeness and arranged to enable coding and tabulation before final analysis.

The data was then entered into Statistical Package for Social Sciences (SPSS) Statistics for analysis. The data was analyzed by generating descriptive statistics such as percentage, mean, and standard deviation. The data was presented using tables, charts and cross tabulations.

3.7 Data Reliability and validity

Mugenda and Mugenda (2003) asserted that, the accuracy of data largely depended on the data collection instruments in terms of validity and reliability. Validity as denoted by Robinson (2002) in the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. Validity was ensured by having objective data. This was achieved by pre-testing the questionnaire to a sample of two respondents of the information to be collected to determine the accuracy of the instrument. Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda and Mugenda 2003). In this study, reliability was ensured by pre-testing the data with a selected sample of two NGOs.

CHAPTER FOUR

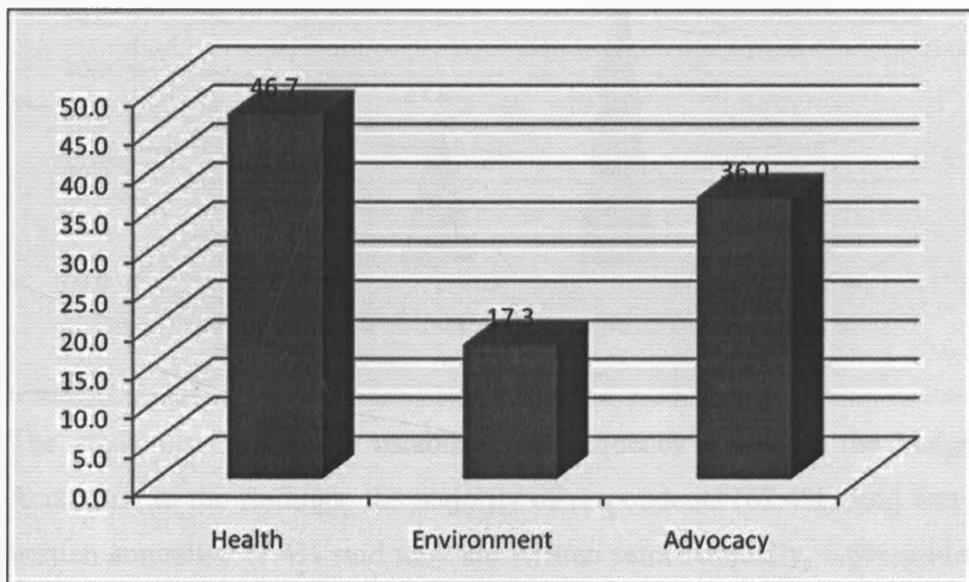
4.0 DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The results were presented on the factors affecting customer satisfaction in oil industry with special reference to Total Kenya Limited. The study targeted a total of 140 respondents out of which 98 responded and returned their questionnaires contributing to 70% response rate. This response rate was modest and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This response rate was due to extra efforts were made via personal calls and visits to remind the respondent to fill-in and return the questionnaires. The chapter covers the demographic information,

4.2 Demographic Details

Figure 1: Area of operation



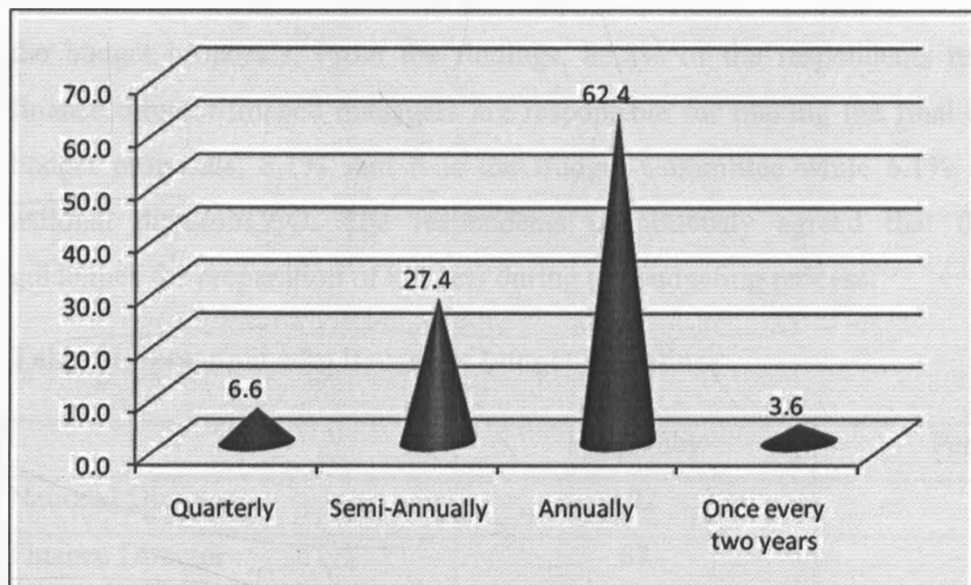
From the findings, the study established that the majority of respondents (46.7%) were in health, 36% were in advocacy while 17.3% were in environment.

Table 1: Number of years in operation

	Frequency	Percentage
0-5	30	15.2
6-10	89	45.2
10 - 15.	57	28.9
Over 15 years	21	10.7
Total	197	100.0

The respondents were asked to state the number of years their NGO has been in operation. The response tabulated above show that majority of the respondents (45.2%) said that their NGOs had been in operation for 6-10 years, 28.9% said 10 – 15 years, 15.2% said 0-5 years while 10.7% said their NGO had been operation for over 15.

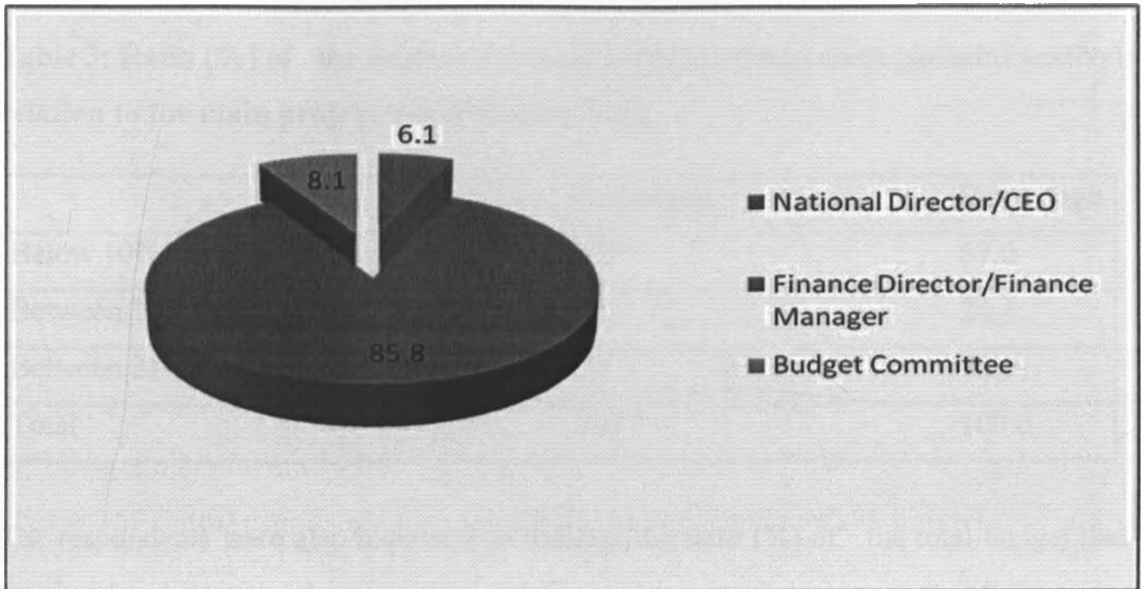
Figure 2: Frequency at which the budgets are written



The study also sought to establish the frequency at which the budgets are written. According to the findings, the majority of respondents (62.4%) said that the budgets are written annually, 27.4% said they are written semi-Annually, 6.6% said they are written quarterly while 3.6% said the budgets are written once every two years.

4.3 Budgeting Information

Figure 3: People responsible for making the final decision on the budget proposals



The study also sought to establish the people responsible for making the final decision on the budget proposals. From the findings, 85.8% of the respondents reported that the finance director/finance managers are responsible for making the final decision on the budget proposals, 8.1% said it is the Budget Committee while 6.1% said it was the national director/CEO. The respondents unanimously agreed that there are some guidelines for preparation of budgets during the budgeting process.

Table 2: Personnel who issues the budget guidelines

	Frequency	Percentage
National Director	102	51.8
Finance Director	67	34.0
Donor	1	0.5
Project Manager	27	13.7
Total	197	100.0

The respondents were asked to state the personnel who issues the budget guidelines. From the study findings, 51.8% said it was the national director who issues the budget

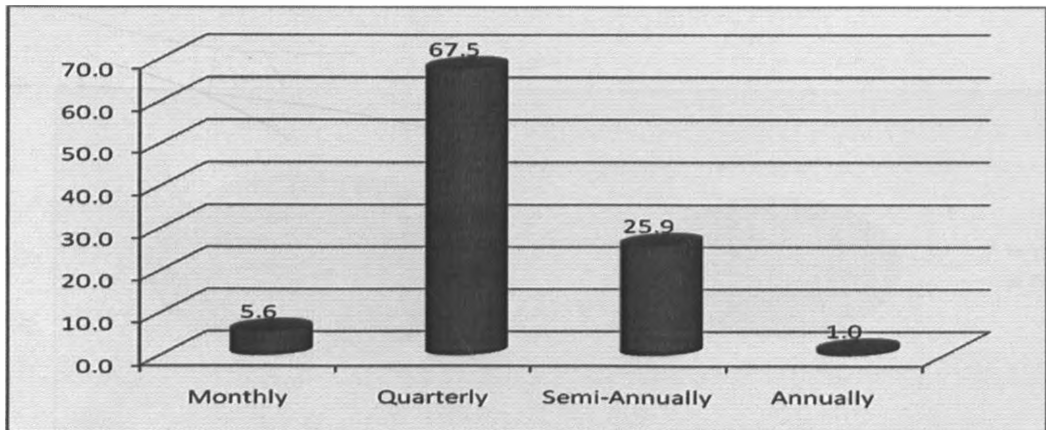
guidelines, 34% said it was the finance director, 13.7% said it was the project manager while 0.5% said it was the donors.

Table 3: Ratio (%) of the total budget that is the overhead costs (Administrative) relation to the main project cost (Ministry cost)

	Frequency	Percentage
Below 10%	132	67.0
Between 11- 20%	48	24.4
Between 21-30%	17	8.6
Total	197	100.0

The respondents were also requested to indicate the ratio (%) of the total budget that is the overhead costs (Administrative) relation to the main project cost (Ministry cost). From the results of the study, the majority of the respondents (67%) reported that the ratio (%) of the total budget that is the overhead costs (Administrative) relation to the main project cost (Ministry cost) is below 10%, 24.4% said between 11- 20% while 8.6% said it was between 21-30%. All the respondents were in agreement that there is regular comparison between the budgeted income and expenditure with actual income and expenditure.

Figure 4: Period of time after which comparison between the budgeted Income and Expenditure with actual Income and Expenditure is done



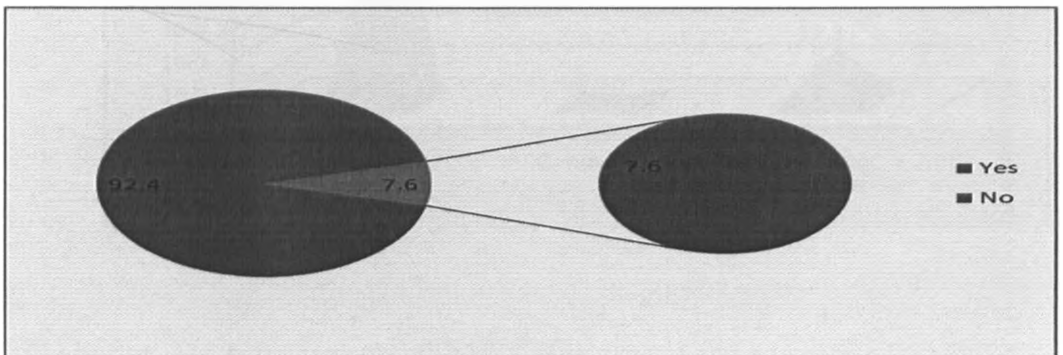
The study also wanted to establish the period of time after which comparison between the budgeted income and expenditure with actual income and expenditure is done. From the study findings, 67.5% of the respondents said comparison between the budgeted income and expenditure with actual income and expenditure is done quarterly, 25.9% said semi-annually, 5.6% said monthly while 1% said annually.

Table 4: Acceptable budget variance for the projects in the organizations

	Frequency	Percentage
+ or -5%	29	14.7
+ or -10%	131	66.5
+or -15%	31	15.7
+or -20%	6	3.0
Total	197	100.0

The study also required the respondents to indicate the acceptable budget variance for the projects in the organizations. According to the responses given, majority of the respondents (66.5%) reported that the acceptable budget variance for the projects in the organizations is + or -10%, 15.7% said +or -15%, 14.7% said + or -5% while 3% said +or -20%.

Figure 5: Whether appropriate corrective actions are taken in the case there is adverse negative or positive variance occurs in the Project budget



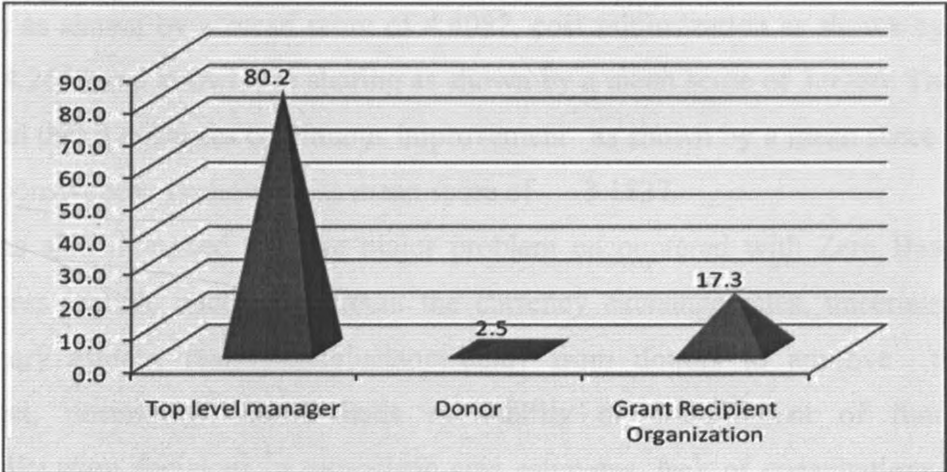
The study also wanted to establish whether appropriate corrective actions are taken in the case there is adverse negative or positive variance occurs in the Project budget. According to the study, majority of the respondents (92.4%) said that appropriate corrective actions are taken in the case there is adverse negative or positive variance occurs in the Project budget while 7.6% differed with this.

Table 5: Whether the staffs are trained on budget preparation, control and interpretation of the budgets

	Frequency	Percentage
Yes	125	63.5
No	72	36.5
Total	197	100.0

The study also inquired on whether the staffs are trained on budget preparation, control and interpretation of the budgets. From the results of the study, the majority of respondents as shown by 63.5% felt that staffs are trained on budget preparation, control and interpretation of the budgets while 36.5% differed with this. The respondents further were in agreement that the prepared budgets modified /revised later after being drawn.

Figure 6: Person who authorizes the budget revisions



According to the findings in the above figure, the majority of respondents (80.2%) said that it was the top level managers that authorize the budget revisions, 17.3% said it was grant recipient organization while 2.5% said it was the donor.

Table 6: Effectiveness of the Zero Based budgeting process in the organizations

EFFECTIVENESS OF ZB BUDGETS	Mean	Std. Deviation
Flexibility	4.4082	.75760
Responsiveness	3.1837	1.17839
Knowledge sharing	3.9286	4.32268
Continuous improvement	3.4694	1.05717
Cost minimization	4.2653	.96912
Communicating corporate goals	4.4082	.75760

The study also sought to establish the level of agreement on the effectiveness of the Zero Based budgeting process in the organizations. From the study, the respondents agreed to a great extent that it has flexibility as shown by a mean score of 4.4082, communicating corporate goals as shown by a mean score of 4.4082, cost minimization as shown by a mean score of 4.2653 and knowledge sharing as shown by a mean score of 3.9286. They were also neutral that it enhances continuous improvement as shown by a mean score of 3.4694 and responsiveness as shown by a mean score of 3.1837.

The respondents also intimated that the major problem encountered with Zero Based budgeting process include uncertainty about the currency exchange rates, uncertainty about inflationary effects, resistance/reluctance/delay from donors to approve the proposal budget, uncertainty about funds availability or commitment of funds, inappropriate allocation decisions or unrealistic cost estimates, lack of consultations in budget preparation 'one man/woman processes', the methods/format/ techniques used for

budgeting preparation e.g. software and under/over implementation of project activities causing difficulties in explaining major variances in the budget.

Table 7: Extent that various factors solve the Zero Based budgeting problems

Problems	Mean	Std. Deviation
Better understanding of Zero Based budgeting behaviour and institutional dynamics	4.2449	.80027
Develop strong financial integration with performance management	4.1837	.85370
Appropriate timing of the financial plan	3.7959	1.37698
Quarterly revision of financial plan to redirect resources at frequent intervals	4.1633	1.36747
Better engagement between organizational leaders, managers , finance staff with the Donors	3.9633	1.39730

The study wanted to establish the extent that various factors solve the Zero Based budgeting problems. From the study findings, majority of the respondents were in agreement that the factors solve the Zero Based budgeting problems include better understanding of zero based budgeting behaviour and institutional dynamics as shown by a mean score of 4.2449, develop strong financial integration with performance management as shown by a mean score of 4.1837, quarterly revision of financial plan to redirect resources at frequent intervals as shown by a mean score of 4.1633, better engagement between organizational leaders, managers , finance staff with the donors as shown by a mean score of 3.9633 and appropriate timing of the financial plan as shown by a mean score of 3.7959.

4.4 Factors Affecting Managements' Perception of Zero Based Budgeting

Table 8: Level of agreement with statements on the effect of Organization Structure on managements' perception of Zero Based Budgeting in NGOs

Organization Structure	Mean	Std. Deviation
We have a defined organization structure in our firm	4.3020	1.17086
Lines of authority are clearly defined in our NGO	4.1429	1.23522
Budgets in our NGO are co-ordinated by the head of the NGO	3.8776	1.31027
Budgeting process is started in good time	4.4776	1.38672
All employees are consulted before drawing budgets	3.6122	1.09009

The study sought to establish the level of agreement with statements on the effect of Organization Structure on managements' perception of Zero Based Budgeting in NGOs. From the study findings, majority of the respondents were in agreement that budgeting process is started in good time as shown by a mean score of 4.4776, the NGOs have a defined organization structure in our firm as shown by a mean score of 4.3020, lines of authority are clearly defined in the NGO as shown by a mean score of 4.1429, budgets in our NGO are co-ordinated by the head of the NGO as shown by a mean score of 3.8776 and all employees are consulted before drawing budgets as shown by a mean score of 3.6122. They added that the NGO structure has contributed to the development of effective budgets since there is clear division of labour and responsibilities.

Table 9: Level of agreement with statements on the effect of Bases of Budgets on managements' perception of Zero Based Budgeting in NGOs

	Mean	Std. Deviation
Budgets are prepared based on how much was spend in the previous period	3.7959	.95204
Budgets are prepared taking into account the changes in inflation	3.9816	1.31348
Budgets are prepared taking into account the fluctuations in foreign exchange rates	3.8449	1.17589
Budgets are reviewed from time to time	3.6673	1.14323

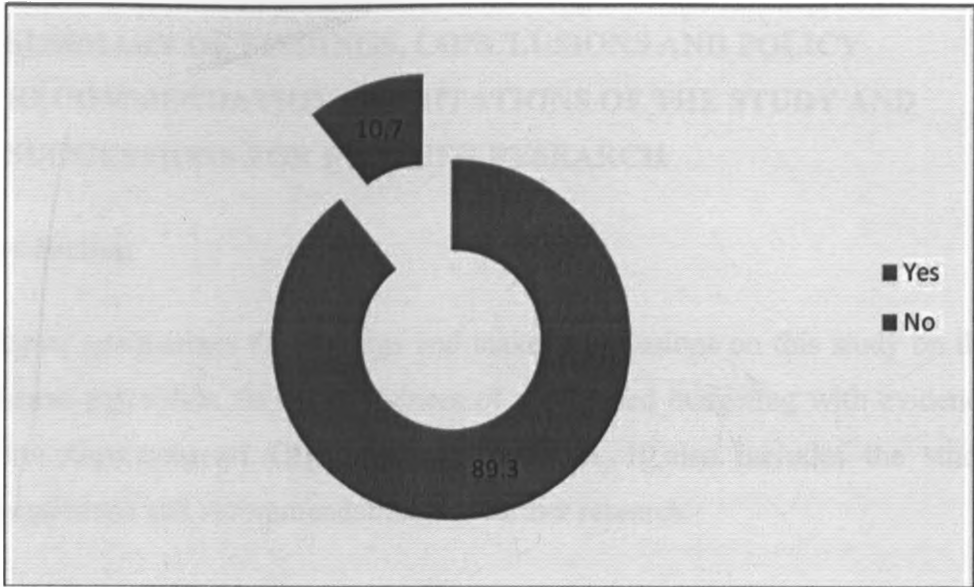
The study also wanted to establish the respondents' extent of agreement with various statements on the effect of Bases of Budgets on managements' perception of Zero Based Budgeting in NGOs. From the study findings, majority of the respondents agreed that budgets are prepared taking into account the changes in inflation as shown by a mean score of 3.9816, budgets are prepared taking into account the fluctuations in foreign exchange rates as shown by a mean score of 3.8449, budgets are prepared based on how much was spend in the previous period as shown by a mean score of 3.7959 and budgets are reviewed from time to time as shown by a mean score of 3.6673.

Table 10: Level of agreement with statements on the effect of Frequency of budgeting on managements' perception of Zero Based Budgeting in NGOs

	Mean	Std. Deviation
Budgets are prepared monthly in our NGO	3.0327	1.14323
Budgets are prepared quarterly	3.4755	1.07962
We prepare budgets semi annually	3.5959	1.11188
We prepare budgets annually	3.6327	.90118
We prepare budgets as once every two years	3.4694	1.13250
we prepare budgets occasionally	2.6735	1.10085

The study also sought to establish the level of agreement with statements on the effect of Frequency of budgeting on managements' perception of Zero Based Budgeting in NGOs. According to the findings, the majority of respondents were in agreement that they prepare budgets annually as shown by a mean score of 3.6327 and they prepare budgets semi annually as shown by a mean score of 3.5959. They were however neutral on the fact that budgets are prepared quarterly as shown by a mean score of 3.4755, they prepare budgets as once every two years as shown by a mean score of 3.4694, budgets are prepared monthly in the NGO as shown by a mean score of 3.0327 and they prepare budgets occasionally as shown by a mean score of 2.6735. The respondents added that budget effectiveness can be improved on budget frequency preparation by decreasing the duration of preparation which will ensure the estimates will take into account the contemporary economic situation given the volatility of the Kenya shilling and current inflations.

Figure 7: Whether zero based budgeting effective in the organization



The respondents were asked to state whether zero based budgeting effective in the organization. The response above show that majority of the respondents (89.3%) felt that zero based budgeting is effective in the organization while 10.7% felt otherwise.

Table 11: Rating of the importance of factors that affect the managements' perception and effectiveness of Zero Based Budgeting in NGOs

Factor	
Organization structure	2
Bases of Budgeting	1
Frequency of Budgeting	3

The study also sought to establish the respondents rating of the importance of factors that affect the managements' perception and effectiveness of Zero Based Budgeting in NGOs. From the findings, the respondents reported that the bases of budgeting was the most important factor that affect the managements' perception and effectiveness of Zero Based Budgeting in NGOs followed by organization structure and then frequency of budgeting.

CHAPTER FIVE:

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND POLICY RECOMMENDATIONS, LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 Introduction

This chapter summarizes the findings and makes conclusions on this study on the management perception on the usefulness of zero based budgeting with evidence from Non Governmental Organizations in Kenya. It also includes the study recommendations and recommendations for further research

5.2 Summary of the Findings

The main purpose of the study was to establish the managerial perception on the usefulness of Zero Based Budgeting among nongovernmental organizations in Kenya. The research findings indicate that budgets are written annually and that the finance director/finance managers are responsible for making the final decision on the budget proposals. It was clear that there are some guidelines for preparation of budgets during the budgeting process issued by the national director.

In most of the NGOs, the ratio (%) of the total budget that is the overhead costs (Administrative) relation to the main project cost (Ministry cost) is below 10% and comparison between the budgeted income and expenditure with actual income and expenditure is done is done quarterly. It was also deduced that the acceptable budget variance for the projects in the organizations is + or -10% and that appropriate corrective actions are taken in the case there is adverse negative or positive variance occurs in the Project budget. The study also found that staffs are trained on budget preparation, control and interpretation of the budgets and was the top level managers that authorize the budget revisions.

On the effectiveness of the Zero Based budgeting process in the organizations, the study also revealed that it has flexibility, communicate corporate goals, cost minimization and knowledge sharing. The major problem encountered with Zero Based budgeting process include uncertainty about the currency exchange rates, uncertainty about inflationary effects, resistance/reluctance/delay from donors to approve the proposal budget, uncertainty about funds availability or commitment of funds, inappropriate allocation decisions or unrealistic cost estimates, lack of consultations in budget preparation 'one man/woman processes', the methods/format/ techniques used for budgeting preparation e.g. software and under/over implementation of project activities causing difficulties in explaining major variances in the budget.

It was clear that the factors solve the Zero Based budgeting problems include better understanding of zero based budgeting behaviour and institutional dynamics, developing strong financial integration with performance management, quarterly revision of financial plan to redirect resources at frequent intervals, better engagement between organizational leaders, managers , finance staff with the donors and appropriate timing of the financial plan.

On the effect of Organization Structure on managements' perception of Zero Based Budgeting in NGOs, it was clear that budgeting process is started in good time, the NGOs have a defined organization structure, lines of authority are clearly defined in the NGOs, budgets in the NGOs are co-ordinated by the head of the NGO and all employees are consulted before drawing budgets.

On the effect of Bases of Budgets on managements' perception of Zero Based Budgeting in NGOs, it was clear that budgets are prepared taking into account the changes in inflation, budgets are prepared taking into account the fluctuations in foreign exchange rates, budgets are prepared based on how much was spend in the previous period and budgets are reviewed from time to time. On the effect of Frequency of budgeting on managements' perception of Zero Based Budgeting in NGOs the study found that the NGOs prepare budgets annually. The study revealed that zero based budgeting is effective in the organization and that the bases of budgeting was the most important

factor that affect the managements' perception and effectiveness of Zero Based Budgeting in NGOs followed by organization structure and then frequency of budgeting.

5.3 Conclusions

From the findings, the study concludes that zero based budgeting is very useful in Non Governmental Organizations in Kenya given that it has flexibility, communicate corporate goals, cost minimization and knowledge sharing.

From the study it is evident that budgeting process is started in good time, the NGOs have a defined organization structure, budgets are prepared taking into account the changes in inflation, the fluctuations in foreign exchange rates, and on how much was spent in the previous period. The study revealed the bases of budgeting was the most important factor that affect the managements' perception and effectiveness of Zero Based Budgeting in NGOs followed by organization structure and then frequency of budgeting.

5.4 Policy Recommendations

The study recommends that in order to enhance the effectiveness of Zero based budgeting in the NGOs, the management should put in place measures to solve the Zero Based budgeting problems such as enhancing better understanding of zero based budgeting behaviour and institutional dynamics among the staff, developing strong financial integration with performance management, quarterly revision of financial plan to redirect resources at frequent intervals, better engagement between organizational leaders, managers , finance staff with the donors and appropriate timing of the financial plan.

5.5 Limitations of the Study

The researcher encountered several limitations. First, there was time constraint which could not allow the researcher to access all NGOs operating in Kenya so as to facilitate the generalization of the research findings and present the research report on time.

The other challenge included limited resources. The researcher did not have enough resources to conduct a census of the NGOs operating in Kenya. This made the researcher settle for a sample of the population which may have reduced the accuracy of the findings.

The other challenge included suspicion from the respondents for fear of misuse of information provided or for exposure of their business. The researcher overcame this by assuring the respondents that the data was required purely for academic reasons by attaching the introduction letter from the University.

5.5 suggestions for Further Research

This study explored the management perception on the usefulness of zero based budgeting with evidence from Non Governmental Organizations in Kenya. The researcher therefore recommends that a further study be done on other stakeholders perceptions on the usefulness of zero based budgeting.

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APPENDIX

Appendix 1: Questionnaire

Date _____

Please take a few minutes to complete this questionnaire. Your honest answers will be completely anonymous, but your views, in combination with those of others are extremely important in building knowledge on a survey of management perception on the usefulness of zero based budgeting: evidence from Non Governmental Organizations in Kenya. Kindly answer all the questions.

Section A: Demographic Details

- 1) Organization name (optional) _____
- 2) Area of operation. Health [] Environment [] Advocacy [] other []
- 3) Number of years in operation: 0-5 [] 6-10 [] 10-15 [] Over 15 years []
- 4) How often do you write your budgets? Monthly [] Quartely []
Semi-Annually [] Annually [] Once every two years []

SECTION B: Budgeting Information

- 5) Who is responsible for making the final decision on the budget proposals?
 - (a). National Director/CEO
 - (b). Finance Director/Finance Manager
 - (c). Budget Committee
 - (e). Donor
 - (f). Others (please specify).....
- 6) During the budgeting process, are there some guidelines for preparation of budgets,
 - (a) YES
 - (b) NO

If YES (6a above), who issues the guidelines

- (a) National Director
- (b) Finance Director
- (c) Donor
- (d) Project Manager

7) What is the ratio (%) of the total budget is the overhead costs (Administrative) relation to the main project cost (Ministry cost)?

Below 10%

Between 11- 20%

Between 21-30%

Above 30%

8) Is there regular comparison between the budgeted Income and Expenditure with actual Income and Expenditure?

YES

NO

If YES (8a above), this is done after what period of time?

(a)Daily

(b)Weekly

(c)Monthly

(d)Quarterly

(e)Semi-Annually

(f)Annually

9) What is the acceptable budget variance for your projects in your organisation?

(a). + or -5%

(b). + or -10%

(c). +or -15%

(d). +or -20%

(e).Others..... Please Explain _____

10) Do appropriate corrective actions taken in the case there is adverse negative or positive variance occurs in your Project budget?

(a).Yes

(b).No

11) Are the staffs trained on Budget preparation, control and interpretation of the budgets?

(a).YES

(b).NO

12) Are the prepared budgets modified /revised later after being drawn?

(a).Yes

(b).No

13) Who authorizes the budget revisions?

(a). Top level manager

(b). Donor

(c). Grant Recipient Organization.

(d). Others

14) How effective is the Zero Based budgeting process in your organisation?

(SD=strongly disagree, D= Disagree, N= Neutral, A= Agree, SA=strongly agree)

	EFFECTIVENESS OF ZB BUDGETS	SD	D	N	A	SA
a.	Flexibility					
b.	Responsiveness					
c.	Knowledge sharing					
d.	Continuous improvement					
e.	Cost minimization					
f.	Communicating corporate goals					

16). what is the major problem you encountered with Zero Based budgeting process?

(a) Uncertainty about the currency exchange rates

(b) Uncertainty about inflationary effects

(c) Resistance/Reluctance/delay from donors to approve the proposal budget

- (d) Uncertainty about funds availability or commitment of funds.
- (e) Inappropriate allocation decisions or Unrealistic cost estimates.
- (f) Lack of consultations in budget preparation ‘one man/woman processes’.
- (g) The methods/format/ techniques used for budgeting preparation e.g. software
- (h) Under/Over Implementation of project activities causing difficulties in explaining major variances in the budget.

17). To what extent does the following factors solve the Zero Based budgeting problems?

(SD=strongly disagree, D= Disagree, N= Neutral, A= Agree, SA=strongly agree)

	Problems	SD	D	N	A	SA
A	Better understanding of Zero Based budgeting behaviour and institutional dynamics					
B	Develop strong financial integration with performance management					
C	Appropriate timing of the financial plan					
D	Quarterly revision of financial plan to redirect resources at frequent intervals					
E	Better engagement between organizational leaders, managers , finance staff with the Donors					

Section C: Specific Factors Affecting managements’ perception of Zero Based Budgeting in NGOs

Please tick (✓) as appropriate your agreement with each of the following statements

A. Organization Structure	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a)We have a defined organization structure in our firm					
b)Lines of authority are clearly defined in our NGO					
c)Budgets in our NGO are co-ordinated by the head of the NGO					

d) Budgeting process is started in good time					
e) All employees are consulted before drawing budgets					
In your own opinion, how has the NGO structure contributed to the development of effective budgets?					
B. Bases of Budgets					
a) Budgets are prepared based on how much was spend in the previous period					
b) Budgets are prepared taking into account the changes in inflation					
c) Budgets are prepared taking into account the fluctuations in foreign exchange rates					
d) Budgets are reviewed from time to time					
In your own words, how can budget effectiveness be improved on bases used in budgeting?					
C. Frequency of budgeting					
a) Budgets are prepared monthly in our NGO					
b) Budgets are prepared quarterly					
c) We prepare budgets quarterly					
d) We prepare budgets semi annually					
e) We prepare budgets annually					
f) We prepare budgets as once every two years					
g) we prepare budgets occasionally					
In your own words, how can budget effectiveness be improved on budget frequency preparation					

18) Is zero based budgeting effective in your organization?

YES () NO ()

19) Below are factors that affect the managements' perception of Zero Based Budgeting in NGOs. On a scale of 1-3 please score them in the order of importance in affecting the effectiveness of Zero based Budgeting. (3 represent the most important).

Factor	Score (1-3)
Organization structure	
Bases of Budgeting	
Frequency of Budgeting	