THE IMPACT OF BUDGETARY CONTROLS ON THE FINANCIAL PERFORMANCE OF PARASTATALS IN KENYA

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DECLARATION

I hereby declare that this is my original work, and that it has not been submitted for any other university's degree program.

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DEDICATION

I dedicate this research to my loving parents, Mr. Gerald Okumu and Mrs. Jemima Ouma, for their dedication to my education since I was in elementary school. It is because of their investment in my education that I have progressed this far. My siblings; Spencer Omondi, Tracy Okumu & Cynthia Okumu have also been of immense support throughout my study and am thankful for them as well.

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ABBREVIATIONS AND ACRONYMS

ROI-Return on Investment

EBIT-Earnings Before Interest or Taxes

ROS-Return on Sales

ROE-Returns on Equity

IBP -International Budget Partnership

CIMA -Institute of Cost and Management Accountants

ROA-Return on Assets

SPSS- Statistical Package for Social Sciences

VIF- Variable Inflation Factor

ANOVA- Analysis of Variance

KRA-Kenya Revenue Authority

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Abstract

The study evaluated the impacts of budgetary controls on the financial performance of parastatals in Kenya. The study explored whether control, planning and monitoring had an impact on the financial performance of the parastatals. The study adopts a descriptive research design to examine the effects of budgetary controls on the financial performance of parastatals in Kenya.

The study population used is comprised of 260 registered parastatals in Kenya. The sample size comprised of 120 respondents, including the accountants, finance officers, deputy finance officers, and account assistants. A simple random sampling was used and the data was collected through structured questionnaires with open and closed questions. Analysis of the data was done using the statistical package for social sciences (SPSS) and correlation and regression analysis were used as the major methods of analysis.

The results of the study shows that there is significant relationship existing between budgetary controls and financial performance of parastatals in Kenya. The regression and correlation results show that there is a low positive correlation between budgetary controls and the financial performance of parastatals in Kenya according to the value of R^2 as represented by 0.201. The research recommended managers have to sensitize the employees on the importance of having planning, control and monitoring in budgeting to increase the financial performance of the parastatals. It also recommends that most parastatals have to develop clear policies towards developing effective budgeting controls to ensure they improve their financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Managing the performance of most institutions has been a complex task due to the changing organizational environment. However, most managers realize the importance of addressing the organization's performance through budgetary controls for short and long-term success. The provision of services is limited by the lack of valuable insights and trends necessary in driving the performance of most institutions. Budgeting makes achieving the project in any institution easier if they are within the set objectives and goals. What is more, budgeting assists in controlling the daily operations of any business in a country. The approach makes specific project goals are achieved within a short period using the available resources. Setting the budgets makes it possible to outline current and future resources to ensure they are synchronized with organizational goals. Generally, the components of the budget frameworks include budget planning, budget controls, budget reviews, and implementation of the budgets. According to Otieno (2019), budgetary control measures involve continuous planning processes that offer information on the actual expected results compared to the planned budgets in any organization.

Budgetary control plays a vital role in institutions through the establishment of effective management control. In addition, budgets are essential in monitoring, planning, and controlling the finances availed for any project (Otieno, 2019). It helps provide an estimation of the expenditures and the income of a company for a specific period. The analyses provided in the budget enable most parastatals to align with the economic environments leading to the overall success of the companies.

Internal controls are appropriately managed with a sound budgeting system because they ensure the company does what it is supposed to do (Muhunyo, & Jagongo, 2018). However, the budgeting system is affected by factors such as inflation, policies of taxation, interest rates, and economic situations in a particular country. Such factors have to be considered when budgeting because the currency's value determines the budgets to set. The value of the money usually controls the financial interactions, and that affects the budgets made by those institutions. The impact of inflation in Kenya will affect the budgets made because the currency is not as stable as other developed countries. In addition, the taxation policies will limit the implementation of the budget when institutions do not comply with the Kenya revenue authority (KRA) and the tax initiatives within the country.

The taxes are imposed to raise revenues by the government, which makes them unavoidable when budgeting. The government formulates laws and translates the tax policies to desired tax structures to make sure each company budgets according to the set guidelines (Otieno, 2019). The economic conditions in a country will determine the inflation rates and the market conditions, which affects the net worth and the ability to create more revenues. Further, Otieno (2019) noted that changing the tax policies and the inflation rates affect the determination of the budget deficits or surpluses.

The parastatals in Kenya have been developing their budgeting systems over time because of technological developments and the introduction of budgeting softwares. The reforms made have made budgeting an essential part of parastatals when determining their performance over time. Therefore, cash budgets have been used as crucial instruments in controlling all the budget deficits or surpluses within the institutions. However, improvement is required to handle all the budget controls, such as taxation policies, inflation, interest rates, and financial risk. Consideration of the factors is expected to improve the budgetary measures leading to aligning the budgets with the goals and objectives set within an organization. The theories used in the study are based on the budget control theory and accounting theory (Otieno, 2019). The budget control theory explores the relationship between financial performance of an organization and the budgetary control process. According to theory, budgetary control is used as a framework for expenditure and revenue allocation (Otieno, 2019). Accounting theory on the other hand assists in controlling and guiding the management actions in locating and identifying the information required for the purpose of budget preparation.

1.1.1 Budgetary Controls

The budgetary control process involves preparing budgets, comparing actual performance with the budgeted amounts, coordinating the departments by assigning responsibilities to the budget controllers (Otieno, 2019). The process consists in creating a spending plan to compare the essential expenditure of an organization with the amount stated in the project to find the necessary adjustments to keep the business on track. Additionally, budgetary control measures the deviation from the initially planned performance while providing information to formulate corrective actions to influence the future performance of organizations.

Parastatals will use budgetary controls to make plans by executing the short-term goals and monitoring the activities linked to the programs. The technique guarantees safe implementation of the budget of an institution. It identifies the amount required and the timing of the resources needed to ensure the budgets align with organizational plans. Managers need to understand the budgetary control techniques and the institutional dynamics to make sure the budgets are actual predictors of the organizational performance (Kalule, 2016). The employees can understand the process through quarterly revisions of the financial plans existing within an organization to direct the resources needed to make the budgetary control process a success.

1.1.2 Financial Performance

Financial performance is a measurement of how effective an organization can utilize its assets to create more revenues. The measure is important when creating sustainable organizations because it evaluates the financial strength and the profitability of the company within the market. The approaches used to measure financial performance include sales growth, returns on equity, return on investment, returns on sales and earnings before and after taxation objectives (Kamau, Rotich & Anyango, 2017). The financial performance of an organization will depend on how it utilizes its budgetary control measures. In parastatals, budgeting is important in keeping the internal operations of the companies sustainable because it ensures the organizations have continuous cash flows to run activities.

Budgetary controls are essential in any organization because they assist in profit maximization through appropriate coordination and planning of the various organizational functions when getting the information required for budgeting. Profit maximization is also achieved through controlling the revenue and capital expenditures and using the resources within the institutions for maximum benefit. Coordination between the subordinates and the managers makes it possible to have an appropriate budgeting process when they all work towards specific objectives (Kamau, Rotich & Anyango, 2017). As a result, the comparison between the targets, the actual budgets, and the deviations from the budgets can be easily determined to improve organizational performance. Understanding the deviations from the budgets identifies the weak areas enabling organizations to focus on the aspects where performance evaluations are not done.

1.1.3 Budgetary Controls and Performance

According to Kalule (2016), budgets are contradictory and they restrain the responsiveness of an organization. In addition, researchers say that budgets often concentrate on reducing the overall cost without considering adding value (Kalule, 2016). Budgets do not add value because of the time used to prepare them and the overall impact on the firm. Additionally, budgets encourage perverse behaviors, and they enforce departmental barriers rather than knowledge sharing because the departments usually feel monitored and controlled when they expose their information for budgeting.

The budgeting process is also faced with the problem of guesswork. The budgets can be inaccurate measures of performance when the business environment is undergoing rapid changes and when the organization has a shorter product life cycle (Kamau, Rotich, & Anyango, 2017). The budgeting process mostly leads to conflict between the subordinates and managers because they want to utilize their staff to the maximum point. In contrast, the associates work towards making budget numbers to be easily attainable. As a result, the budgetary control process faces many challenges when the communication between the managers and subordinates is not good and when the information is not shared among the departments freely.

Financial performance can be measured using total earnings or profitability, growth index or the efficiency of the company. Some of the measures of profitability include Return on investment (ROI), earnings before interest or taxes (EBIT) and gross profit margins. In terms of growth, financial performance will be measured through market share growth and the sales growth in the market. In terms of efficiency, measures such as return on sales (ROS) and returns on equity (ROE) are used objectives (Kamau, Rotich & Anyango, 2017). The measures are used in formulating good financial policies that maintain the operations within an organization effective.

1.1.4 Parastatals in Kenya

Parastatals in Kenya are created through the state corporation act section 3. In addition, cap 446 or an act of parliament are used to form parastatals in Kenya. There are 260 state corporations in Kenya in all the major sectors. Most of them have been struggling with finances and issues with the government that require intervention by the budgetary control system. The parastatals are involved in each sector within the Kenyan economy but initially they were established for agricultural purposes (Kheyley & Ragui, 2018). The growth of parastatals in Kenya shows the necessity of involving budgetary controls in all their operations. The related ministries of the government do the funding of the parastatals. However, some of the parastatals get their funding from the Kenyan government such as the Kenya Pipeline Company, Kenya Meat Commission, and Kenya Cooperative Creamies (Kheyley & Ragui, 2018). Budgeting is important in keeping the transparency of operations of the parastatals and it makes the funding of the ministries to be equitable.

According to the International Budget Partnership (IBP), most of the parastatals in Kenya were considered to be facing financial problems. As a result, devolving the parastatals that had similar functions as those within the counties was proposed as a solution. In addition, the IBP contributed funded the development of the parastatals (Kimeo & Achuora, 2020). Budgetary controls are important in such parastatals to make sure the funds are used to the allocated purpose. The saving achieved from the process of budgeting would lead to massive economic benefit such as creation of sustainable enterprises within the country.

1.2 Research Problem

Parastatals usually consider budgetary controls and budgets to be influential in policymaking. The success of the institutions depends on appropriate budget preparation and having good fiscal rules. Parastatals usually prepare budgets, but the extent of preparation and formulation vary with the institution. In addition, formal budgets are different in their purpose and nature. The failure of most institutions is attributed to weak budgeting processes and a lack of coordination between the managers and subordinates. In addition, the parastatals in Kenya are faced with financial challenges because most of them are subjected to fraud, and they operate using negative working capital. They have flaws in the procurement processes, and the fees they charge are usually high to the learners. With those challenges, it becomes difficult for parastatals to undertake budgetary control in all their operations.

According to Ibrahim (2018) study, there is a positive relationship existing between budgetary implementation and the performance of parastatals. The findings of this study are backed by Otieno (2019) study where budget planning, budget controls and coordination had a significant relationship with financial performance. However, the study was based on public universities in Nairobi County. Kalule (2016) and Muhunyo & Jagongo (2018) studies showed there was a significant relationship existing between budgetary control and the financial performance of organizations. Most of the studies are based on banks, public institutions and educational institutions. Few studies are related to the effects of budgetary controls on financial performance of parastatals showing there is a research gap to be addressed by the current study.

Kenya has made several reforms that are aimed at addressing the resource constraints and priorities in national development. However, the institutions within the country have been faced with administrative, financial, managerial, and production conditions, which have made it hard to have enough data for appropriate budget preparation. Also, the parastatals in Kenya have been faced with misapplication and misappropriation of funds leading to high expenditures and lack of responsibility among the employees in the budget control process. Even though there are attempts to make budgetary reforms in the country, the effects of fiscal controls on the performance of parastatals in Kenya have not been studied conclusively in the country after the reforms. There is a gap in finding the effects of controlling, planning, and coordinating such institutional performance against measures of organizational performance. In addition, the issues existing in the budgetary control processes and their effects on organizational performance have not been extensively studied, especially in parastatals. Hence, the information gap has to be addressed by this study.

1.3 Research Objective

To determine the effects of budgetary controls on the financial performance of parastatals in Kenya.

1.4 Value of the Study

The findings of the current study will add more information on performance and budgeting theories. They provide more insight on policies associated with the management of performances of parastatals in Kenya. That will include controlling the aspects influencing the performance of the parastatals negatively. The findings of the research are also important to the managers in the parastatals in Kenya because they will offer more information on how budgeting might help improve the performance of the institutions. The government will also find valuable information because it will know the problems affecting the parastatals to develop regulations on budgeting. The research findings will help the researchers in all their investigations related to the effects of using budgeting controls on the financial performance of parastatals.

The study is meant to find the relation between budgetary control and the performance of the parastatals in Kenya. The study is aimed to assist managers in institutions to control the cost of operations while avoiding wastage in the allocation of the funds. The study will also make the parastatals achieve maximum returns from the resources. The policymakers will find the value of the budgetary control within the institutions leading to efficiency in the services offered in the parastatals.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, several studies on budgetary controls and financial performance are discussed. The existing pieces of literature from the other researchers from the same field are discussed in detail. In addition, there is a discussion of theoretical review entailing the significant theories of budgeting and budgeting control. The empirical review in this chapter discusses previous studies on budgetary controls and financial performance.

2.2 Theoretical Review

2.2.1 Forecasting and Budgeting Approaches

Krylov (2018) asserts that financial forecasting is an essential part of budgeting. Krylov (2018) notes that financial forecasting evaluates the future and the current monetary conditions to guide creating programs and making policies. Moreover, Henttu-Aho (2018) asserts that financial forecasts usually use the present, past, and future information for fiscal management. As a result, the expenditure and revenue trends within an organization are easily identified. Shahriar et al. (2021) show that an effective forecasting process helps in improving decision making it easy to have budgetary discipline. Furthermore, Krylov (2018) notes realistic budgets have to incorporate legal and political forecasting issues. It will not be practical to include fictional figures in the budget without considering those factors because the constraints will reduce adoption.

The basic forecasting models to be used in budgeting include the extrapolation technique, regression approach, and hybrid forecasting. The extrapolation technique of budgeting projects the forward trend through revenue data collected from the past to predict future behavior (Williams & Calabrese, 2016). The extrapolation approach involves finding the moving averages of the data and performing single exponential smoothing of the data. In the regression approach, a relationship is created based on the budgeting process's independent and dependent variables (Ivanyuk, 2018). According to Valaskova, Kliestik & Kovacova (2018), when there is a relationship between the two variables, one or more independent variables used in the budgeting process predicts the expenditures and the revenues of a company. According to Ahmadi et al. (2019), the hybrid approach incorporates quantitative methods and knowledge-based forecasting methods.

According to Egbunike & Unamma (2017), establishing an effective forecasting technique within an organization depends on the credibility of the forecaster, the method used in the presentation, and how well the forecast is linked to decision making. Moreover, Shahriar et al. (2021) note that the forecasting process in the budgeting process has to be transparent, and it has to stay within acceptable limits of accuracy. The method of presentation should revolve around having a clear message. Egbunike & Unamma (2017) further notes the decisions makers' interests are maximized when there is a proper emphasis on the importance of forecasting as a key factor in budgeting and planning within an organization.

2.2.2 Budgetary Control Theory

The theory explains the link existing between financial performance and budgetary control processes. According to Chimbiro (2018), the budgetary control process is used for expenditure and revenue allocation. Proper budgeting helps the organizations prevent waste of resources and ensure the services delivered and the outputs achieve the set goals. Otieno (2019) notes that enough budgetary control ensures the allocation of resources is done equitably and transparently. Henttu-Aho (2018) also mentions the variances are easily identified and mitigated when there are enough budgetary controls within an organization. However, when the firm has lower funding, it has to find alternative methods of funding its operations, such as tax restructuring or borrowing from banks.

The Institute of Cost and Management Accountants (CIMA) explains that budgetary control involves creating budgets related to the responsibilities of the managers and the requirements of a specific policy (Otieno, 2019). The budgetary control process also involves a consistent comparability of the actual results with the results which are budgeted to secure the goals of the entire policy (Chimbiro, 2018). Control consists of a comparison between standards and the actual performances. The comparison is used to determine the decisions to be made from the result extracted from existing operations. Henttu-Aho (2018) notes the budgetary control compels leaders to think more about the future. The managers are obligated to set out plans to achieve the expected targets in each department. The selection of resources is made more accessible with a better budgetary control process because it makes it possible to have remedial actions to reduce variances in the budgets (Chimbiro, 2018). Therefore, the theory of budgeting control is essential in providing a basis for an appraisal because the actual performance is measured against the predicted performance.

2.2.3 Theory of Budgeting

According to Kenno, Lau & Sainty (2018), budgets are considered essential for an efficient control process of organizational activities. Moreover, Ho (2018) explains that budgets are used to project the future financial performance of an organization that makes it easier to evaluate the financial viability of the selected strategy within an organization. In most firms, budgeting is done by making budgets and monitoring the projected values against the actual values in the budget (Ibrahim, 2018). Moreover, budgets can show the financial significance of the plans, the resources required, and the funds required to run business activities.

Budgets are influential on the workers' decisions and behavior because they can use them in funding the business objectives (Kalule, 2016). In addition, they are used as benchmarks when assessing the performance of organizations. When preparing the budgets, rationality can be improved by considering other causes of action, such as political and legal requirements within a country (Muhunyo & Jagongo, 2018). The preparation process of budgets requires the individuals to be considering the future and the records to reduce the variance in the allocations made. Miraji (2019) notes that budgets are used as detectors of variance between the performance of the firm and the organizational objectives. They act as benchmarks for comparing the budgeted results with the actual results and implement corrective initiatives when necessary. Budgets make the achievement of goals easier, facilitate control, enable contracts with other external organizations, and make learning efficient because the funds used are budgeted (Kalule, 2016). Creating a suitable environment during budgetary changes requires implementing budgetary control measures and working within the legal requirements.

2.3 Determinants of Financial Performance

Financial performance measures of how effective a company can utilize its assets from business operations to generate more revenues. The measure evaluates the profitability and the financial strength of any business (Matar & Eneizan, 2018). According to Odhiambo (2019), the several indicators which are used in estimating the financial performance of a company include, return on assets (ROA), return on sales (ROS), return on equity (ROE), quick ratios, leverage ratios, and returns on investments (ROI). However, the choice of the best approach depends on the objectives of the study. According to Kim & Le Thanh (2021), ROE, ROA, and ROS are mostly used in measuring the financial performance of a company. Further, Matar & Eneizan (2018) research shows that quick ratios help measure the financial performance of companies when budgeting is considered.

2.3.1 Return on Equity

Weidman et al. (2019) notes ROE is one of the profitability ratios that is used to measure the capability of a firm to create more profits for its shareholders. The ratio shows how effective a company is good in generating more returns on the investments it received from the stakeholders in the company (Lubis & Alfiyah, 2021). When the ROE of a company is compared to the industrial average, it helps in showing the competitive advantage of a company. Also, it is effective in showing how the managers in a company are using the investments from equity to fund the business venture (Weidman et al., 2019). Increasing rates of ROE means that the organization is offering a good shareholder value by reinvesting the earning to increase the level of profits within the company. When the rate of ROE is decreasing, it implies that the managers are not making good decisions concerning reinvesting capital in the firm.

2.3.2 Return on Assets

Return on assets is a measure of the profitability of a business when related to the total assets (Diaz & Pandey, 2019). The ratio is effective when comparing the profits a company is making to the capital spend on the assets.

When the ratio is high, it implies that the company is efficient and productive in utilizing most of its resources. According to Abraham, Harris & Auerbach (2017), the ratio is effective in comparing the performance between companies in specific periods and when there is a comparison of two companies with similar sizes within the same industry. What is more, the ratio can be used to determine the asset intensiveness of a company (Abraham, Harris & Auerbach, 2017). The measure is effective in measuring financial performance but it is affected by market conditions and the changing cost of assets.

2.3.3 Return on Sales

ROS measures how efficient a company can generate profits from its revenue. The ratio is important in companies because it shows the percentage of the income made by the company on its revenue (Batchimeg, 2017). The company’s performance is evaluated using the ratio from one period to another period. In addition, different-sized companies can also be evaluated using the ratio (Batchimeg, 2017). When ROS is high, it shows that the company is growing at a steady rate. When the rate is small, it shows that the company is facing harsh financial periods. Moreover, the ratio shows how the companies are efficiently run to generate higher returns.

2.3.4 Quick Ratio

The quick ratio evaluates the capability of the company to satisfy the short-term debt demands using liquid assets. The ratio measures the capacity of the firm to pay the current liability without the necessity of selling its inventory or requiring additional financing (Wijaya & Sedana, 2020). High quick ratios show that the company has good financial health. As a result, the company will be able to survive most emergencies or events that create cash flow issues (Wijaya & Sedana, 2020). A lower quick ratio shows that the company will struggle in paying for its debts. Investors and lenders find the ratio effective because it determines whether the company is a good fit for its investments. With the ratio, it becomes easier to determine whether the investors will get their money back after the business faces problems.

2.4 Empirical Review

Appropriate budgeting is essential for the success of parastatals in today's outcome-oriented environment. Researchers have established that the stakeholders require more accountability, and they require better performances from the managers to make sure the budgets are prepared effectively. Budgetary practices within an organization are used as a standard of evaluation of the performance of managers.

Al Mahroqi & Matriano (2021) examine whether budgetary controls affect the financial performance of a company in Oman. The study wanted to determine effective budgetary control and identify the duties of managers in the budgetary control process. The study used questionnaires, and the overall research design was descriptive. The data analysis was done through percentages and frequency tables. The study results showed a significant association existing between budgetary control and the financial performance of telecommunication companies in Oman. The company used responsibility accounting, variance analysis, and revenue budgeting techniques for budgetary controls and evaluations. The study proposed developing budgetary controls through effective planning and assessing the actual and benchmarking it with the budgeted amounts.

Al Mahroqi (2021) examined the effects of budgetary controls on the financial performance of a telecommunication company to confirm the usefulness of the budgeting. The survey method used was based on interviews and questionnaires, and analysis was done using correlations, frequency distribution, and regression analysis. The interviews were analyzed using explanatory and descriptive methodologies. The study results found that there is a significant relationship between performance of a company and the budgetary controls. The study insisted on the benefits of controlling the budgets to a firm and the need to support the management in learning through training programs.

Miraji (2017) assessed the impacts of budgeting control on the performance of a public institution to find whether a budget deficit will disrupt the normal functions of organizations. The study adopted a causal research design with interviews and questionnaires as the effective methods for data collection. Data analysis in the study was done using linear regression and cross-tabulation. The results of the study showed there was a significant link existing between budgeting controls and organizational performance. The findings further showed a correlation between budget deficits and the disruption of the normal operations of the institution. The study results also showed that poor budget execution, poor management of expenditure, and government bureaucracy affected organizational performance.

Kengara & Makina (2020) researched the effects of the budgetary process on organizational performance to determine the impact of budget planning, budget control, evaluation, and implementation on organizational performance. The study used a descriptive research design with questionnaires being used as the main source of collecting data. The study adopted both secondary and primary data to elaborate on the main subject of the research. Analysis of the data was done using a regression analysis. The study's findings showed a significant link between budgetary planning, control, evaluation, implementation, and monitoring with organizational performance. The study recommended that companies have to embrace the budgetary process to perform better.

Ajao, Danjuma & Joel (2020) studied the link between budgeting controls and the financial performance of insurance companies in Nigeria to find whether budgeting was helpful in the insurance industry. The study was descriptive, and it considered 230 managerial employees.

Analysis of the data was done through multiple regression methodology to create an association between the main study variables. The results showed there was a strong correlation between budgetary control and performance. The study's findings also showed that budget implementation was effective in capacity building, and it facilitated the development of an effective system and process prioritization. Further, the study recommends that stakeholders be involved in budget execution for the implementation process to be successful.

Etale & Idumesaro (2019) analyzed the link between budgetary control process and the performance of a state in Nigeria. The research used an ex-post facto research design, and the data was collected through questionnaires and analyzed through descriptive statistics and multiple regression analysis. The findings of the study showed that capital and recurrent expenditure budgets had no significant relationship with actual budget performance. In the state, there was no linkage between performance and budgetary control. Recommendations of the study showed encouragement of budgetary participation by the government to ensure budgeting assist in improving the general performance of the state.

Everien & Claude (2020) studied budgetary control and its connection with the performance of government corporations. The research considered 86 respondents from a water and sanitation corporation. The study analyzed the data through regression analysis, and descriptive statistics were used to get the results. The findings of the research proved that budgetary control has a significant relationship with the corporation's performance because it led to increased net profit margin. The study's findings also showed that budgetary control was supposed to be improved by increasing management support, cost reduction and reduction of budget variance.

Rutto and Oluoch (2017) study examined the effects of budget control on the performance of a savings and credit company in Nairobi. The research wanted to find the impact of human capital and cash flow budgetary controls on the company's performance. The results proved that the two variables had a positive effect on the company's financial performance. The study emphasized the necessity of communication of details related to budgeting and guidelines to the people entrusted with the preparation of budgets. The findings also showed the importance of having a daily cash flow to track the variances in the budgets properly.

Odero (2019) studied the impact of budgetary control on the performance of the financials of public universities to elaborate the link existing between planning, coordination, control, and the performance of public universities. The study used both secondary and primary data to extract the findings of the research. The descriptive method was also used in the study for analysis of data. The results showed a significant relationship between budget coordination, control, and planning with the performance of public universities.

Nafisatu (2018) study evaluated the effects of budgeting systems on the performance of a company. The research utilized a descriptive research design and a regression analysis. The study results proved budgetary control had a high positive correlation with the performance of a firm because it increased the profit before tax and the earnings per share of the company. The findings show there is a low positive correlation between using budgetary control and profit after tax.

Mbuthia & Omagwa (2019) studied the effects of budgetary controls on the performance of the financials of commercial banks using a cross-sectional descriptive design. The research used both secondary and primary data to find the relationship between financial performance and budgetary controls. The results were analyzed using trend analysis, multiple regression analysis, and descriptive analysis (Mbuthia & Omagwa, 2019). The results suggested that budgeting planning, implementation, control, and review have a significant and positive impact on financial performance. Recommendations in the study showed that managers of the various banks should review their performance every year and review the failures and successes of the previous plans to improve their performance.

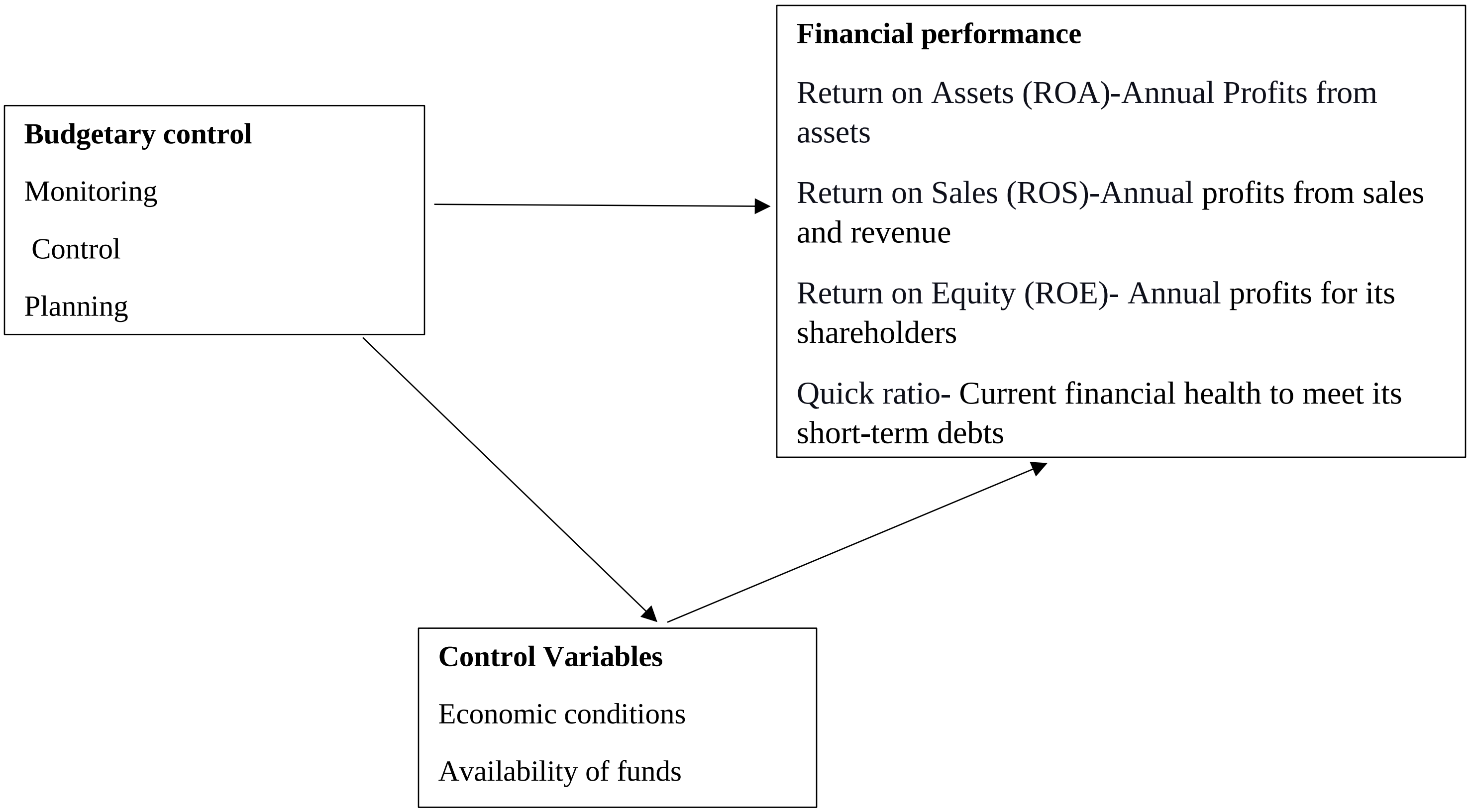
2.5 Summary of Empirical Review

Previous studies on the link between budgetary controls and financial performance show that the majority of the studies display a positive association between budgetary control and financial performance. However, most of the studies do not show how measures of financial performance such as ROE, ROA, ROS, and quick ratio can be used to determine the effectiveness of the budgetary control measures. Therefore, there is a gap to fill by finding the impacts of budgetary controls on the financial performance of the parastatals using the ratios.

2.6 Conceptual Framework

The conceptual framework provides the key variables and the key factors used in the research and shows the relationship existing with the data variables. The study is aimed at finding the relationship existing between budgetary control uses and the financial performance of parastatals in Kenya. The independent variable used in the study is budgetary control where the aspects of monitoring and control as well as planning are considered. The dependent variable in the current research is financial performance. In this study, it will be measured using ROA, ROS, ROE, and quick ratio. The intervening variables in the current research will be the economic conditions within the country and the availability of funds for budget allocation.

Figure 1:Conceptual framework



The conceptual framework in the research implies that when budgetary control Measures such as control and planning are used in parastatals, the financial performance will be improved following the financial performance measures such as ROA, ROS, ROE, and quick ratio.

2.8 Summary

The chapter has reviewed the previous scholarly studies on budgetary controls and the performance of an organization. The chapter has explained the main theories used in the research and the concept of performance and budgetary control in the empirical review from previous studies. From the information in the literature review, the relationship between budgetary control and the organization's financial performance is elaborated.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The chapter discussed the techniques and the approaches used by the researcher when collecting data. The study included the research design, sample size, population, sampling methods, data collection methods, data analysis techniques, the validity of the research instruments, and reliability of the research instruments.

3.2 Research Design

A research design is a systematic and logical plan that is usually prepared for guiding a research study (Tobi & Kampen, 2018). Tobi & Kampen (2018) further note a research design specifies the goals of the research and the techniques utilized to meet the objectives of the research. The study adopted a descriptive research design to examine the effects of budgetary controls on the financial performance of parastatals in Kenya. According to Bloomfield & Fisher (2019), descriptive research designs are important because they develop a general idea of a particular subject of interest because they usually have large samples used in describing the data. The descriptive survey design adopted in the current study is meant to capture all the population's attitudes under review on the effects of budgetary controls on the financial performance of parastatals. Descriptive studies describe the how, the where, and the what of a particular phenomenon under investigation (Dannels, 2018). The descriptive studies were essential to obtain an insight into the current phenomenon and draw conclusions from the facts discussed in the present study. The studies conducted using descriptive research designs attempt to collect essential data from the selected sample to describe the existence of phenomenons.

3.3 Population

The study population was comprised of 260 registered parastatals in Kenya. The target population in the study varied because there are few key state parastatals in Kenya.

3.3.1 Sample

The survey was done with one key state parastatals in Kenya. The sample size from the population under study comprised 120 respondents, including the accountants, finance officers, deputy finance officers, and account assistants. The reason for using the 120 individuals from the parastatals is the limited resources and time required to travel all over the country. In addition, the availability of an adequate sampling technique that facilitated the sampling procedure also helped in extracting the final output of the study.

3.3.2 Sampling Procedure

The study adopted a simple random sampling involving selection of the respondents by chance. The method is effective for the research because the population selected has an equal chance of being selected. The members of the population were offered with a number then a table of random numbers was formulated to decide the respondents to include in the current research.

3.4 Data Collection

The study collected the data through structured questionnaires with open and closed questions. The questionnaires were offered through a drop and pick method following the agreed timeline with the researchers. In the questionnaires, there was the application of a five-point Likert scale ranging from strongly agree to strongly disagree. The Likert scale measured the priorities the respondents had for the independent variables. The information on the financial performance of the parastatals was obtained from their yearly annual reports and inputs from the selected respondents. The independent variables used in the current study consisted of budgetary control systems and budgetary planning. The data on budget control was collected using questionnaires with Likert scales and the responses of the various respondents.

3.5 Data Analysis

Data analysis involves inspecting and transforming the data to discover helpful information required to develop the conclusions necessary in a study. The research adopted descriptive statistics to analyze the data using the statistical package for social sciences (SPSS). The study adopted correlation and regression analysis as the major methods of analysis. The regression analysis was used because the study variables are measured using the ratio and interval scale. The data was presented in tabular forms with frequencies, percentages, mean, standard deviations, and regression summary models.

The regression analysis used in the analysis of the effects of budgetary control on the financial performance of parastatals in Kenya is:

$Y = a+b_1 X_1+b_2 X_2+ b_3 X_3+e$

Y=Financial performance

X_1=Planning

X_2= Monitoring

X_3= Control

b_1, b_2 and b_3 =Coefficients

a= Constant term

e=Standard error

Figure 2:Variable specification and measurement

Variable	Measurement
Planning	Duration and Approximate Annual Budgeted Revenue & Expenditure Availability of short and long term budget plans
Monitoring and Control	Frequency of Budget Review Existence of budget policies
Control	Level of agreement with control measures
Performance	ROA, ROS, ROE and Quick Ratio

3.5.2 Variable Specification

Financial performance in parastatals was used in the current study as the dependent variable. The independent variables used in measuring the budgetary controls were planning, monitoring and control. Achievement of the study objectives required measurement of the independent variables based on the frequency of their application for the purposes of maintaining financial soundness within parastatals. The questions in the questionnaires were structured to measure the independent variables effectively. When measuring the financial performance of the parastatals, the information was extracted from the annual reports and the staff members related with preparation of the budgets and that information was used as a SPSS entry to get statistical data.

The dependent variable in the current research was measured using return on sales, return on equity, quick ratios and return on assets. Measurement of the return on assets was done by finding the net income of the company and total assets of the company from the audited annual reports and staff members. Return on sales was measured by finding the operating profit of the company and net sales from the audited annual reports and staff members. Return on equity was measured by finding the net income and shareholders' equity of the company from the audited annual reports and staff members. The quick ratio on the other hand was measured by finding current assets, liabilities and the inventory of the company from the audited annual reports and staff members. The information extracted from the staff members from the questionnaire and the annual reports were used as SPSS entries to analyze the data statistically.

The independent variables used in the study included planning, monitoring and control. The first variable, planning, was measured based on the duration and approximation of the annual budgeted revenue as well as expenditure of the parastatal. Further, planning was measured through the frequency of developing priorities for the next budgeting periods in conference, frequency of making budget plans before the budget year, the period covered by the current budgets, the existence of short and long term budget plans, and frequency of setting goals and objectives on budgeting. The measures were effective in knowing whether there was effective planning and whether it affects the performance of the parastatal.

Monitoring was measured using frequency of budget review, frequency of budgeting meetings, frequency of reviewing deviations of the budgets, frequency of using budgetary policies and frequency of follow up on the budgeting activities. Control was computed using the reviews on the cost of budgeting, frequency of taking corrective actions in adverse situations, frequency of agreeing to the budget policies and statements and frequency of using budget policies checking on spending.

The independent and dependent variables with their measures were effective in answering whether budgetary controls affect the financial performance of parastatals in Kenya. The efficiency and frequency of using planning, monitoring and controls determined the financial performance of the parastatals. The ratios collected from the secondary data and primary data were used to determine the performance of the parastatals and that data was backed by the findings from the primary data to determine whether the financial performance of the parastatals was affected by planning, monitoring and control measures.

3.6 Data Collection Instruments and Procedures

Data collection tools are required to gather the information required to prove the facts under investigation. The research utilized both primary and secondary data techniques to get the information. Primary data used in the study was collected using questionnaires. The questionnaires had open and closed ended questions to be reviewed. The closed ended questions usually require the respondents to select the appropriate option from a list of alternatives. The open-ended questions required a description depending on the subject that is being questioned. The respondents had a lot of time to give out a well thought out answer. The secondary data was collected from the annual reports of the parastatals considered in the current study and the staff members.

3.6.1 Validity of Instruments

Initially, a pilot study with 12 respondents from a sample of 120 respondents was done to establish the reliability and validity of the questionnaire. The pilot study was made to ensure that the questions were well understood by the respondents used in the study and to ensure there was no problem in the wordings in the questionnaires. Content and construct validity was used to measure the validity of the instruments. The research used Cronbach model to test the reliability of the data. The validity and reliability measures established that questions used were effective in measuring the study objectives. After the pilot study, the researcher was able to make the necessary changes alongside the results obtained from the pilot study to ensure the questions were an accurate measure of the specific objectives of the study.

3.7 Data Validity and Reliability

Validity is considered the accuracy and meaningful nature of findings based on the findings of a study. It measures the extent to which the results from the study represent the variables considered in the study. The study adopted content validity to show whether the statements and the questions used in the study represent the research questions. Construct validity was also applicable in the research because it ensured that the statements and the questions used were stated appropriately.

The lecturers and the supervisors were used in the current study to ensure the present research was valid through sharing details of the research instruments with them after a pilot study. Reliability is used to refer to the consistency of the measures used in the analysis of data. In the study, the Cronbach model was used to test the reliability of the data. The coefficients of the Cronbach reliability test range from 0 to 1. When the coefficients are closer to one, there is consistency in the items used in the scale.

CHAPTER 4

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter covers presentation of the collected data on control, monitoring and planning. It includes a summary and interpretation of the findings to evaluate whether budgetary control has an effect on the financial performance of parastatals in Kenya. The chapter also discusses the major findings of the data and it compares the current study with other studies in order to understand the similarities or differences.

4.2 Response Rate

The study targeted a total of 120 respondents. The response rate was perfect because all the participants attended. The 100% response rate is considered good enough because it assisted in extracting the required information to show the relationship between dependent and the independent variable.

4.3 Demographic Information of the Respondents

4.3.1. Gender

Table 1 shows there were more women than men as shown by 49.2% representing the men and 50.8% representing the women.

Table 1:Gender of the participants

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	59	48.0	49.2	49.2
	Female	61	49.6	50.8	100.0
	Total	120	97.6	100.0	
Missing	System	3	2.4		
Total		123	100.0		

Source: Primary data

4.3.2. Age

In relation to age, the table 2 shows the highest percentage belongs to the people aged between 31 and 40 years with 36.7%. The employees aged 50 years and above were the least represented with 13.3% participants.

Table 2:Age of the participants

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18 and 30	22	17.9	18.3	18.3
	31 and 40	44	35.8	36.7	55.0
	41 and 50	38	30.9	31.7	86.7
	Over 50	16	13.0	13.3	100.0
	Total	120	97.6	100.0	
Missing	System	3	2.4		
Total		123	100.0		

Source: Primary data

4.4 Data Presentation

4.4.1 Period of Budgeting

From table 3, most participants reported they set their budgets to be within 1-5 years as shown by 37.5% of the participants. The least number of participants reported that the parastatals budget for a period of less than one year as represented by 28.3% from the table.

Table 3:Period of budgeting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	A period of less than one year	34	27.6	28.3	28.3
	1 to 5 years	45	36.6	37.5	65.8
	over 5 years	41	33.3	34.2	100.0
	Total	120	97.6	100.0	
Missing	System	3	2.4		
Total		123	100.0		

Source: Primary data

4.4.2 Period of Budget Reviews

The data from table 4 shows majority of the parastatals were reviewing their budgets on a quarterly basis. The lowest percentage of the participants reported that they review their budgets on a monthly basis as shown by 25.8% of the participants.

Table 4:Period of Budget Reviews

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Monthly	31	25.2	25.8	25.8
	Quarterly	57	46.3	47.5	73.3
	Annually	32	26.0	26.7	100.0
	Total	120	97.6	100.0	
Missing	System	3	2.4		
Total		123	100.0		

Source: Primary data

4.4.3 Annual Budget Estimate

From table 5, 34.2% of the respondents reported that the budget revenue estimates are between 1 million to 5 million within a year. The lowest number of participants reported that their annual budget revenue estimates are 1 million or less as shown by 18.3% response rate. From the data, it can be concluded that few parastatals also set their budgets above 10 million as shown by 20% response rate.

Table 5:Annual budget estimate

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 million or less	22	17.9	18.3	18.3
	1 million to 5 million	41	33.3	34.2	52.5
	5 million to 10 million	33	26.8	27.5	80.0
	10 million and up	24	19.5	20.0	100.0
	Total	120	97.6	100.0	
Missing	System	3	2.4		
Total		123	100.0		

Source: Primary data

4.5 Descriptive Statistics

The data in table 6 below shows all the participants were involved as displayed by the 120 entries from the output. Also, the data is considered to be symmetric and normally distributed because the value of the mean, median and the mode are almost equal.

4. 5.1 Planning

From table 6, the mean of the data on planning is 3.145 and the median is 3.2. The mean is less than the median showing the distribution is negatively skewed. As a result, the data on planning is left skewed. The standard deviation of the data is 0.49397 showing that the values are closer to the mean. From table 6, the minimum observed value was 1.4 and the maximum observed value was 4.4.

4.5.2 Monitoring

From table 6, the mean of the data extracted on monitoring is 3.1567 and the median value is 3.2. The median is higher than the mean showing that the data is also negatively skewed with most of the data on monitoring having more asymmetry to the left. The standard deviation of the data is 0.39166 showing that the values used in monitoring are closer to the mean. The minimum observed value of the data is 2.2 and the maximum observed value in the data was 4.2 as shown in table 6.

Table 6:Descriptive Statistics

		planning	monitoring	control	performance
N	Valid	120	120	120	120
	Missing	3	3	3	3
Mean		3.1450	3.1567	3.3083	3.0486
Median		3.2000	3.2000	3.2500	3.0000
Mode		3.20	3.20	3.25	3.00
Std. Deviation		.49397	.39166	.46713	.42964
Variance		.244	.153	.218	.185
Range		3.00	2.00	2.50	2.67
Minimum		1.40	2.20	2.00	1.33
Maximum		4.40	4.20	4.50	4.00
Sum		377.40	378.80	397.00	365.83

Source: Primary data

4.5.3 Control

Table 6 shows that the mean value is 3.3083 and the median is 3.25. The results shows that the data is positively skewed. As a result, the data on control has more asymmetry to the right. The value of standard deviation is 0.46713 which shows there is a low variance from the mean. The minimum observed value is 2 and the maximum observed value from the data is 4.5 as shown in table 6.

4.5.4 Performance

The mean of the data is 3.0486 and the median is 3.0 showing that the data is skewed to the right. The standard deviation is also low showing that there are few variances from the mean in the values used in performance. From the data in table 6, the minimum observed value is 1.33 and the maximum observed value represented in the data is 4.

4.6 Linear Regression Model

4.6.1 Model Summary

From table 7 below, the value of R square is 20.1%. The value means that 20.1% of the variables fits the regression model showing there is weaker fit in the model. From the research, that value means that 20.1% variance in financial performance is predicted from planning, monitoring and control. From the table, the value of Durbin Watson statistic is 1.601 showing that there is no autocorrelation in the variables used in the data. An acceptable range of the values in Durbin Watson statistic is supposed to be in the range of 1.5 to 2.5.

Table 7:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.448[a]	.201	.180	.38903	.201	9.714	3	116	.000	1.601

a. Predictors: (Constant), control, monitoring, planning

b. Dependent Variable: performance

Source: Primary data

4.6.2 ANOVA

The p-value associated to the F value is 0.000 showing that it is statistically significant and the F value is 9.714. P values less than 0.05 show that the data is statistically significant. Therefore, the F value shows monitoring, planning and control reliably predict the financial performance.

Table 8:ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.410	3	1.470	9.714	.000[b]
	Residual	17.556	116	.151		
	Total	21.966	119			

a. Dependent Variable: performance

b. Predictors: (Constant), control, monitoring, planning

Source: Primary data

4.6.3 Regression Model Coefficients

From Table 9, the values in column B represent the values of the regression equation which are used to predict the dependent variable from the independent variables. The initial regression equation was supposed to be in the form $Y= a+b_1 X_1+b_2 X_2+ b_3 X_3+e$ where

Y=Financial performance

X_1=Planning

X_2= Monitoring

X_3= Control

b_1, b_2 and b_3 =Coefficients

a= Constant term

e=Standard error

From the model summary in table 9, the regression equation is:

Financial performance = 1.342+0.366 Planning +0.221 Monitoring -0.043 Control + e

Table 9:Linear Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.342	.435		3.086	.003		
	planning	.366	.073	.421	5.015	.000	.980	1.021
	monitoring	.221	.092	.202	2.416	.017	.989	1.011
	control	-.043	.077	-.047	-.560	.577	.982	1.018

a. Dependent Variable: performance

Source: Primary data

The unstandardized coefficients show the relationship existing between the dependent and independent variables. They show the amount of increase in financial performance that would be predicted by a unit increase in either monitoring, planning or control. A unit increase in planning will lead to 0.366 unit increase in financial performance while holding the other variables constant. The coefficient is statistically significant because the p-value is 0.0000 showing that we reject the null hypothesis and accept the alternative hypothesis in planning.

For every unit increase in monitoring, there is a 0.221 unit increase in financial performance when the other variables are held constant. The coefficient is statistically significant because the p-value of 0.017 is less than 0.05.

A unit increase in control leads to 0. 043 unit decrease in the financial performance while holding all the other variables constant. The p-value of the coefficient is 0.577 which is higher than 0.05 showing that there an insignificant relationship in control.

The variance inflation factor (VIF) of planning, monitoring and control are 1.021, 1.011, and 1.018 respectively showing that the predictors are not correlated with each other. VIF also shows that there is no multicollinearity between the independent variables used in the study. A VIF of less than 5 is generally accepted to show there is no correlation in the independent variables used in the data. From the regression analysis results, it is evident that there exists a significant relationship between planning, monitoring, control and financial performance of parastatals in Kenya even though control has a low relationship with financial performance.

4.7 Correlation

Table 10 shows the spearman correlation coefficient analysis. The correlation of the independent variables and the dependent variable is shown in the table with planning having a moderate positive correlation of 0.333. Monitoring also has a weak positive correlation of 0.156 with financial performance. From all the variables, control has weakest correlation of 0.003 with financial performance.

Table 10:Correlations

			planning	monitoring	control	performance
Spearman's rho	planning	Correlation Coefficient	1.000	-.070	.087	.333
		Sig. (2-tailed)	.	.450	.345	.000
		N	120	120	120	120
	monitoring	Correlation Coefficient	-.070	1.000	.086	.156
		Sig. (2-tailed)	.450	.	.351	.089
		N	120	120	120	120
	control	Correlation Coefficient	.087	.086	1.000	.003
		Sig. (2-tailed)	.345	.351	.	.970
		N	120	120	120	120
	performance	Correlation Coefficient	.333	.156	.003	1.000
		Sig. (2-tailed)	.000	.089	.970	.
		N	120	120	120	120

Source: Primary data

4.8 Discussion of Findings

The current research has shown that there is a positive relationship existing between budgetary controls and the financial performance. The findings of the research are similar to Al Mahroqi & Matriano (2021) who found a significant relationship between budgetary controls and the financial performance of a company in Oman. Similarly, Miraji (2017) assessed the impacts of budgeting control on the performance of a public institution and the results were significant. Further, the current research is similar to Kengara & Makina (2020) who researched the effects of the budgetary process on organizational performance and found a statistically significant relationship between the variables.

The results of the current research are similar to Ajao, Danjuma & Joel (2020) who also found a significant relationship between budgeting controls and the financial performance of insurance companies in Nigeria. Additionally, Everien & Claude (2020) study on effects of budgetary control on the performance of government corporations showed a significant relationship showing a similarity with the current findings. Further, the findings of the current research are similar to Rutto and Oluoch (2017), Odero (2019), Nafisatu (2018), and Mbuthia & Omagwa (2019) who studied the effects of budgetary measures and controls on financial performance and found a significant relationship between the variables.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The section presents the summary of the findings, conclusion, policy recommendations, limitation of the study and the suggestions for further studies.

5.2 Summary of Findings

From the study findings, most of the respondents were women. The women are represented by 50.8% and the men are represented by 49.2% of the entire population as shown in table 1. In terms of gender, the representatives are equal showing that there is no bias in gender representation. In terms of age, the people aged 31 to 40 years were the majority as represented by 36.7% of the participants. From the selected population, the respondents over 50 years were the least in terms of attendance with percentage rate of 13.3 as shown in table 2.

All the parastatals involved reported that they are involved in the budgeting processes. From table 3, most of the parastatals reported that they budget for a period of 1 to 5 years as represented by 37.5% of the respondents. 34.2% of the respondents also reported that they are involved in budgeting for more than 5 years. Lastly, 28.3% of the respondents showed that the parastatals budget for a period of less than one year.

From table 4, most of the respondents reported that the parastatals budget on a quarterly basis as represented by 47.5% of the respondents. 26.7% of the respondents reported that they budget on an annual basis while 25.8% reported that they review their budgets monthly. None of the parastatals reported that they are not involved in budget reviews because they are either involved in monthly, quarterly and annually.

From table 5, most parastatals set their annual budgets between 1 million to 5 million as represented by 34.2% of the respondents. 18.3% of the respondents showed that the parastatals had annual budgets of values less than 1 million. From the results, it is evident that all of the parastatals are involved in annual budget estimation showing that effects of budgeting on financial performance can be estimated from the selected parastatals.

The correlation between planning and financial performance as shown from table 10 is 0.333. The results show there is a moderate positive correlation existing between planning and financial performance. From the linear regression analysis in table 9, a unit increase in planning leads to 0.366 increase in financial performance. The variable also shows statistically significant relationship. Therefore, planning has an impact on the financial performance of parastatals in Kenya.

The correlation between monitoring and financial performance as shown in table 10 is 0.156. The results show there is a weak positive relationship existing between monitoring and financial performance of parastatals in Kenya. From the regression analysis in table 9, a unit increase in monitoring leads to a 0.221 increase in financial performance. The significance of the coefficient is 0.017 which is lower than 0.05 showing that it is statistically significant. Therefore, monitoring affects the financial performance of parastatals in Kenya.

There is a weak positive correlation existing between control and financial performance as shown by table 10. The value of the correlation is 0.003 showing that control is weakly related to financial performance. From the regression analysis in table 9, a unit increase in control leads to a decrease in financial performance by -0.043. The coefficient is also not significant but there is a relationship existing between the variable and financial performance because there is a weak positive correlation. Therefore, control affects financial performance but the effect is negligible from the findings.

From the analysis, planning, control and monitoring are positively correlated with financial performance. The results from the F statistic shows that the linear regression model offers a better fit to the data. Therefore, planning, monitoring and control are reliable in predicting the financial performance of parastatals. Therefore, it is evident that budgetary control has a positive significant effect on the financial performance of parastatals in Kenya.

5.3 Conclusion

The research examined the effects of budgetary controls on financial performance and found that most of them have planning, monitoring and control. Also, the research concluded that the parastatals in Kenya have budgetary controls at different levels within the parastatals. The results of the study showed that the highest financial performance of the parastatals was attributed to planning followed by monitoring and control was final in terms of the impact it brings.

From the results, it is also evident that most parastatals in Kenya are involved in the budgeting process. They do quarterly budget reviews and most of the annual budgets are within 1-5 million showing that most of them are medium sized parastatals. Also, the findings show that majority of the parastatals budget within 1-5 years which assists them to plan, monitor and control their operations.

From the results, it is justified to reject the null hypothesis and accept the alternative hypothesis because there is significant relationship existing between budgetary controls and financial performance of parastatals in Kenya. However, the regression and correlation results show that there is a low positive correlation between budgetary controls and the financial performance of parastatals in Kenya according to the value of R^2 as represented by 0.201. From the results, it can be concluded that there are other variables apart from budgetary controls which can lead to an increase in the financial performance of parastatals in Kenya as shown by the value of R^2.

5.4 Policy Recommendations

The research shows that budgetary controls influence financial performance of parastatals. Therefore, managers have to sensitize the employees on the importance of having planning, control and monitoring in budgeting to increase the financial performance of the parastatals. It is recommended that the employees have to develop a formal approach when creating budgetary controls because they will make the parastatals improve the financial performance. Therefore, most parastatals have to develop clear policies towards developing effective budgeting controls to ensure they improve their financial performance.

The findings of the research show that managers can adopt other measures that enhance financial performance. They can use staff development, training or employee motivation to improve the financial performance of parastatals. Staff development and training can be directed towards planning aspect of budgetary control because it had the most significant relationship with financial performance in the current research.

It is recommended that managers have to review the financial performance quarterly or annually to make planning and monitoring easier. Also, the managers have to analyze the failures and successes of the previous budgets in order to improve on budgetary controls and maximize on the already existing successes to improve the financial performance. Lastly, it is recommended that the managers have to review the budgets regularly to identify the variances.

5.5 Limitations of the Study

The research was limited by financial problems. There was no adequate financial support to travel to the different locations to get the needed data. Also, the financial constraints slowed down the data collection process because of the funds needed in the publication of the questionnaires and production of the final report.

The study was limited in terms of the delays and time limits when getting the data from respondents. The interrogation period took more than 5 minutes for each person showing more time was used for the 120 respondents. Also, most of the respondents rescheduled the sessions leading to delays in extracting the data. Also, the duration of the research was short a fact which creates more strains in time management and that is the reason why the research focused on a sample of 120 parastatals.

Another limitation of the research is the Likert scale used in the questionnaires. Most of the respondents provided non-committal answers by responding “not sure” a fact which brought bias in the research findings because it limited accuracy of results. Also, the study involved parastatals in Kenya and extraction of the financial data was difficult because most of them do not report their finances through their official websites.

5.6 Suggestions for Future Research

More research on the effects of planning, monitoring and control on financial performance has to be done to support the findings of the current research. Also, the study used 120 respondents from 120 parastatals in Kenya. Additional research should be done while considering more respondents to generalize the results better.

The study involved parastatals in the country and the measures of performance were difficult because most of them do not expose their financial information. Therefore, more research has to be done on the other sectors such as the private sector and non-governmental organizations to find whether planning, control and monitoring have an effect on financial performance. More research has to be done on other factors affecting financial performance apart from budgetary controls to find whether they are significant on the parastatals in Kenya.

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APPENDIX 1: QUESTIONNAIRE

UNIVERSITY OF NAIROBI

MASTER OF BUSINESS ADMINISTRATION

QUESTIONNAIRE

Greetings respondent, As part of my studies at the University of Nairobi, I am doing a study on the effects of budgetary controls on the functioning of parastatals in Kenya. Your participation as a respondent is critical to the success of this study. The information you provide will be used solely for academic purposes and it will not be exposed to third parties. Please accept my heartfelt gratitude.

SECTION A: DEMOGRAPHIC INFORMATION

1. What is the title of your **position**?

a) Finance Officer []

b) Finance Officer's Deputy []

c) Senior Accountant [ ]

d) Accounts Assistant [ ]

2. Choose one of the following **genders**:

a) Male [ ]

b) Female [ ]

3. Please indicate your **age** bracket:

a) Between the ages of 18 and 30 [ ]

b) Between the ages of 31 and 40 [ ]

c) Between the ages of 41 and 50 []

d) Over the age of 50 []

5. What is your highest **education**al level?

a) Receipt of a certificate []

b) Master's degree []

c) Undergraduate degree []

d) Diploma []

6. What are your **employment conditions**?

a) Permanent and Pensionable []

b) Contractual []

c) Interim []

d) Additional:

——————————— [Specify]

7. How long have you been at your current job?

a) For less than 5 years []

b) For 5 to 10 years []

c) Over ten years []

8. Have you been employed by the parastatal for a long time?

a) fewer than five years [ ]

b) between five and ten years [ ]

c) more than ten years [ ]

PART B: GENERAL QUESTIONS (Please tick in the appropriate box provided).

9. How long does your organization's overall budget cover?

a) A period of less than one year ( )

b) 1 to 5 years ( )

c) over 5 years ( )

d) None ( )

10. Is it reviewed on a regular basis?

(a) Monthly ( )

(b) Quarterly ( )

(c) Annually ( )

(d) None ( )

11. What is your annual budget revenue estimate?

(a) 1 million or less ( )

(b) 1 million to 5 million ( )

(c) 5 million to 10 million

(d) 10 million and up ( )

PART C: PLANNING.

Please indicate your level of agreement or disagreement with the activities in the following statements. (1) Strongly disagree (2)Disagree (3) Not sure (4) Agree (5) Strongly agree.

Select your option by checking the box.
12. The business has both long and short-term budgeting strategies. 1(), 2(), 3(), 4(), 5()

13. Budgets are established with specific goals and objectives in mind. 1(), 2(), 3(), 4(), 5()

14. When budgeting, outcome goals and objectives are linked to work tasks. 1( ), 2(), 3(), 4(), 5()

15. Budget committees in our company decide on the year's priorities. 1( ), 2 (), 3 (), 4 (), 5 ()

16. The departments In our company prepare budget plans prior to the budget year 1( ), 2( ), 3( ), 4( ), 5()

PART D: MONITORING.

Please indicate your level of agreement or disagreement with the activities in the following statements. Strongly Disagree (1) Disagree (2) Not Sure (3) Agree (4) Strongly Agree (5).

17. Budget meetings are held on a regular basis by managers to assess performance.

1(), 2(), 3(), 4(), 5()

18. We have budget policies in place at our company to keep track of spending.

1(), 2(), 3(), 4(), 5( )

19. Changes in budget targets and deviations from them are frequently reported. 1(), 2(), 3(), 4(), 5()

20. When budget variances are reported, managers and accountable staff always take corrective action.1( ), 2( ), 3( ), 4( ), 5( )

21. The budget committee at our company follows up on budget plans.

1( ), 2( ), 3( ), 4( ), 5( )

PART E: CONTROL

22. Is your budget reviewed on a regular basis?

a) Every year []

b) Every two years []

c) At least once every three months []

d) None

Please indicate your level of agreement with the specified actions by ticking the following statements. Strongly Disagree (1) Disagree (2) Not Sure (3) Agree (4) Strongly Agree (5)

22. The heads of departments are in charge of budgetary activities.

1( ), 2( ), 3( ), 4( ), 5( )

23. A committee is always reviewing the costs of activities.

1( ), 2( ), 3( ), 4( ), 5( )

24. On a regular basis, the organization prepares reports to assess the budget's performance.

1( ), 2( ), 3( ), 4( ), 5( )

25. At the end of the budget cycle, the institution assesses actual and budgeted performance and tabulates variances.

1( ), 2( ), 3( ), 4( ), 5( )

PART F: PERFORMANCE

Revenue growth of the organization in the past one year lies between

(1) None, (2) 0-10%, (3) 10-20% (4) 20-30% (5) 30% and above

2. The profits generated from sales and revenue in the past one year (ROS) lies between

(1) None, (2) 0-10%, (3) 10-20% (4) 20-30% (5) 30% and above

3. What is the estimate of the profits the company is making for its shareholders annually (ROE)?

(a) 0-3% ( ) (b) 3-10% ( ) (c) 10-20% ( ) (d) 20% and Above ( )

4. What are the profits generated from the spending on assets in the company on an annual basis (ROA)?

(1) None, (2) 0-10%, (3) 10-20% (4) 20-30% (5) 30% and above

5. What is the estimate of the company's financial health to meet its short-term debts (Quick ratio)?

(1) None, (2) 0-10%, (3) 10-20% (4) 20-30% (5) 30% and above

6. What is the estimate of administrative efficiency in managing the funds in the past year?

(1) None, (2) 0-10%, (3) 10-20% (4) 20-30% (5) 30% and above

APPENDIX 2: PARASTATALS IN KENYA USED IN THE CURRENT RESEARCH

1. National Authority for the Campaign Against Alcohol and Drug Abuse
2. Kenya Citizens and Foreign Nationals Management Service
3. Kenya Accountants and Secretaries National Examinations Board (KASNEB)
4. Privatization Commission
5. Kenya Investment Authority
6. Insurance Regulatory Authority
7. Public Procurement Oversight Authority
8. Public Procurement Oversight Authority
9. Capital Market Authority
10. Deposit Protection Fund
11. National Bank of Kenya
12. Kenya Post Office Savings Bank
13. Consolidated Bank of Kenya
14. Retirements Benefit Authority
15. Kenya Reinsurance Corporation
16. Kenya Revenue Authority
17. Kenya Trade Network Agency
18. Competition Authority of Kenya
19. Kenya Ordinance and Factories Corporation (KOFC)
20. Kenya Medical Laboratory Technician and Technologists Board
21. Kenya Medical Research Institute (KEMRI)
22. Kenya Medical Supplies Authority (KEMSA)
23. Kenya Medical Training College
24. Kenyatta National Hospital
25. Moi Teaching and Referral Hospital
26. National Hospital Insurance Fund
27. National AIDS Control Council
28. National Quality Control Laboratories
29. Kenyatta University Teaching, Referral and Research Hospital
30. Chuka University
31. Commission for University Education
32. Cooperative University College
33. Kenya National Highways Authority (KENHA)
34. Kenya Airports Authority
35. Kenya Civil Aviation Authority
36. Kenya Ferry Services
37. Kenya Maritime Authority
38. Kenya National Shipping Line
39. Kenya Ports Authority
40. Kenya Railways Corporation
41. Kenya Roads Board
42. Kenya Rural Roads Authority
43. Kenya Urban Roads Authority

44. LAPSET Corridor Development Authority
45. National Transport & Safety Authority
46. Constituency Development Fund Board
47. National Drought Management Authority
48. Kenya Institute of Public Policy Research and Analysis
49. Kenya National Bureau of Statistics
50. Kenya School of Government
51. National Coordinating Agency for Population and Development
52. South-South Centre
53. Youth Enterprise Development Fund Board (YEDFB)
54. National Construction Authority
55. National Housing Corporation
56. Coast Development Authority
57. Coast Water Services Board
58. Ewaso Ng'iro North Development Authority
59. Ewaso Ng'iro South Development Authority
60. Kenya Forest Service
61. Kenya Forestry Research Institute
62. Kenya Water Towers Agency
63. Kenya Wildlife Service
64. Kerio Valley Development Authority (KVDA)
65. Lake Basin Development Authority (LBDA)
66. National Environmental Management Authority (NEMA)
67. Agricultural Development Corporation
68. Agricultural, Fisheries and Food Authority
69. Agro-Chemical and Food Company
70. Bukura Agricultural College
71. Chemelil Sugar Company Limited
72. Coffee Development Fund
73. Commodities Fund
74. Kenya Agricultural and Livestock Research Organization
75. Kenya Animal Genetics Resource Centre
76. Kenya Dairy Board
77. Kenya Marine & Fisheries Research Institute
78. Kenya Meat Commission
79. Kenya Plant Health Inspectorate Services
80. Kenya Seed Company Limited
81. Kenya Tsetse & Trypanosomiasis Eradication Council
82. Kenya Veterinary Vaccine Production Institute
83. Miwani Sugar Company Ltd
84. Mohoroni Sugar Company Ltd
85. National Biosafety Authority
86. National Cereals and Produce Board
87. National Irrigation Board
88. Nyayo Tea Zones Development Corporation
89. Nzoia Sugar Company

90. Pest Control Products Board
91. National Social Security Fund
92. National Social Security Assistance Authority
93. National Council for Persons with Disabilities
94. National Industrial Training Authority
95. Kenyatta International Conference Centre
96. Kenya Utalii College
97. Bomas of Kenya
98. Kenya Tourism Board
99. Tourism Regulatory Authority
100. Kenya Tourist Development Corporation
101. Kenya Safari Lodges and Hotels
102. Tourism Fund
103. Brand Kenya
104. Catering and Tourism Development Levy Trustee
105. Energy Regulatory Commission (ERC)
106. Geothermal Development Company (GDC)
107. Kenya Electricity Generating Company (KENGEN)
108. Kenya Electricity Transmission Company (KETRACO)
109. Kenya Nuclear Electricity Board
110. Kenya Pipeline Company (KPC)
111. Kenya Power and Lighting Company Limited (KPLC)
112. National Oil Corporation of Kenya (NOCK)
113. Anti-Counterfeit Agency
114. East African Portland Cement Company Limited
115. Export Processing Zones Authority (EPZA)
116. Kenya Bureau of Standards
117. Kenya Industrial Estates Ltd.
118. Kenya Industrial Property Institute
119. Kenya Industrial Research & Development Institute
120. Kenya Investment Authority

APPENDIX 3: PROPOSED BUDGET

ITEM	COST
Stationery	3000
Printing	2000
Printing	2000
Internet	3000
Travelling and Accommodation	30000
Contingencies	10000
Total	50,000