

**EFFECT OF BUDGETARY CONTROL ON PERFORMANCE OF
NON-GOVERNMENTAL ORGANIZATION'S IN KENYA**

BY

SEREM SHADRACK KIPKEMBOI

D61/66885/2011

**A RESEARCH PROJECT PROPOSAL SUBMITTED IN PARTIAL
FULFILMENT OF THE DEGREE OF MASTER OF BUSINESS AND
ADMISTRATION, UNIVERSITY OF NAIROBI.**

OCTOBER 2013

DECLARATION

I hereby declare that this is my original work and has not been submitted for a degree in any other University.

Signed:

Date

Shadrack Kipkemboi Serem

D61/66885/2011

Supervisor:

Signed:

Date

Dr. Josiah Aduda

Senior Lecturer

Department of Finance and Accounting

DEDICATION

I dedicate this research work to my Loving Parents Mr. and Mrs. Serem for their unwavering support in educating me since my elementary level ,Its through their investment in my education that I have reached this far.

ACKNOWLEDGEMENT

First and foremost I wish to thank the lord for the good health and sustenance he has given me to this far I have come. It is through his grace that I am able to complete this research project.

My special appreciation to my Supervisor Dr. Josiah Aduda and other Lecturers in the department of finance and accounting who took effort to guide and advise me during the entire period of my project.

I am also indebted to my classmates, colleagues at work and my Lecturers for all there invaluable support and encouragement during my period of study.

Finally I wish to thank all the NGOs who assisted me in conducting this research, for there time which they spared to enable me collect data from there organizations.

ABSTRACT

This research examines the budgetary control in Non-Governmental Organizations and its effects on their performance. The aim of this paper is to determine the effect of budgetary control on the performance of Non-Governmental Organizations. The research target population consisted of 7,127 Non-Governmental Organizations as provided in the Non-Governmental Organization Board of Kenya. Thirty Non-Governmental Organizations were selected using convenience judgmental sampling technique for this study, both local and international organizations with headquarters in Nairobi and its environs.

A descriptive survey design was used in the data collection, questionnaires were designed with closed ended questions and distributed to various NGOs using the drop and pick method. The statistical package for social sciences version 17.0 was used to analyze the data using descriptive statistics, including means and standard deviation. The relationship between budgetary controls and performance of the NGOs was analyzed using correlation and regression analysis methods.

The research findings established that there is a weak positive effect of budgetary control on performance of Non-Governmental Organization's in Kenya measured by R square at 14.3%. The research recommends that employees need to be sensitized on budgetary controls and the effect on performance of the organization. It also recommends that other factors that influence performance apart from budgetary controls should be investigated by organizations. It also suggests that further research should be done on the same area but a larger sample should be used.

TABLE OF CONTENTS

Declaration.....	ii
Dedication.....	iii
Acknowledgement.....	iv
Abstract.....	v
Table of contents.....	vi
List of Abbreviations.....	x
List of Tables.....	xi
Chapter One: Introduction	1
1.1 Background Study.....	1
1.1.1. Budgetary Control in NGOs.....	1
1.1.2. Performance in NGOs.....	2
1.1.3. Relationship Between Budgetary Controls and Performance of NGOs.....	4
1.1.4. History of Non-Governmental Organizations.....	4
1.2 Research Problem.....	6
1.3 Research Objectives.....	7
1.4 Value of Study.....	7
Chapter Two: Literature Review.....	9
2.1 Introduction.....	9
2.2 Theoretical Review.....	9
2.2.1 Control Theories and Responsibilities.....	9
2.2.2 The Theory of Balanced Scorecard.....	10
2.2.3 Forecasting and Budgeting Approaches.....	11

2.3 Empirical Review.....	12
2.4 Budgetary Controls.....	18
2.4.1 Planning.....	18
2.4.2 Participative Budgeting.....	19
2.4.3 Monitoring and Control.....	20
2.4.3.1 Monitoring.....	20
2.4.3.2 Control.....	20
2.5 Performance	21
2.5.1 Performance Measurement.....	21
2.5.2 Performance Indicators.....	22
2.6 Summary.....	23
Chapter Three: Research Methodology	24
3.1 Introduction.....	24
3.2 The Research Design.....	24
3.3 Population of Study.....	24
3.4 Sample Size.....	25
3.5 Data Collection.....	25
3.6 Data Analysis.....	26
3.7 Data Validity and Reliability.....	27
Chapter Four: Data Analysis and Presentation of Findings.....	28
4.1 Introduction.....	28

4.2 Data Presentation.....	28
4.2.1 Budget Time Dimensions.....	28
4.2.2 Annual Budget Revenue.....	28
4.2.3 Budget Review Frequency.....	29
4.2.4 Work Experience.....	29
4.2.5 Planning.....	29
4.2.6 Monitoring and Control.....	30
4.2.7 Participative Budgeting.....	30
4.2.8 Budgetary Controls.....	30
4.2.9 Performance.....	31
4.2.10 Efficiency Levels.....	31
4.2.11 Overall Performance Index.....	32
4.2.12 Correlation Statistics between Budgetary Controls and Performance.....	32
4.2.13 Linear Regression Model.....	32
4.3 Summary and Interpretation of Findings.....	33
Chapter Five: Summary, Conclusion and Recommendations.....	35
5.1 Summary.....	35
5.2 Conclusion.....	37
5.3 Policy Recommendations.....	38
5.4 Limitations of the Study.....	39
5.5 Suggestions for Further Studies.....	39
Reference.....	41
Appendices.....	47

LIST OF ABBREVIATIONS

ABB-Activity Based Budgeting

CBO-Community Based Organization

CIMA- Chartered Institute of Management Accountants

CSO- Civil Society Organizations

NGOs- Non-Governmental Organizations

NPO-Non-Profit Organization

PPBS-Planning Programming Budgeting System

ZBB-Zero Based Budgeting

LIST OF TABLES

Table 1: Budget Time Dimension	28
Table 2: Annual Budget Revenue	28
Table 3: Budget Review Frequency	29
Table 4: Respondents Work Experience.....	29
Table 5: Descriptive Statistics on Planning	29
Table 6: Descriptive Statistics on Monitoring and Control	30
Table 7: Descriptive Statistics on Participative Budgeting.....	30
Table 8: Descriptive Statistics on Budgetary Control.....	30
Table 9: Descriptive statistics on Performance	31
Table 10: Descriptive statistics on Efficiency	31
Table 11: Descriptive Statistics on Overall Performance index.....	32
Table 12: Correlation between Budgetary Controls and Performance.....	32
Table 13: Regression Model for Performance	32
Table 14: Linear Regression Model Coefficients	33

CHAPTER ONE

INTRODUCTION

1.1 Background Study

1.1.1 Budgetary controls in NGOs

A budget tells where and how the organisation will spend money and where the money will come from to pay these expenses. Budgets also set limits. Imagine how chaotic an industry or country would be if everyone was allowed to spend as much as they wished on whatever they wanted. Besides setting limits, budgets also enables the assurance that the most important needs of a country are met first and less important needs are deferred until there are sufficient funds in which to pay for them (Andrews & Hill,2003).

Appleford (2000) states that an important internal control is the operating and activity budget of an NGO.This is the Master Budget and should include all monies approved in donor proposals and all activities planned for a given period of time (preferably fiscal period of the organization).The line items in the budget should coincide with chart of account line items so that expenses can easily be tagged to the budget. He notes that, NGOs are generally expected to produce financial reports to various interested parties including the Board of Directors, the NGO Board, appointed auditor and donors.

However, NGOs are increasingly becoming like businesses, for example, Charities act (2009) in Ireland requires all charities to be formally registered and in most cases submit annual financial reports to a registrar which is similar to the requirements of the NGO co-ordination board in Kenya. From management accounting point of view, NGOs can of course adopt budgetary control and other performance measures as normally used in a business.

A recent report from CIMA suggests that evidence shows that developing formal management controls can help NGOs to develop networks with government departments, funding agencies, other service providers and clients. The mainstream trend of opinion suggests as case for closer monitoring of NGO's by governments estimates as long as they continue to be run with public funds. There are contradicting views on existence of effective mechanisms for controlling and monitoring NGO's have grown phenomenally in recent years both in Numbers and size.

Hancock (1989) in his thesis said that there is also threat of loss of credibility amongst NGOs due to lack of accountability, transparency and low impact. NGOs face the risk of becoming less cost effective than governments. In fact Hancock has already detected this link between government and international Non Governmental Organizations in his extensive studies on the world bank and UN project that culminated in the publication of his internationally acclaimed book, lords of power.

This study endeavors to investigate the budgetary controls as a planning and control tool and its effect NGOs Performance using a Sample of 30 NGOs in Kenya, both local and international. This research intends to bring about clearer understanding of the effects of budgetary controls in the performance of non-profit making organization which will also be of benefit to other similar Organizations leading to an improvement in organization's budgetary control system.

1.1.2 Performance in NGOs

Performance measurement was foremost intended for the business sector but since the gap between business sector and non-profit sector has narrowed considerably the last decade, the interest in performance measurement in the non-profit sector has increased among researchers and practitioners. The interest in performance measurement in nonprofits is also due to the

evolving pressure on showing effectiveness which is experienced by non-profit managers (Cairns, et al. 2005).

In order to align the activities with their objectives and to meet the donor accountability NGO's need to measure and monitor performance of various groups. An NGO's performance can be measured by how well it achieves the goals it has set itself and what efficiencies. The principle functions of performance measurement are to ensure that organizations are held accountable for their performance and actions and to facilitate learning and improve performance (Sharma, 2012).

Even though NPOs lack pressure from shareholders to show the value created by the organization there is a pressure to show how well they perform that derives from a wide range of stakeholders. Zimmermann and Stevens studied 149 non-profit organizations in South Carolina and their findings show that the requirement from external stakeholders was the most frequent motivator and reason for measuring performance. Second most frequent motivator was in order to increase accountability and effectiveness. Performance measurement was also motivated as a mean to get more funding and to improve services.

Another study, conducted by Sawhill and Williamson also presents a number of reasons why non-profits should measure performance. NPOs can use performance measurement to obtain control of local office efforts and to get the whole organization to work towards the same mission and goals. Managerial skills are needed in order to be able to incorporate these benefits. Moreover performance measurement can be used for other purposes such as to influence public attitudes. Sawhill and Williamson have noticed an emerging marketing trend which they suggest non-profit organizations to take advantage of. Just by presenting results

from performance measurement to stakeholders will serve as an effective marketing tool (Sawhill & Williamson, 2001).

1.1.3 Relationship between Budgetary Controls and Effects on Performance of NGOs

Many previous studies have examined the various aspects of budgets and its effects on performance; some researchers have concluded that there is generally a positive relationship while others contradict this view. For example, Brownell (1982) found out that the applications that include budgetary controls have no direct effect on performance directly but in cases where budgetary control is high there is a positive relationship between performance and budgetary participation although Otley & Pollanen (2000) reveal that budgetary participation, control and task ambiguity directly affect performance negatively. The researcher therefore anticipates furthering examining the relationship between budgetary controls and the positive effects on performance of organizations.

1.1.4 History of Non Governmental Organizations in Kenya

In Kenya NGOs mushroomed in the 1970s and 1980s, they mushroomed to: Intervene in emergencies resulting from drought, mitigate effects of famine and provide alternative development delivery machinery owing to the apparent failure of direct bilateral or multilateral aid programs. The latter was particularly strong owing to government bureaucracy and apparent corrupt practices, privatization and trimming of the public sector in roles, functions; manpower and resources that followed at the instigation of the World Bank and international monetary fund accelerated the pace at which NGOs came up (Muleri, 2001).

Today NGOs play crucial roles in three major fields; Emergency mitigation for example, Nairobi Bomb Blast, Tana river clashes victims, post election chaos, Natural disasters like floods, HIV/AIDS pandemic, rehabilitation of street children, care for refugees and famine;

Development facilitation like promote agriculture,health,religion,security,environment ,education, water and sanitation and natural resource management and democracy through civic education ,promotion of human rights and advocacy (Muleri, 2001).

Suberu (2010) observed that any organization to perform creditably ,budget and budgeting should facilitate effective utilization of available funds, improve decision making, provide a benchmark to measure and control performance, increase general communication and analysis within the organization and establish understanding between managers about goals and objectives.

According to the controller's report (2001) on strategic level, budgeting clarifies organization competitive priorities, advantages and strategies for the future. It is also a technique for setting the institution priorities by allocating scarce resources to those activities that officials deem to be the most important and rationing it to those areas deemed less vital (Goldstein, 2005).

Budgets are believed to be powerful tools that aid planning, coordinate activities, communicate plans, motivate managers, control activities and measure performance .The need to explore how financial management is done can therefore be done by in-depth study of the budgetary controls .Budgets are expected to play central roles in management and control of NGO operate(Horngren ,1997).

The last decade has witnessed substantial growth in the number of organizations registered under the NGOs Co-ordination Act of 1990 in Kenya. The sector recorded significant growth between 2001 and 2007 which could be attributed to the impact of globalization and the

opening up of democratic space in Kenya. Since 2001, the sector has been growing at the rate of 400 organizations per year. By August 2009, the Board had cumulatively registered 6,075 organizations. The current statistics by the NGO Bureau as at June 2013 stands at 7,127 Organizations. These organizations are spread all over the country and vary from small organizations operating locally, to international ones with regional programmes (Kenya NGO co-ordination Board).

1.1 Research Problem

NGO's are increasingly being held to account for their performance and uses of funds .Indeed the funding they obtain is more likely based on having sufficient competencies to use the funds in the best possible way. Sounds like a business but NGO's are not businesses you might say, and they usually have a non-profit objective. This study tends to discover the effects of budgetary controls on the performance of NGO's in Kenya.

Many previous studies have been done on budgeting practices of private sector and there effect on performance while others have dwelt on various elements of budgeting. Globally, Carolyn, et al. (2007) examined the association between effects of budgetary control on performance using a sample of large US cities Financial Bonds and found that effective level of budgetary control is significantly and positively related to bond rating. Coates (2002) found that difficult goal generate higher performance than setting specific moderate goals, specific easy goals and general goals. Hingren & Foster (1988) also agreed with the views expressed by other authors that budget is an aid to co-ordination and implementation.

Osoro (2001) investigated on budgetary control in NGOs in Kenya and concluded that budgetary practices in relief organization are different from developmental Organizations due to different donor funding and reporting requirements, but his study was specific as it dwelt

on one Organization. Kaguara (2009) in her study on budget practices in private/mission hospitals in Nairobi and its Environment suggests that further studies should be done on relationship between budgeting and performance evaluation.

Gacheru (2012) in her study of the effects of the budgeting process on budget variance in NGOs in Kenya found out that budget preparation, budgetary control and budget implementation significantly influence budget variance. Minimal research has been done here in Kenya on Budgetary controls and its effects on NGOs and Unlike the previous researchers there still exist a gap on the effect of budgeting controls on NGO performance and this research undertook to further the scope of research in the area of budgetary controls and its effect on performance of organizations with specific reference on Non-Governmental Organizations.

1.3 Research Objectives

- 1 To establish the budgetary controls in NGO's in Kenya.
- 2 To establish the performance of NGO's in Kenya.
- 3 To determine the effects of budgetary controls on the performance of NGO's in Kenya.

1.4 Value of the Study

The research work will help the non-profit making organizations to analyze and carry-out the budget and budgetary control activities for the effective performance of the organization. The study will be of benefit more especially as it concerns the meaning of budget and budgetary control, budgeting and how it will benefit the organizational performance in non-profit making organizations.

This study will enable researchers in conducting additional research on this area as it will add on the existing literature on budgetary controls and performance. These research findings will enable other scholars who would wish to further studies on budgeting controls and performance.

It will also enable regulators, government departments, funding agencies, other service providers and clients to develop budget control policies which would enhance the performance of NGO's in Kenya.

Profit making sector organizations will benefit from the findings as it will guide them on the budgetary control measures that would help in the effective performance on the organizations. They would be able to choose good budget control techniques that would yield higher profits for them.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, a number of issues will be discussed in relation to budgetary controls and the organizational performance. The study is based on the work done by scholars about budgetary control and performance management with major reference to different writers who presented a variation of views about budgetary controls on performance of organizations.

2.2 Theoretical Review

2.2.1 Control Theories and Responsibility Accounting

Control is a system or process consisting of comparisons between standard and actual performances, with the comparisons serving as a basis for determining the proper responses to actual operating results. If control is viewed from the stand point of its direct relationship to planning, and then it becomes complementary to planning (Simiyu, 1979).

Hopwood (1976) has identified three forms of control of work in organisations; Administrative controls: These include performance measurement systems and the budget monitoring system forms part of this. While these can be useful they need to be carefully designed in order to avoid demotivating effects; Social controls: These operate through staff sharing common perspectives. Quality circles and team working are examples of this form of control; self control: This is down to individual behaviour but this can be helped by a suitable system of rewards, e.g. performance related pay. It is important to note that these forms of control are interrelated.

In a small organisation, management can interact with staff on a day to day basis and social controls may predominate. However, in larger more complex organisations senior management need to delegate decision making and responsibility and semi autonomous divisions/units may be created. There however remains the need ensure that these divisions/units are operating in accordance with organisational goals and hence a range of controls will need to be created. These controls will include the budget planning and monitoring system (Hopwood, 1976).

One core element of the management control system is responsibility accounting which involves the creation of responsibility centres which enable accountability for financial outcomes and results to be allocated to individuals throughout the organisation. For each centre the process involves setting a performance target, measuring performance, comparing performance against the target, analysing the variances and taking action where significant variances exist between actual and target performance (Hopwood, 1976)

2.2.2 The Theory of the Balanced Scorecard

In 1996 Kaplan and Norton's Balanced Scorecard was launched in non-profit organization. The original four perspectives were tailored to better match non-profit organizations' special features. Thus, several modifications were made. The financial perspective at the top of the original Balanced Scorecard was replaced with the organizations' mission and objectives. Placing mission and objectives at the top of the scorecard means a focus on outcomes, what the organizations are supposed to accomplish, rather than on the activities. The activities should be seen as tools to be able to create impact on mission and objectives. Outcomes are often difficult to measure and by having a framework mainly focused on intangible outcomes provides a narrow overall picture (Kaplan & Norton, 1996).

Moreover, without measuring throughputs the organization does not gain information about organizational capacity. Recognizing that nonprofits' customer relations are multifaceted Kaplan developed two categories of customers. There are the service receivers and those who pay for the services. The reason for separating these roles is that groups who provide financial support usually are different from those who benefit from the services provided. To successfully implement the Balanced Scorecard managers must fully support the framework. Implementing convenient and clear strategies and communicating with all individuals within the organizations are crucial for the framework to lead improvements. However, the fact that it requires a lot from managers can be seen as a major drawback with the framework (Kaplan& Norton, 1996).

2.2.3 Forecasting and Budgeting Approaches

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

There is a wide range of forecasting techniques ranging from simple linear regression using least squares, time series analysis, exponential smoothing systems and multiple regression analysis methods and specialized mathematical models e.g. Box Jenkins. Numerous surveys have shown that so-called naive forecasting (where the next period is assumed to be the same as the current one) frequently produces better forecast than those prepared by experts (Horngren, et al. 2002).

The line item approach was viewed as simple and easy to understand though advocates of recently developed budgetary techniques, like planning programming Budgeting system

(PPBS) program, Zero Based Budgeting (ZBB) and Activity Based Budgeting (ABB) have been extremely critical of it. This is so because the budget is a financial and quantitative document of the policy to be pursued; it is easy to be critical of traditional line budget (Suberu, 2010).

Horngren proposes that PPBS as a system that establishes overall objectives, programmes to achieve them, costs and benefits of each programme and use this to allocate resources. ZBB which was introduced by Phyrre in the us in early 1970s and gained wide acceptance since its simple idea based on common sense. Lucey (2002) says that it is a cost benefit approach whereby it is assumed that the cost allowance for an item is Zero and remains so until manager responsible justifies the existence of cost and benefit of the expenditure. Lucey (ibid) described ABB as a planning and control system which seeks to support continuous improvement. It is a development of conventional budgeting and is based on Activity analysis technique.

2.3 Empirical Review

The adoption good budgetary practices tends to be crucial for the success of both traditional and NPOs in today's dynamic and outcome oriented environment. Researchers in NPO management suggest that sponsors, donors, members, regulators and other stakeholders of NPOs are demanding more accountability and better performance from management (White, 1989).

Budgetary practices being a standard for performance are used to evaluate managerial performance (Srinivasan, 1987). Similarly, Douglas (1994) use a case study approach and found that budgeting practices place high importance on budget-to-actual comparison for performance evaluation purposes both at corporate and 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. Budgetary standards and targets tend to be the criteria upon which the performance of organizations is evaluated. These standards and targets provide a basis for identifying and appraising selected aspects of organizational performance, since they are the criteria used to guide and motivate it.

Carolyn, et al. (2007) examined the association between effects of budgetary control on performance, using a sample of large U.S. cities over 2003-04 timeframe. Within this context they examined whether the tightness of budgetary controls or effective level of budgetary control within the cities as measured by budget variance contribute to performance as measured by bond rating and found that effective level of budgetary control is significantly and positively related to bond rating.

Silva & Jayamaha (2012) study sought to evaluate budgetary process of apparel industry in Sri Lanka and see whether budgetary process has significant impact on performance of such industry. The budgetary process of apparel industry was assessed by using variables such as planning, coordination, control, communication and evaluation. The performance of apparel industry in Sri Lanka was examined by using Return on Assets. Based on the data extracted from apparel industry's financial statements, correlation coefficients and regression analysis showed that budgetary process have significant associations with the organizational performance of apparel industry in Sri Lanka. This confirms that efficient apparel companies maintain sound budgetary process which contributes to higher levels of organizational performance hence a positive relationship.

Inadequate budgetary controls lead to objectives not being clear and performance not being achieved or satisfactory. This reduces output because employees do not know or are doubtful about what to do, when and how to do it. They spend a lot of time seeking clarifications from executives. Thus leading to delays in identification of deviations from plans, which lead to failure in goal achievement and hence poor performance (Phyrr, 1970).

Brownell (1982) suggests that when budgetary control is high, budgetary participation should increase accordingly. When budgeting control is riding subordinates would want to know assessment criteria in details. Therefore, as the budgetary control increases, budgetary participation of subordinates is also expected to increase. He advocates that budgetary participation is an important moderating variable in the relations between type of budgetary control and subordinates performance. In his findings, budget application that includes budgetary control has no direct effect on performance, while budgetary participation affects performance directly and negatively. But in case where budgetary control is high, there is a meaningful positive relation between performance and budgetary participation.

A study by Brownell (1982) suggested that participation in the budgeting process moderates the effects of reliance on budget controls so that high (low) reliance on budget controls interacting with (low) budgetary participation is associated with higher performance.

Hirst (1987) though failed to replicate Brownell's findings and Dunk (1989) in an extension of these studies found contradictory results that high (low) reliance on budget controls interacting with high (low) budgetary participation leads to low performance. These studies are not entirely comparable, but they do indicate that the issue of the effectiveness of budget controls, and potential moderating factors, is far from settled.

Differing from Brownell & Dunk (1991), the study conducted by Otley & Pollanen (2000) reveals that budgetary participation, control and task ambiguity directly affects performance negatively but in situations where they combined interaction of variables, the effects differ. According to the study, while budgetary participation, control and task ambiguity affect performance negatively, in situations where budgetary control is high, participation makes positive contribution to performance. One of the reasons for this increase in performance could be related to procedural justice, since budgetary control enables subordinates to participate more in budgetary process, their perception of procedural justice is positively affected by budgetary control.

Osoro (2001) in his study establishes how accurately budgets anticipate the level and direction of actual results. The analysis found out that budgetary practices in relief organization are clearly different from developmental organizations due the differences in donor funding and reporting requirements. It established that more stringent controls exist in relief programs than in developmental ones. It is established that more complex control techniques are required in developmental programs than in relief, programs due to close donor supervision and need for monthly accountability in the later as opposed to the former whose funding is not followed with strict reporting requirements. Several other factors were found to influence the lack of effective control in developmental organizations.

Davis (2003) in his study of Fairview Park Hospital concludes that overall performance is not measured by the budgeting system in place, although it is a control method to maintain predetermined cost and spending limits for each department. It is also a control measure for shareholders to ensure decisions are made on full disclosure of knowledge within the hospitality facility system and to maintain guidelines for publicly traded corporations.

Gachithi (2010) also focussed on the factors that influence budget implementation in public institutions in Kenya, a case of University of Nairobi. He used descriptive method of study and concluded that there is inefficiency in the budget preparation procedures and that the budget process faces a lot of challenges. He concluded that budgets are strong planning tool for the future.

Gacheru (2012) in her study on the effect of budgetary process on budget variances in NGOs in Kenya sought to determine the relationship between budgeting process and budget variances in Kenyan NGOs. Based on the population of 6,075 she used a sample of 20 to collect data and descriptive data analysis and concluded that budget preparation, control and implementation significantly influence budget variance.

Obulemire (2006) conducted a survey of budgetary practices secondary schools where he found out that budget committee and interdepartmental discussions groups were the most used budgetary tools with less emphasis on brainstorming also found that failure to consider motivation of employees and participation by all staff in the budgetary process was a challenge.

A survey conducted by Ambetsa (2004) of budgeting practices by commercial airlines, operating at Wilson airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in preparation of the budget together with lack of top management support. All enterprises make plans using budget, some in a systematic and formal way, while others in an informal manner, but still have some form of budgeting and budgetary control practice. Therefore the issue is not whether to prepare a budget, but rather how to do it effectively.

Muleri (2001) in his survey of budgeting practices among the major British Non Governmental development organizations have adopted budgetary approaches and philosophies that are modern and can act to reduce financial mismanagement. Budgets are used to achieve cost effectiveness, in planning, for operations, coordinating activities, motivating performance, communicating plans and operations and in evaluation and audits. The study revealed that budgets are normally prepared using such method as zero based or priority based budgeting. Earlier Simiyu tackled problems with budgeting in manufacturing firms (Simiyu, 1977).

Adongo (2012) study sought to accomplish the following objectives; determine the salient features of budgetary controls in state corporations, establish the human factors within budgetary controls, establish the process of budgetary control in public organizations, and determine the challenges affecting budgetary control. The Relationship between budgetary control and financial performance was undertaken through carrying out a correlation analysis of the dependent and independent variables. Findings indicated that a positive relationship existed between budgetary control and financial performance of state corporations.

This research evaluates NGOs budgetary controls in Kenya in relation to the set objectives and goals in a bid to measure whether the resources have been spent effectively and efficiently hence assess its effects on their performance in terms of service delivery, infrastructure development and proper expenditure spending.

2.4 Budgetary Controls

Budgeting and budgeting Control occupies an important place among techniques used in planning and control functions of an organization. In budgeting, the focus is not only to

prepare the budget but more importantly to have a follow-up operation for budgeting and act according to known data. In addition, budgets are also known as a financial expression of a country's plan for a period of time (Falk, 1994).

Budgetary control is the system of controlling costs through budgets. It involves comparison of actual performance with the budgeted with the view of ascertaining whether what was planned agrees with actual performance. If deviations occur reasons for the difference are ascertained and recommendation of remedial action to match actual performance with plans is done. The basic objectives of budgetary control are planning, coordination and control. It's difficult to discuss one without mentioning the other (Arora, 1995).

A budget provides a detailed plan of action for an organization over a specified period of time. By planning, problems are anticipated and solutions thought. This helps to reduce on costs and achievement of goals is enhanced (Mathis, 1996). By budgeting, managers coordinate their efforts so that objectives of the organization harmonize with the objectives of its parts.

2.4.1 Planning

Planning as part of the Budgeting system involves a long range planning, strategic planning and short term planning .Further, he emphasizes that short term budgeting must accept the environment of today, and the physical human and financial resources at present available to the organization(Sizer, 1989).

Planning involves selecting objectives and action to achieve them. It is looking ahead and preparing for it, which links it to budgeting. Through planning the organization is able to assess where it is supposed to be in terms of objectives and goals. This comes from the information system (Lewis, 1996).

Sound planning mentions priorities and the planning control cycle. Since there are so many activities to be performed, it's imperative that they are listed in order of preference. Budgets are put in place in advance of the budget periods based on anticipated set of circumstances or environment. The major decisions are made as part of the long term planning process (Selznick, 1988).

Benefits of budgeting accrue to the whole organization if both the short and long term consequences of the budgets are considered (Otley, 1987). However, the annual budgeting process leads to the refinement of those plans, since managers must produce detailed plans for the implementation of the long range plans. Without the annual budgeting process, the pressures of day-to-day operating problems may tempt managers not to plan for future operations (Scott, 1987).

2.4.2 Participative Budgeting

Many researchers have had considerable interest in participative Budgeting though they have conflicting findings. Cherrington & Cherrington (1973) reported negative relationship between budget participation and performance. Merchant (1987) and Brownell(1982) reported positive relationship .Shields& Young (1993) found that participative budgeting is used more frequently when low level managers have more knowledge than central management and also when the remuneration is linked to the budget performance.

Mufti & Lyne (1997) found that the degree of participation in budgeting increases acceptance and motivation as well as it makes the budgeted to a greater extent feel responsible for the organizational goals.

2.4.3 Monitoring and Control

2.4.3.1 Monitoring

According to Drury (2006), budgetary monitoring and control process is a systematic and continuous one which, is characterized by the following stages: Establishing targeted performance or level of activity for each department of the organization by way of setting targets to be achieved enhances the monitoring of the organizations performance. Communicating details of the budgetary policy to all the stakeholders for easy appreciation of the set targets and objectives enhances ownership of the results achieved at end of the day. Monitoring actual revenue or cost data this is done by way of continuous comparison of actual performance with the budgeted performance and regular reporting of variances to the responsible officers. This helps in asserting the reasons for the differences between actual and budgeted performance and taking the suitable corrective action.

Briston (1981) says that financial control and monitoring ensures efficient and cost-effective program implementation within a system of accountability. He however, notes that the existing financial control arrangements must be complemented by further improvements in the overall program monitoring for better budget implementation in accordance with approved work Programmes.

2.4.2.2 Control

Comparison is made between plans and actual performance, the difference between the two is reported to management for taking corrective action. This control process is not possible without planning (Lewis, 1996). By means of budgetary control that is, comparing actual results with planned results and reporting on the variations, a control frame is set for management. It helps expenditure to be kept within the planned limits (Alesina and Perotti, 1996).

Carr (2000) argues that in order to achieve the expected output results, monitoring and evaluation is necessary. Monitoring and evaluation maintains stability under many competing forces, hence important to lower local government effectiveness (Hokal & Shaw, 1999). However, Hokal and Shaw continue to note that monitoring and evaluation requires only raw data to test and examine performance which is time consuming yet contributes little to Performance.

An effective control system helps accomplish the purpose for which it is designed. Effective control systems rely on good information, are well communicated, well coordinated, timely and economical to the organization (Arora, 1995).

2.5 Performance

2.5.1 Performance Measurement

According to Horvath & Seither (2009), performance measurement is the process of quantifying the efficiency and effectiveness of an action, an umbrella concept that integrates familiar business improvement methodologies with technology. Performance measurement encompasses the complete management planning and control cycle. Performance measures for an NGO could be both financial and Non-financial measures. Such an integrated view in an NGO (right from resource generation unit to program management unit) is highly recommended (Epstein & McFarlan, 2011).

Amaratunga (2001) described performance measurement as a process of assessing progress towards achieving pre-determined goals including information on the efficiency with which resources are transformed into goals and services, the quality of those outputs and outcomes,

and the effectiveness of the organizational operations in terms of their specific contributions to organizational objectives.

2.5.1 Performance Indicators

Performance indicators are inputs, outputs, throughputs, outcomes and impact. These indicators derive from the private sector but are applicable and used by nonprofits as well. Inputs are defined as everything that is needed to carry out a mission or a certain project, Such as staff, volunteers, physical capital, material and income. It is of great interest for Non-profits to optimize all inputs (Magna et al., 2001).

Output is defined as the quantity of work performed or delivered services. Examples of Output measures are number of people attending workshops or training classes and numbers of shelters provided during a disaster. These measures are not directly related to the organization's mission, (Susan, 2001).

Throughputs include both efficiency and effectiveness measures and are linked to the organizations' activities (Zimmermann et al., 2006).The reason for measuring different activities and processes within the organization is to make it possible to evaluate organizational capacity. There is no clear distinction between output and throughput measures. Both can be linked to organizations' activities, efficiency and capacity. In order to be able to separate them Throughputs could be described as outputs relative to inputs.

Outcomes are very closely related to the organization's mission. Measuring outcomes and evaluating effectiveness make it possible to see to what degree the organization achieve its mission and goals. Zimmerman and Stevens present numerous ways of measuring outcomes, for example measuring participant satisfaction or changing attitudes and behaviour among

participants. As an alternative to measure outcomes several researchers suggest measuring Impact on mission. Impact is defined as all, even unintended, changes that are the result of the organizations' activities (Zimmermann et al., 2006).

2.6 Summary

This chapter has reviewed scholars' previous studies done in the area of budgetary control and effect on performance of organizations and explained the concepts of budgetary control and Performance. The researcher therefore undertook the study to investigate the effect of budgetary control on the performance of Non-Governmental Organizations in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the methodology used in the research in terms of the research design, population, sample size, data collection methods, data analysis and data validity and reliability. The study took a period of five weeks upon which data was analyzed with findings, discussions and policy recommendations.

3.2 Research Design

The descriptive survey study research design was used, aimed at examining the budgetary controls in NGOs in Kenya. According to Donald & Pamela (1998), a descriptive study is concerned with finding out what, where and how of a phenomenon. Descriptive surveys are used to develop a snapshot of a particular phenomenon of interest since they usually involve a large sample.

Churchill (1991) notes that descriptive study can be used when the purpose is to describe the characteristics of certain items, estimate proportions of people who behave in certain ways and make specific predictions exploratory in nature. This design attempt to collect data from members of the population and described existing phenomenon with reference to budgeting controls.

3.3 Population

The study comprised of the current registered 7,127 Organizations in Kenya which were obtained from the NGOs coordination Board. The target population would vary from those operating locally and internationally respectively, the reason being that they cover the diverse activities on welfare, environmental, civic and Human rights.

3.4 Sample Size

This study used convenience judgemental sampling method to select 30 NGOs spread across the country with Headquarters in Nairobi. The selected sample ranged from international to local NGOs which collaborate with CBOs and CSOs. The reason for using 30 NGOs is due to the limitation of time, resources and distance to travel to various parts of the country and also due to the availability of sampling techniques that facilitate the sampling procedures.

3.5 Data Collection

Structured questionnaires were used as the main data collection instrument. Closed questions provide a more structured response for better recommendation, the researcher used the drop and pick method.

A five point likert scale, ranging from strongly agree to strongly disagree was used to measure the importance the respondents attached to the independent variables. While the dependent variable would be measured based on the recent year's annual reports information as performance indicators, Secondary Data was used to supplement the data received from questionnaires.

Independent Variables consisted of budget control which includes planning, monitoring and control and participative budgeting; these are the variables that constitute budget control. Data on the budget control were collected using a questionnaire which was designed with statements that the respondents were to respond to based on the likert scale; these responses were measured using means.

The dependent Variable constituted of Performance of the NGOs which includes the performance indicators, both financial and non-financial. Data was collected mainly from finance department; Secondary data was used from various reports of the organizations.

3.6 Data Analysis

In the past several researchers, both in Kenya and internationally have employed same technique. When Coates, Rickwood and Stacey carried out research to establish costs management practices in various companies. It is this descriptive statistics method of data analysis that they used.

Data was collected using questionnaires which were edified for completeness and consistency. Descriptive statistics methods were used in this study and analyzed using statistical package for social sciences (SPSS) computer Packages.

Regression methods and correlation analysis are the major statistical methods. The rationale for using regression methods are: firstly, almost all variables in the present study are measured by interval/ratio scales and secondly, regression is undoubtedly a more powerful way to test the correlation between two or more variables than other statistical methods.

The following Regression Model was used to analyze the effects of budgetary controls on Performance of NGOs:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3$$

Y- Performance of NGOs;

x_1 - Planning;

x_2 -Monitoring and Control;

x_3 -Participative Budgeting.

Questionnaires were structured to measure these independent variables such as Planning, Monitoring and Control, Participative Budgeting and performance of NGOs as the dependent variable which is measured using both financial and non-financial performance measures as indicated in the questionnaire. Information on Financial Measures will be extracted from the organizations published annual reports. Financial Efficiency will be measured as follows:

$$\text{Administrative Efficiency} = \text{Administrative Expenses} / \text{Total Expenses} * 100$$

$$\text{Program Efficiency} = \text{Program Expenses} / \text{Total Expenses} * 100$$

3.7 Data Validity and Reliability

Validity is the degree by which the sample of test items represents the content validity the test is designed to measure content validity which is employed by this study is a measure of the degree to which data collected using a particular instruments represents a specific domain or content of a particular concept.

Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure is to use a professional expert in a particular field. To establish the validity of this research the researcher will seek the opinions of experts in the field of study especially the researcher's supervisor and Lecturers which would help in modification of the research instrument in order to enhance validity.

Reliability refers to the consistency of measurement and is frequently assessed using test and re-tests reliability method. Reliability will be increased by including many similar items on a measure by testing diverse sample of individuals and using uniform testing procedures.

CHAPTER 4

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter covers the data presentation of the collected data on planning, monitoring and control, participative Budgeting and performance including summary and interpretation of the findings of the research. It also discusses the major findings and compares with previous studies to understand how they conflict or similar.

4.2 Data Presentation

4.2.1 Budget Time Dimension

Table 1: Budget Time Dimension

Budget Time Dimension	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 1 Year	5	16.7	16.7	16.7
1-5 years	24	80.0	80.0	96.7
None	1	3.3	3.3	100.0
Total	30	100.0	100.0	

Source: Primary Data

From the table 1 above, 80% of the respondent's organizations prepare budget on budget period range of between 1-5 years while 16.7% prepare on less than a year.

4.2.2 Annual budget Revenue

Table 2: Annual Budget Revenue

Annual Budget Revenue	Frequency	Percent	Valid Percent	Cumulative Percent
\$12,000 and Less	4	13.3	13.3	13.3
\$12,000- \$ 58,000	4	13.3	13.3	26.7
\$58,000-\$116,000	2	6.7	6.7	33.3
\$116,000 and Above	20	66.7	66.7	100.0
Total	30	100.0	100.0	

Source: Primary Data

The table 2 shows that 20 out of the 30 organizations have large budgets of over \$116,000.

4.2.3 Budget Review Frequency

Table 3: Budget Review Frequency

Budget Review Frequency	Frequency	Percent	Valid Percent	Cumulative Percent
Monthly	6	20.0	20.0	20.0
Quarterly	12	40.0	40.0	60.0
Annually	11	36.7	36.7	96.7
None	1	3.3	3.3	100.0
Total	30	100.0	100.0	

Source: Primary Data

Table 3 illustrates that 40% of the organizations review their budgets quarterly, 36.7% annually, 20% monthly while only 3.3% don't review at all.

4.2.4 Work Experience

Table 4: Respondents Work Experience

Work Experience	Frequency	Percent	Valid Percent	Cumulative Percent
1-4 Years	20	66.7	66.7	66.7
4-10 Years	9	30.0	30.0	96.7
10 Years and Above	1	3.3	3.3	100.0
Total	30	100.0	100.0	

Source: Primary Data

Most of the respondents 66.7% have a job experience of between 1-4 years while as few as 3.3% have 10 years and above as shown in table 4.

4.2.5 Planning

Table 5: Descriptive Statistics on Planning

	N	Minimum	Maximum	Mean	Std. Error	Std. Deviation
Planning	30	43	97	79.56	2.236	12.247

Source: Primary Data

Table 5 shows that 79.56% of the sample of 30 organizations agrees to conduct planning.

4.2.6 Monitoring and Control

Table 6: Descriptive Statistics on Monitoring and Control

	N	Minimum	Maximum	Mean	Std. Error	Std. Deviation
Monitoring and Control	30	24	100	74.22	2.882	15.785

Source: Primary Data

The table 6 above shows the mean of monitoring and control as 74.22%.

4.2.7 Participative Budgeting

Table 7: Descriptive Statistics on Participative Budgeting

	N	Minimum	Maximum	Mean	Std. Error	Std. Deviation
Participative Budgeting	30	20	100	72.48	3.178	17.409

Source: Primary Data

Table 7 shows the mean for participative budgeting as 72.48%.

4.2.8 Budgetary Controls

Table 8: Descriptive Statistics on Budgetary Control

Budgetary Controls	N	Minimum	Maximum	Mean	Std. Error	Std. Deviation
Planning	30	43	97	79.56	2.236	12.247
Monitoring and Control	30	24	100	74.22	2.882	15.785
Participative Budgeting	30	20	100	72.48	3.178	17.409
Budgetary Control	30	29	99	74.43	2.574	14.097

Source: Primary Data

Table 8 above shows a summary of the independent variables of budgetary control in Non-Governmental Organizations was established as 74.43%.

4.2.9 Performance

Table 9: Descriptive statistics on Performance

Performance	N	Min	Max	Mean	Std. Error	Std. Deviation
Revenue growth past one Year (%)	30	1	4	2.13	.178	.973
Community Participation increase in the Past Year (%)	30	1	4	2.60	.177	.968
Dollars Spend past Year Increase (%)	30	1	4	2.30	.160	.877
Beneficiaries reporting a positive change in their Lives Increase in Past Year (%)	30	1	4	3.03	.169	.928
Number of new donors in the past Year Increase (%)	30	1	4	1.93	.179	.980
Performance Index(Mean)	30			2.00		
Performance Index %	30	30	95	60	3.416	18.708

Source: Primary Data

Table 9 above summarizes the performance indicators by the performance index of 60%.

4.2.10 Efficiency Levels

Table 10: Descriptive statistics on Efficiency

Efficiency	N	Minimum	Maximum	Mean	Std. Error	Std. Deviation
Administrative Efficiency	30	1	3	1.53	.142	.776
Program Efficiency	30	1	3	1.53	.142	.776
	30	33	100	82.22	3.827	20.960

Source: Primary Data

The Mean of 82.22% refers to the efficiency level for administrative and program efficiency.

4.2.11 Overall Performance Index

Table 11: Descriptive Statistics on Overall Performance index

	N	Minimum	Maximum	Mean	Std. Error	Std. Deviation
Overall Performance Index	30	48	93	71.11	2.137	11.704

Source: Primary Data

The table 11 above refers to the Overall performance index, Mean 71.11%.

4.2.12 Correlation Statistics between Budgetary controls and Performance

Table 12: Correlation between Budgetary Controls and Performance

Spearman's rho		Planning	Monitoring and Control	Participative Budgeting	Budgetary Controls	Overall Performance Index
Overall Performance Index	Correlation Coefficient	.072	.242	.124	.236	1.000
	Sig. (2-tailed)	.706	.197	.513	.210	.
	N	30	30	30	30	30

Correlation is significant at 0.05 Level (2-Tailed)

The table 12 above shows the relationship between the budgetary control and performance.

4.2.13 Linear Regression Model

Table 13: Regression Model for Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.378 ^a	.143	.044	11.444

Predictors: (Constant), Planning, Monitoring and Control, Participative Budgeting

Table 13 shows a regression analysis, predicting organizational performances from budgetary control of the organization are statistically significant at 14.3%.

Table 14: Linear Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	60.482	15.124		3.999	.000
	Participative Budgeting	.001	.148	.001	.004	.997
	Monitoring and Control	.417	.233	.563	1.794	.084
	Planning	-.256	.304	-.268	-.843	.407

a. Dependent Variable: Overall Performance Index

Hence the equation for the regression is as follows:

$$Y=60.482+0.001x_1+0.417x_2-0.256x_3$$

4.3 Summary and Interpretation of Findings

Based on Table 8, the research found out that most of the respondents agree to have planning at 79.56% which include long term budget plans, departmental budgets and priority setting in budget conferences. They also concur that there is monitoring and control at 74.22% and participative Budgeting 72.48%, on average the budgetary controls depict a 74.43% mean indicating that there exists budgetary controls in these organizations.

As shown in Table 9, various parameters on performance index indicators, means ranging from increase in revenue growth mean 2.13 of 3-10%, community participation increase mean 2.60 of 10-20%, Dollars spend on providing aid and support increase mean 2.30 of 3-10%, Number of beneficiaries reporting an improvement in quality of life mean 3.03 of 20% and above and Increase in new donors involved 1.93 of 3-10%, the average index mean of 2, that is 60%.

Table 10 shows Financial Efficiency at 82.22% represents the administrative Efficiency and program efficiency both of a mean of 1.53 which implies that most of the NGOs are efficient at 30% Administration efficiency while Program efficiency at 70%.Overall performance index of NGOs therefore as illustrated in table 11 shows that performance is at 71.11% which shows that there is a good performance in these organizations.

As shown in Table 12, the significant level $p < 0.05$ hence it's statistically significant. All the variables indicate a correlation, there is a low correlation between Performance with Budget Planning ($r = .072$, $p = .706$), while the other variables indicate a moderate degree of positive correlations with Monitoring and Evaluation ($r = .242$, $P = .197$) and participative budgeting ($r = .124$, $p = .513$) respectively. Further overall correlation coefficient results show that the organization's performance is weak positive correlated with budgetary controls of NGOs in Kenya ($r = .236$, $p = .210$).

Based on the analysis of Table 13, regression analysis, predicting organizational performances from budgetary controls is statistically significant. R square, 14.3% means there is a weak positive relationship between organization's performance and budgetary controls of the NGOs in Kenya.

According to table 12, monitoring and controls has a higher correlation of 24.2% to organisations performance than the other aspects of budgetary controls. In this research therefore monitoring and controls plays a slightly higher significant role in improving performance of the organization followed by participative budgeting. Overall all the three variables showed a weak positive correlation with organizational performance.

The research therefore concludes that budgetary control positively affects the overall performance of NGOs in Kenya, as it's shown in R square of 14.3%, this means that the budgetary controls predicts 14.3% of NGOs' performance in Kenya. This analysis explains that there is a weak positive relationship between budgetary controls and NGOs performance.

Most Previous research have shown a high positive relationship between budget controls and performance, for example, Silva & Jayamaha (2012) who evaluated budgetary process of apparel industry in Sri Lanka and see whether budgetary process has significant impact on performance of such industry and found a high positive relation at correlation at 77.4%.Others like Brownell (1982) suggests that when budgetary control is high, budgetary participation should increase accordingly.

In his findings, budget application that includes budgetary control has no direct effect on performance, while budgetary participation affects performance directly and negatively. But in case where budgetary control is high, there is a meaningful positive relation between performance and budgetary participation. This research however depicts a weak positive effect of budgetary controls and performance at 14.3%.Although, the findings contrasts to Otley & Pollanen (2000) study whose results reveal that budgetary participation control and task ambiguity directly affects performance negatively but in situations where they combined interaction of variables, the effects differ. According to their study, while budgetary participation, control and task ambiguity affect performance negatively, in situations where budgetary control is high, participation makes positive contribution to performance.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This research established the existence of budgetary controls in NGOs, their performance and also determine the effects of budgetary controls on their performance. This research examined how budgetary controls affect performance in NGOs in Kenya, 30 organizations were sampled using convenience judgemental sampling, and drop pick technique was used to collect data from respondents.

All 30 respondents were collected and analysed using the statistical package for social sciences (SPSS 17.0) using descriptive statistics, both correlation and regression analysis was employed in the research to investigate the relationship between the budgetary controls and performance of NGOs. The various variables affecting budgetary controls; planning, monitoring and control, and participative budgeting were examined individually and compared to performance, means were used based on the likert scale used of 1 to 5 which were later analyzed using percentages.

The findings included; most of the organizations agree that there exist planning 79.56%, Monitoring and Controls at 74.22%, Budget Participation at 72.48% and on average with all these aspects budgetary controls was found to exist a 74.43% generally agreed that it does exist. Performance was analyzed based on the comparison of organizations annual reports in the previous year's performance and the research indicates that revenue grew between 3-10% mean 2.13, dollar spending on aid 3-10% mean 2.30, beneficiaries increased 10-20% mean 3.03, new donors also generally increased between 3-10% mean 1.93. Efficiency, both program and administrative efficiency at 82.22% meaning most of the organizations maintain 30%

administrative efficiency and 70% program efficiency on average. Overall performance index showed the performance is at 71.11%. It was also found that there is an effect of budgetary controls on performance which was analyzed using correlation and regression analysis. Correlation indicates budgetary controls and performance, correlation is as shown ($r=0.236$, $p=0.210$) while regression predicts that budgetary controls contributes only 14.3% of performance.

5.2 Conclusions

This research examined the budgetary controls and concludes that the NGOs generally have budgetary controls at different levels of organizations; it established that most of them have planning, monitoring and controls, and budget participation. Planning contributed the highest towards the positive performance of the NGOs followed by Monitoring and Control and finally budget participation.

It also established that there is above average performance in all the NGOs in Kenya based on the findings, that is, both financial and non-financial performance indicators which include revenue growth, community participation, dollars spending, new donor acquisition and efficiency are above average at 71.11%. Most of the organizations have the required 30% administration cost and 70% program costs which a standard requirement for NGOs.

Finally this research determined the effects of budgetary controls on performance of NGOs using correlations and regression methods established the relationship and have also concluded that there is a low positive relationship between budgetary controls and performance. This means that budgetary controls might not be the only reason for high performance; many other factors may affect the performance of an NGO.

5.3 Policy Recommendations

Budgetary controls are important in influencing performance therefore more efforts should be made by management of organizations both profit and non-profit to sensitize the employees on its importance so as to enhance performance. It also recommends that organizations should develop more formal practice in the development of budgetary controls, that is, Planning, Monitoring and Control and budget participation. Most organizations have minimal formal budget controls in their organizations hence the need to develop a clear policy on budget control processes.

Based on the findings ,organizations need to investigate other factors that contribute to better performance apart from budgetary controls, like employees motivation and invest more in staff development in order to enhance there performance. Monitoring and Controls shows the highest contribution towards performance hence more training should be done to the managers on how to conduct more efficient controls and monitoring.

The findings also indicate that budget participation has an impact on the organizations performance hence the budgetary controls should not be top-down in nature, instead the top management should make efforts to elicit feedback from subordinates at different levels in developing the organizations budget. As such, top management needs to understand that the positive impact of budgetary participation on managerial performance works both directly, as a consequence of management involvement in the budgetary process, as well as indirectly, when managers' commitment to the organization increases due to their participation and involvement in the budgetary control process.

5.4 Limitations of the Study

The researcher experienced various limitations in the course of the study; financial constraints, one of the major problems that the researcher encountered is inadequate financial support which consequently slowed down the process of data collection and production of the final report of the study in time.

Time constraints was a limitation as the research involved distributing questionnaires to different organizations most of whom were busy to spare enough time to respond. The duration within which the research was undertaken was also short leading to so much strain in time management and that's why the research focus on Nairobi area only.

Lack of corporation, the researcher experienced a lot of unwillingness to cooperate among most of the respondent organization, some never even responded and others even delayed in responding to the questionnaires. It was difficult to have face to face communication as most of the respondents preferred use of emails and this was the main challenge during the whole research period.

The likert scale that was used might have produced some bias as it is possible that the respondents provided non-committal answers by responding to neutral range of scale. Some respondents were biased while giving information due to reasons such as privacy and busy Schedules at their work place.

5.5 Suggestions for future Studies

The sample size used may have been quite small to enable get an overall picture of the total NGOs in Kenya. Therefore more research in this area should focus on increasing the sample size and cover a larger number of organizations both in Nairobi and outside so as to enhance better generalization of the results.

More research has to be done on the individual aspects of budget controls such as planning, participative budgeting, monitoring and control and relationship with organizational performance.

This study dwelt on Non-Governmental organizations and measures on performance were difficult to measure especially because they involve both financial and non-financial indicators. Hence more research should also be done in other sectors like the parastatals and private sectors.

This research concluded that there is a low positive relationship between budgetary controls and performance hence other factors may have influence on performance apart from budgetary controls. Therefore more research need to be done on factors that influence performance on NGOs.

REFERENCES

Adongo, K.O. (2012).The Relationship between Budgetary Controls and Financial Performance of State cooperation in Kenya. *Unpublished MBA Project: Kenyatta University.*

- Alesina, A. & Perotti, R. (1996). Reducing Budget Deficits. *Swedish Economic Policy Review*, 3(1)
- Aguinis, H. (2009). Performance Management (2nd ed). Dorling Kindersley: India Pvt. Ltd.
- Amaratunga, D. (2001). Theory Building in Facilities Management Performance Measurement: Application of Some Core Performance Measurement and Management Principles. *Unpublished PhD Thesis*. The University of Salford: UK.
- Ambetsa, W.O.A. (2004). Survey of Budgeting Practices by Commercial Airlines operating at Wilson Airport. *Unpublished MBA Project*. University of Nairobi.
- Ammons, (2006). The Use of Performance Measurement in South Carolina Non-profits. *Non-profit Management & Leadership*, 16(3), 316.
- Anderson, R.E. (1993). Can stage-gate systems deliver the goods? *Financial Executive*, 9, 34-35.
- Andrews, M. & Hill, H. (2003). The Impact of Traditional Budgeting Systems on the Effectiveness of Performance-Based Budgeting: A Different Viewpoint on Recent Findings. *International Journal of Public Administration*, 26(2).
- Antony R.N. (1988). Management Control in Non-profit Organizations. U.S.A. Richard D. Irwin Inc. Publishers, 871-873.
- Arora, M.N. (1995). Cost Accounting, Principles and Practice (4th ed.). Vikas Publishing
- Cairns B., Harris M., Hutchison R. & Tricker, M. (2005). Improving Performance: The Adoption and Implementation of Quality Systems in U.K. Nonprofits. *Non-profit Management & Leadership*, 16(2), 135-151.
- Briston, R.J. (1981). Introduction to Accounting and Finance. London: Macmillan Publishers.
- Brownell, P. (1982). The role of accounting data in performance evaluation, budgetary participation and organizational effectiveness. *Journal of Accounting Research*, 20, 12-17.

- Brownell, P., Dunk, A.S. (1991). Task Uncertainty and Its Interaction with Budgetary Participation and Budget Emphasis: Some Methodological Issues and Empirical Investigation. *Accounting, Organization & Society*.16 (8), 693-703.
- Carolyne, M., Callahan, Waymire & Renea, T. (2007, November 2).An Examination of the Effects of Budgetary Control on Performance: Evidence from the cities.AAA 2008 MAS Meeting Paper. <http://ssrn.com/abstract=1003930>.
- Carr, J. Joseph, (2000). Requirements Engineering and Management: The Key to Designing Quality Complex Systems: *The TQM Magazine* Volume 12 No. 6 PP.400-407.
- Cherington, D.J. & Cherington, J.O. (1973).Appropriate reinforcement contingencies in the budgeting Process. *Journal of Accounting Research*.17 (2), 225-253.
- Churchill, G.A. (1991).Marketing Research: Methodological Foundations. Fort Worth: The Dryden Press.
- Coates, J.B. (1995). Management Accounting in Practice (2nd ed). CIMA Publishing.
- Controllers report (2001).20-Best practice budgeting insights: how controllers promote faster and better decisions, 16, 16-18.
- Donald, R. C. (1998).Business Research Methods (6th ed).Boston Irwin. McGraw-Hill.
- Douglas, B.R. (1994).The budget process in a multinational firm. *The multinational business review*. 2, 58-63.
- Drury, C. (2006), Cost and Management Accounting (6th ed). Boston Irwin. McGraw-Hill, 422-471.
- Dunk, A.S. (1989). Budget Emphasis, Budgetary Participation and Managerial Performance: A Note. *Accounting, Organization & Society*, 14(4), 321- 324.
- Epstein, M.J, & McFarlan, W. (October, 2011).Measuring efficiency and effectiveness of a Non Profit's Performance.*Stategic Finance*.

- Falk, S. (1994). When Budgeting, Focus on Value: Nine Strategies for Value Basing. Public Management.
- Hokal, A. & Shaw K.E. (1999) .Managing progress monitoring in United Arab Emirate schools. *International Journal of Educational Management*, 13 (4), 173 –179.
- Gacheru, A.N. (2012).The effect of budgeting process on Budget Variance in NGOs in Kenya. *Unpublished MBA Project*. University of Nairobi.
- Gachithi, E. (2010).The Challenges of budget implementation in Public Institutions: A case study of University of Nairobi. *Unpublished MBA Project*. University of Nairobi.
- Goldstein, L. (2005). College and university budgeting: An Introduction for Faculty and Academic Administrators (3rd ed.). *National Association of College and University Business officers*, Washington DC.
- Hancock, G. (1989). Lords of Poverty Masters of Disaster. London, U.K.: Macmillan London.
- Hirst, M.K. (1987). The Effects of Setting Budget Goals and Task Uncertainty on Performance: A Theoretical Analysis. *The Accounting Review*, 62(4), 774-784.
- Hopwood, A.G. (1976) Accounting and Human Behaviour. Eaglewood Cliffs, New Jersey: Prentice Hall.
- Hornrgren, C. Forster, D., Dater (1997) Cost Accounting: A managerial Emphasis. San Francisco, Simon and Schuster co.
- Hornrgren, C.T. (2002). Management and Cost Accounting, Harlow (2nd ed): *Financial Times*, Prentice Hall.
- Horvath, P. & Seiter M. (2009). Performance Measurement. *Die Betriebswirtschaft*, 69 (3), 393-413.
- Kaplan, R.S., & Norton, D.P. (1996). The Balanced Scorecard: Translating Strategy into Action. Boston, MA: Harvard Business School Press.

Lucey, T. (2002). Costing (6th Edition). 403-410.

Solà, M. & Prior, D. (2001). Measuring Productivity and Quality Changes Using Data Envelopment Analysis - An Application to Catalan Hospitals. *Financial Accountability & Management*, 17(3), 220.

Mathis, G. (1996). Management Concepts and Effective Practice. (3rd ed.). Los Angeles: West Publishing Co.

Mabey, C. Salaman, G. Storey, J. (1999). Human Resource Management: A Strategic Introduction (2nd ed.). Blackwell Publishers Ltd.

Milani, K. (1975). The Relationship of participation in budget setting in industrial supervisor performance and attitudes: A field study. *The Accounting Review*, 56, 813-829.

Mugenda, M.O. and Mugenda, A. (1999). Research Methods: Qualitative and Quantitative Approaches. *Africa Centre for Technology Studies*, Nairobi, Kenya.

Mufti, M.H.A., Lyne, S.R. (1997): Further Evidence on the Effect of Contingency factors on budget involvement and performance. *Paper presented at the Annual Congress of European Accounting Association*, Graz.

Muleri, M. A. (2001). A survey of budgeting practices among the major British Non-Governmental Organizations in Kenya. *Unpublished MBA Project*. University of Nairobi.

Obulemire, T. A. (2006). A survey of budgeting practices in secondary schools: A case of public secondary schools in Nairobi. *Unpublished MBA Project*. University of Nairobi.

Osewe, E. O. (1998). The Choice of Performance Measures used in Divisionalized Company's; A survey study Among Listed Company's. *Unpublished MBA Project*. University of Nairobi.

Osoro, P.M. (2001). Budgetary Control in NGOs in Kenya: A Case of World Vision. *Unpublished MBA Project*. University of Nairobi.

- Otley, S. (1987). Budget Use and Management Performance. *Journal of Accounting Research*, 16(1).
- Otley, D.T. & Pollanen, R.M. (2000). Budgetary Criteria in Performance Evaluation: A Critical Appraisal Using New Evidence. *Accounting, Organization & Society*, 25(4/5), 483-496.
- Phyrr, P. (1970). *Zero Base Budgeting: A Practical Management Tool for Evaluating Expenses*. New York: John Wiley.
- Robson, K. (1991). On the Arenas of Accounting Change: The Process of Translation. *Accounting, Organization & Society*, 16(5/6), 547-570.
- Sawhill, J.C. & Williamson, D. (2001). Mission Impossible; Measuring Success in Non-profit Organizations. *Non-profit Management & Leadership*, 11(3)384-385.
- Salaman et al. (2005). *Strategic Human Resource Management: Theory and Practice* (2nd ed.). Sage Publications Ltd.
- Scott, W.R. (1987). *Information Processing: Creating Organizations*. Englewood Cliffs, NJ: Prentice Hall.
- Selznick, P. (1988, February 13). Foundations of the Theory of Organizations. *American Sociology Review*, 25-35.
- Sharma, P. (December, 2012). Performance Measurement in NGO's. *The Management Accountant*
- Shields, M. & Young, S.M. (1993). Antecedents and consequences of participating budgeting: evidence on the effects of asymmetrical information. *Journal of Management Accounting Research*, 5, 265-280.
- Silva, L.M.D. & Jayamaha, A. (2012). Budgetary Process and organizational performance of Apparel Industry in Sri Lanka. *Journal of Emerging Trends in Economics and Management Sciences*, 3(4):354-360.
- Sizer, J. (1989). *An insight into Management accounting* (3rd ed). Penguin Books Limited.

Simiyu N.T.T. (1977).A Study of the problems of budgeting and motivation at the supervisors level in Manufacturing Firms in Kenya .*Unpublished MBA Project*. University of Nairobi.

Simiyu, N.T.T., (1979). Participatory Budget Setting and Budget Commitment.*Unpublished Thesis*. University of Nairobi.

Srinivasan, U. (1987).Current Budgeting Practices in Us Industry. New York, NY: Quorum Books.

Suberu, S.B. (2010).Budgeting strategies in selected federal polytechnic libraries in Nigeria.*Samaru Journal of Information Studies, 10*.

The Non-Governmental Organizations Co-ordination Act, (1990)

The Non-Governmental Organizations Co-ordination, (2009).National Surveys of NGOs Report

Hansen, S.C., Otley, D.T. & Van der Stede, W.A. (2003). Practice Developments in Budgeting: An Overview and Research Perspective. *Journal of Management Accounting Research*, 15, 95-116.

Zimmerman, et al. (2006).The Use of Performance Measurement in South Carolina Nonprofits.*Non-profit Management & Leadership*, 16(3),315-327.

APPENDICES

Appendix 1: Questionnaire

UNIVERSITY OF NAIROBI
MASTER OF BUSINESS ADMINISTRATION
QUESTIONNAIRE

Dear respondent, I am conducting a study on **Effects of Budgetary Controls in the performance of NGOs in Kenya** as part of my study at the University of Nairobi. As one of the respondent, your involvement is very important to this study. The information provided will only be used for **academic purpose**, and will be treated with utmost confidentiality. Thank you in advance.

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

1. What time dimensions does your overall organization Budget Cover?
(a) Less than 1 year () (b) 1-5 years () (c) 5 and above years () (d) None ()
2. How often is it reviewed?
(a) Monthly () (b) Quarterly () (c) Annually () (d) None ()
3. What is your approximate annual budget revenue?
(a) \$12,000 and less () (b) \$ 12,000-\$58,000 () (c) \$58,000-\$116,000 () (d) \$116,000 and above ()
4. How long have you worked for the organization
(a) Less than 1 Year () (b) 1-4 Years () (c) 4-10 Years () (d) 10 and above ()

PART B: PLANNING.

Please respond to the following statements by indicating the extent to which you agree or disagree with the activities. Strongly Disagree (1) Disagree (2) Not sure (3) Agree (4) Strongly Agree (5). Tick your choice

1. Our organization has Long term and short term Budget Plans 1(), 2(), 3(), 4(), 5()
2. Our budgets have clear goals and objectives 1(), 2(), 3(), 4(), 5()
3. Our Budgets cover all the aspects of our Mission 1(), 2(), 3(), 4(), 5()
4. When budgeting, outcome goals and objectives are linked to programmes
1(), 2(), 3(), 4(), 5()
5. We set priorities for the coming year at budget conference/Committees.
1(), 2(), 3(), 4(), 5()
6. All departments prepare budget plans prior to the budget year 1(), 2(), 3(), 4(), 5()

PART C: MONITORING AND CONTROL.

Please respond to the following statements by indicating the extent to which you agree or disagree with the activities. Statement Strongly Disagree (1) Disagree (2) Not Sure (3) Agree (4) Strongly Agree (5).

1. Managers hold budget conferences/meetings regularly to review performance
1(), 2(), 3(), 4(), 5()
2. We have Budget policies to check on spending
1(), 2(), 3(), 4(), 5()
3. Control of the budget activities is done by the head of departments
1(), 2(), 3(), 4(), 5()
5. The costs of activities are always reviewed by the executive committee
1(), 2(), 3(), 4(), 5()
6. Budget performance evaluation reports are prepared regularly.
1(), 2(), 3(), 4(), 5()
7. Budget deviations are reported to budget committee/Executives
1(), 2(), 3(), 4(), 5()
8. The deviations from the budget targets are frequently reported
1(), 2(), 3(), 4(), 5()
9. Managers always take timely corrective actions when adverse variances are reported.
1(), 2(), 3(), 4(), 5()
10. There is a regular follow up on budget plans by the budget committee/Departmental heads
1(), 2(), 3(), 4(), 5()

PART D: PARTICIPATIVE BUDGETING

Please respond to the following statements by indicating the extent to which you agree or disagree with the activities. Strongly disagree (1) Disagree (2) Not Sure (3) Agree (4) Strongly Agree (5)

1. I'm involved in the budget setting process
1(), 2(), 3(), 4(), 5()
2. We are sensitized on the budget control process
1(), 2(), 3(), 4(), 5()
3. All the stakeholders to the budget are involved
1(), 2(), 3(), 4(), 5()
4. All departments are always involved in the budgeting process
1(), 2(), 3(), 4(), 5()
5. Approved Budgets are shared with all Departments
1(), 2(), 3(), 4(), 5()
6. Leadership and support is given to all the Subordinates Throughout the budget by managers
1(), 2(), 3(), 4(), 5()
7. Each department prepares a budget prior to the Overall budget
1(), 2(), 3(), 4(), 5()

PART E: PERFORMANCE

Please respond to the following (Please tick in the appropriate box provided).

1. The revenue growth of the organization in the past one year lies between

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

2. The number of community participation increased within the past year by:

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

3. Dollars spend on providing aid and support in the past one year increased by:

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

4. Number of beneficiaries reporting an improvement in their quality of Life in the past one year lies between:

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

5. Number of new donors involved in terms of percentage during the past one year.

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

6. Financial Efficiency

(a) Administrative Efficiency as a percentage of Administrative expense divided by Total Expenses in the past year.

(a) 0%-30% () or (b) 30% () or (c) 30% and above ()

(b) Program Efficiency as a percentage of Program expenses divided by Total Expenses in the past year.

(a) 70% and above () or (b) 70% () or (c) 70% -0% ()

Thank you for your time and God Bless You.

Appendix 2: Correlation Matrix

			Planning	Monitoring and Control	Participative Budgeting	Budgetary Controls	Overall Performance Index
Spearman's rho	Planning	Correlation Coefficient	1.000	.722	.444*	.818	.072
		Sig. (2-tailed)	.	.000	.014	.000	.706
		N	30	30	30	30	30
	Monitoring and Control	Correlation Coefficient	.722	1.000	.589**	.905	.242
		Sig. (2-tailed)	.000	.	.001	.000	.197
		N	30	30	30	30	30
	Participative Budgeting	Correlation Coefficient	.444*	.589**	1.000	.726**	.124
		Sig. (2-tailed)	.014	.001	.	.000	.513
		N	30	30	30	30	30
	Budgetary Controls	Correlation Coefficient	.818	.905	.726**	1.000	.236
		Sig. (2-tailed)	.000	.000	.000	.	.210
		N	30	30	30	30	30
	Overall Performance Index	Correlation Coefficient	.072	.242	.124	.236	1.000
		Sig. (2-tailed)	.706	.197	.513	.210	.
		N	30	30	30	30	30

Appendix 3: List of the Non-Governmental Organizations

1. Mully Children's Family Home
2. Feed the Children
3. Marie Stopes Kenya
4. Chema Vision Children's Centre
5. Olympic Training centre
6. Nubian Rights Forum
7. Muungano Support Trust
8. African Network for the Prevention and Protection against Child Abuse (ANPPCAN Kenya Chapter).
9. Gatoto Integrated Development Program
10. East African Wildlife Society
11. Kibera Young Single Mothers
12. Children of Kibera Foundation
13. International Emerging Infections Program (IEIP)
14. Carolina for Kibera
15. Mchanganyiko Women Group
16. Zindua Afrika
17. Care International in Kenya
18. Children Garden Home
19. PATH Kenya
20. Pathfinder International
21. Childslife International Kenya
22. SOS Children's Villages in Kenya
23. National Council of Churches-DAADAB Program
24. Islamic Relief –Kenya Program
25. ACROSS-Kenya
26. Childline Kenya
27. AFRI-LIFT Kenya
28. Compassion International-Kenya
29. Grassroots Alliance For Community Education(GRACE-Africa)
30. Agency for Technical Co-operation and Development