THE CHALLENGES OF CASH BUDGET IMPLEMENTATION

CASE OF COMMERCIAL BANKS IN KENYA

PRESENTED BY

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DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or instituting for academic credit.

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DEDICATION

This research project is dedicated to my parents who taught me the value of education.

My brothers and sisters for ever indebted to you for what I cannot put in paper

My lovely sons, nieces and nephews, please carry on the education touch higher.

ABSTRACT

The study investigated the challenges of budgeting process in the banking industry in Kenya. To determine if budgets are fully implemented in the banking industry in Kenya and to give recommendations based on the finding of the study.

This study was descriptive in nature and the researcher used survey method. The population of this study consisted of 42 Commercial Banks in Kenya that have been inspected, assessed and classified as commercial banks by the Central Bank of Kenya and operate in accordance with chapter 488 Banking Act of Kenya. The sample was picked from the current list of commercial Banks from CBK Thirty Banks based in Nairobi were be selected from the list. Thereafter content analysis was used to analyse the respondents' views about the factors affecting budgeting process. The data was then coded to enable the responses to be grouped in to categories. Finally descriptive statistics was used mainly to summarise the data. This included percentages and frequencies

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CHAPTER ONE

1.0 INTRODUCTION

This chapter contains background to the study Cash budgeting in banking sector. The specific subtopics covered are budgeting at Commercial banking, statement of the problem, objectives of the study, research questions, and significance of the study.

1.1 Background of the Study

A Cash budget whether it is for Commercial banks, public institution or for a private profit oriented company, is a basic and powerful tool in management. In this regard it serves as a tool for planning and controlling the use of scarce financial resources in the accomplishment of organizational goals (Schick, 1999).

Budgets occupy a leading place among the special tools of management employed to direct and control the affairs of large and multifarious organizations. They are used not only by governments, where budgeting had its origins, but in other public bodies, in industry and commerce and in private families. All have found that a budgetary system can be an invaluable aid in planning and formulating policy and in keeping check on its execution (Premchand, 1994).

The Cash budget thus stipulates which activities and programs should be actively pursued, emphasized or ignored in the Cash budget period considering the limited financial resources available to the organization. In certain types of organizations, the budgetary process usually starts at the organizational sub unit level where the various activities take place. It is the decision maker at the subunit level who has the relevant facts to effectively classify activities into various categories according to their importance.

It is therefore, that projects and activities requiring attention and hence financial support can be identified. The basic reason for requiring estimates from subordinate officials is that higher officials do not have enough detailed information, time or specialized skills to prepare the plans themselves. This is perhaps the only point of convergence of the budgetary process in both private and public institutions.

Companies in the private sector are profit motivated. As such, their budgeting reflects conscious efforts on their part to plan for certain desirable results and control to maximize the chances of achieving those results

Budgeting in a typical private sector is a collective and closely coordinated exercise in which each activity is systematically related to the other. The exercise usually starts some months prior to the start of the financial year. In this period, the company undertakes a thorough analysis of its previous experience, the state of the economy, corporate objectives together with the available resources (Schick, 1999). This analysis is aimed at providing a frame work for the Cash budget preparation exercise and it therefore sets out the 'ground rules' for the preparation of the Cash budget for the following financial year.

Unlike the private sector companies, public sector organizations are concerned with the provision of public goods to members of the society. Their budgets are therefore mainly intended for authorizing actions and providing ceilings for management actions (Hongren, 2000).

Budgeting in public organizations is normally a hierarchical process which starts at the subunit level and ends at the "apex" of the hierarchy in this case the treasury, which may be outside the organization itself. Often, therefore, there are several tiers between these two levels of the budgetary hierarchy.

The firm's organizational architecture is comprised of several systems where decision rights, performance and measurement rewards are gauged and administered. Within the confines of the organizational architecture is the process of budgeting. Although budgets and their corresponding systems are accounting by nature, they also provide a measure to partition decision rights and control behaviour, and are used more often than not as a managerial, rather than solely an accounting function (Zimmerman, 2003).

There are clearly established budgeting rules within the accounting industry. Typically, budgets are used to filter and analyze information throughout the organization, not necessarily to create more information for dissemination. The budgeting process utilizes what information is already available. The focus of budgets and the planning process are often based on the drivers of sales, profits and expenses, relying on historical performance and demand data to forecast future monetary requirements. It is an imprecise activity at best, yet an important action for the successful tactical operation of a business. On a strategic level, budgeting clarifies its competitive priorities, advantages and strategies for the future, employing cost forecasts and demand limits to quantitatively measure the feasibility of capital expansion projects (The Controller's Report, 2001).

The introduction of management control systems has been the most significant organizational change to have occurred in the last 15 years of "managerially" reforms of the financial sector. Since 1992, a whole raft of reforms has streamlined chains of accountability within the financial sector and as a consequence new accounting systems have been developed. This followed a shift from funding based on historical data to funding based on prospective methods (e.g. per capita contributions) and focused attention on the economics of delivering services. As a result, financial organizations, including micro finance institutions and banks became more accountable for their financial performance. In this light, the adoption of management control systems - planning, budgeting and controlling (PBC) systems, and later performance measurement systems have increasingly been used. This has meant a more cost-conscious approach and an increasing transparency in internal decision-making processes, in the allocation of resources, and in priority-setting. Though in many ways they remain professional bureaucracies and political institutions, where decision-making is often the result of power dynamics, the adoption of PBC systems and performance measurement has provided certain hard boundaries and a unitary direction as opposed to the traditional conflicting motivations and behaviour of professionals and managers.

Budgets are financial blueprints that quantify a firm's plans for a future period. Budgets require management to specify expected sales, cash inflows and outflows, and they provide a mechanism for effective planning and control in organizations. The Cash budget is a standard against which the actual performance can be compared and measured.

1.1.1 Implementation of policies

Budget implementation should be reviewed periodically to ensure that programs are implemented effectively and to identify any financial or policy slip-ups. The review of budget execution should cover financial, physical and other performance indicators. Cost increases due to inflation, unexpected difficulties, insufficient initial study of projects, and budget overruns must be identified so that adequate countermeasures can be prepared. A comprehensive midterm review of the implementation of the budget is needed, while the financial implementation of the budget should be reviewed monthly.

Development budgets are often beset by implementation problems because of insufficient implementation capacities and other factors such as delays in mobilizing external financing, overoptimistic implementation schedules, climatic hazards, or difficulties in importing supplies. Mechanisms for reviewing the most significant or problematic projects are needed. These could consist of a regular monthly or quarterly review of projects within line ministries and a midyear review involving line ministries and central agencies.

It is difficult to make accurate forecasts for the implementation of certain programs or for developments in economic parameters such as inflation, interest rate or exchange rates. Some immediate needs that were not foreseen during budget execution may appear during budget execution. To limit the effects of these problems, rules for transfers must be flexible; appropriations for debt service cannot be a spending limit and should be revised according to developments in interest rates or the exchange rate. Contingency reserves may be included in the budget. However, their amount must account for only 1-3 percent of the total budget; otherwise, budget execution will involve bargaining the uses of reserves and the budget will become an allocation of reserves.

Therefore, for changes that alter the composition of the budget or when an over all increase in expenditures is unavoidable, the budget may have to be revised. Mechanisms for revisions depend on the countries, and should be clearly stated in the budget organic law. Some broad principles are desirable. Since the budget has been passed by the legislature, revisions should be made by law. Generally, changes in appropriation above a certain percentage of the initial appropriation or changes that affect the total amount of expenditures must be submitted for to the legislature for approval. To allow the government to address problems with dispatch, procedures authorizing exceptional expenditures before the Parliament approves them can be considered. However, the authority should be regulated and limited, and the executive must be required to present a revised budget to Parliament at short notice. Supplementary estimates should be approved only at a fixed time and the number of in-year revisions should be strictly limited (to preferably only one in-year budget revision). Some countries present supplementary estimates to Parliament on a case-to-case basis, each time the Cabinet approves a request from a line ministry be, as a result, an excessive number of supplementary estimates are prepared every year (e.g., up to 40 in Sri Lanka). Such procedures should be avoided. Budget execution is difficult to control when budget is continually being revised. Moreover, supplementary estimates granted to one sector may, all too soon, seem better allocated to a higher priority sector. Preferably, only one budget revision should be made during the fiscal year and requests from line ministries should be reviewed together, not singly (SIGMA-OECD, 1997).

1.1.2 Personnel Budgetary Management

Issues of personnel management cover different areas. On the one hand, fiscal stress and the changing role of the government are focusing attention on procedures for controlling personnel expenditures. The growing size of the public service is a major concern in most countries. This is mainly a policy issue, but it also requires appropriate tools for budgeting personnel. On the other hand, systems for personnel management should aim at fostering efficiency in delivering public services. This covers a wide set of issues such as compensation and measures for increasing mobility. Personnel budgeting methods need to take into account performance issues, but the balance between fiscal discipline objectives and efficiency-performance concerns strictly depends on the context of each country.

1.1.3 Challenges of cash budget implementation

Low-income countries struggle to get the basic cash budget systems in place.

Middle income countries, frequently have some of the basics in place, but often struggle with overcoming legacy systems that exist and may impede further cash budget reform progress, such as separate planning and finance ministries, or fragmented cash budget systems. This might be reflected in the higher reform activity in ministry of finance reorganization and cash budget legislation in middle-income countries (SIGMA-OECD, 1997).

There seems to be a slight movement away from some of the standardized, one-size-fits all recommendations, towards more nuanced, or pragmatic reforms. Examples include discussion of "financial management information systems" or limited automation of cash budget systems, instead of the 'integrated' financial management information system (FMIS), and also more discussion of the underlying components of medium-term expenditure frameworks and a focus on getting these individual building-blocks in place

Some of the challenges for further improving the design and implementation of Cash budget reforms include:

More holistic views of the entire cash budget system are needed, including identification of weakest links, rather than seeking cutting-edge reforms in one narrower aspects of the cash budget system. More work on sequencing reforms is needed, and the linkages across the cash budget systems to support any specific reform agenda, there is a need to limit the adverse impact of cutting-edge, fashionable reforms being advanced across the globe, regardless of suitability to circumstances or country needs.

The concept of country ownership can be somewhat murky and hard to define or measure. It is certainly more than just convincing a country of the merits of a particular set of reforms. A better starting point might be having the country identify their most pressing cash budget management challenges, and helping them solve that with practical solutions, rather than advancing a specific set of reform measures. More work is needed to right-size reform measures to country size and circumstances. Understanding of cash budget systems is sufficiently advanced that this customization is possible, but the field has not paid sufficient attention to it (SIGMA-OECD, 1997).

1.1.4 Budget Process Challenges at Kenya Commercial Banks

Challenges

To change from ad-hoc activities by new institutions, and establish a controlled process managed in a consistent way

To balance the divided power and varying spending priorities

To establish realistic expectations and conduct rational actions

Cash flow management

Next Steps

Control size of civil service and social subsidy programs

Determine maintenance level of G&S spending

Focus on results-oriented Capital spending

Require cost estimates for all proposed laws

Stress training for Budget Organizations and Assembly

1.2 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted.

The CBK, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and also addresses issues affecting its members.

The banking sector comprised of 45 institutions, 41 of which were commercial banks, 2 mortgage finance companies, one non-bank financial institution and one building society as at December 2006. There were no changes in the number of financial institutions.

The continued expansion of the banking industry has witnessed a 23.7% increase in the number of employees compared to last year. The industry has further increased the number of banks that have invested in new electronic banking applications. The salutary effect of this has seen a shift from the traditionally conservative industry experiment to diverse new electronic based products

After many years of being seen as unprofitable business, there is renewed interest in the Small and Medium Enterprises (SMEs) segment with a growing number of banks investing in branch expansion networks in the otherwise previously un-banked rural and remote town centres. The year 2007 saw new entrants in the banking industry. During the year, Family Finance Building Society sought approval to convert to a commercial bank. A leading indigenous regional banking group in sub-Saharan Africa has strengthened its presence in East Africa. The year saw the phenomenal growth of Equity bank with injection of 11 billion by capitalist venture Helios Finance.

Competition increased in 2007 with the entry of fully-fledged Islamic banks after the Minister for Finance opened a window for Sharia-compliant products in his annual budget speech for 2006/2007 financial year. Promoters of Islamic banks, who had expressed interest, are encouraged that Africa is an attractive emerging market for Islamic finance, with Kenya positioned as the gateway to East and Central Africa.

The growth momentum in Kenya was supported by increased credit to the productive private sectors in the economy. In tandem with this economic growth, financial institutions in Kenya took advantage of the favourable operating economic environment.

Supported by stable interest rates, lending to the productive sectors of the economy increased significantly further boosting the growth momentum. Similarly, a number of corporate companies in the telecommunication sector benefited from the favourable growth and raised capital through issue of debt instruments such as commercial paper and corporate bonds to finance their expansion programmes.

Kenya's economy is expected to sustain the growth momentum into 2008. The improved performance was underpinned by aggressive marketing of Kenya as a tourist destination, increased activity in building and construction, manufacturing, revival of agricultural institutions and improved governance. Stable interest rates and floating market determined exchange rates continued to provide a conducive macroeconomic environment for investments. In addition, remittances from abroad increased as well as public spending on development projects

The banking industry is expected to sustain the strong performance into 2008, benefiting from an improved domestic economy, expanding business opportunities and a robust monetary policy stance. Institutions are expected to continue rolling out new products as they expand the branch and ATM Networks in the forth coming year. It is also anticipated that further consolidation will take place in the industry through mergers and acquisitions as institutions seek to achieve economies of scale required to effectively compete and expand into the increasingly lucrative mass market.

1.3 Statement of the Problem

Budgeting is one of the fundamental decision-making processes in organizations since it is a management tool. During Cash budget formulation, officials determine the portion of the organization's resources that the manager of each unit will be authorized to spend. Budgets often establish performance goals for the unit in terms of costs, revenues, and/or production (Little et al., 2002). Budgeting and Financial Management have been at the core of economic reform programs in most nations around the world (Schick 1999). These have also been the principle instruments of transformation and restructuring of the various sectors in several countries. While this is the case, there are growing challenges of budgetary crises and fiscal shocks felt in developing countries and transition economics.

Two key factors which bring about challenge in cash budget implementation process are,, the level of local revenues collected and the availability of external resources to bridge the gap occasioned by shortfall in revenues. When revenues fall short of the projected level then Cash budget implementation is affected to the extent that the expenditures have to be reduced and some projects and programmes postponed altogether. Stakeholders also factor external resources in the form of loans and grants into the Cash budget following commitment. The funds may however not be available at all as may be released late into the financial year as the budgeted amount may be reduced or a result of some donor refusing to release funds as result of the non-fulfilment of donor conditions

For tactical purposes, cash budgets provide useful information tools and control mechanisms to company leaders, as well as partitioning decision rights with those holding specific knowledge about the operation. In addition, (Zimmerman, 2003) observes that cash budgeting facilitates Coordination of sales and production, formulation of a profitable sales and production program, coordination of sales and production with finances, Proper control of expenditures, formulation of investment and financing programs and coordination of all operations within the business. While this is so, companies have failed to enjoy these benefits fully as a result of failure in effective implementation of the cash budgets. In addition, the banking industry has experienced many changes in the last several years, and there are no indications the future will be different.

The above situation will lead to a shortfall in Cash budget financing and the only realistic alternative if the Cash budget to be implemented in full is to resort to domestic borrowing. Therefore, it is important that the projected revenue levels and the external resources committed are available to enable the Cash budget to be fully implemented by the firms in the banking industry. This movement of banks and bank holding companies into new markets and the concomitant capital expenditures will increase the potential for using a variety of capital budgeting techniques.

Owing to these shortcomings and little research on these area in cash budgeting, this study therefore seeks to investigate what shortcomings banking corporations face in full implementation of the cash budgets and if scarce financial resources are used to the optimum. No study has been done in Kenya to investigating the challenges of Cash budget implementation in the banking industry in Kenya. Most of the studies in the area of budgeting in Kenya tend to concentrate on public sector for instance Nderitu M George 2007 studied Effective of cash budgeting in public institutions; Ombulemre.T.A A survey of budgeting practices in Secondary schools. Makoro Osoro. 1998 studied budgeting control in NGO's in Kenya. It is in this light that the study seeks to investigating the challenges of budget implementation in the banking industry in Kenya.

1.4 Objectives of the study

The objective of the study was:

(i). To investigate the challenges of Cash budget implementation process in the banking industry in Kenya

1.5 Research Questions

The paper addressed the budgetary implementation concerns based on the following research questions:

1. What challenges do firms in the banking industry in Kenya face in their budgeting process?

2. What are the pitfalls in the Cash budget implementation in the banking industry?

3. How can firms in the banking industry effectively implement their budgets?

4. What measures could it put in place to ensure that such budgets make efficient utilization of financial resources?

1.6 Significance of the study

The study will be valuable to the following:

Banking industry

The study will be valuable to the organisation management in that it will provide an insight into the various approaches towards budgeting process and how budgets could be used to ensure efficient utilization of resources.

Policy makers and regulatory bodies:

The study will be useful to the government in policymaking regarding the banking industry requirements.

Academicians

The study will provide a useful basis upon which further studies on broad subject of budgeting in the banking industry could be conducted.

1.7 Definition of Terms

a) Implementation

Implementation is the realization or execution of a plan. A Cash budgets said to have been successfully implemented when the plans in the Cash budget have been executed. Cash budget implementation is reviewed periodically to ensure that programs are implemented effectively and to identify any financial or policy slip-ups.

b) Virement

This is the agreed transfer of money from one Cash budget head – income or expenditure to another, within a financial year Virement is a measure of flexibility that allows budget-holding managers to reflect Cash budget variances within a year.

1.8 Organisation of the Paper

The study is being organized in five chapters. Chapter one contains the background to the study, the problem statement, the purpose of the study, the objectives, research question, significance of the study and definitions of terms used in the paper. Chapter two presents review of literature derived from international perspectives.

Chapter three presents the research methodology that was applied in the study. It covered the research design, target population, sample and sampling procedure, research instruments and data collection and analysis procedures to be employed in the study

Chapter four presents data findings, the analysis of the data and the interpretation Of the data.

Chapter five presents the summary of the findings, conclusions and recommendations

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research on budgeting. The specific areas covered here are techniques used in budgeting, budgeting process, constraints in Cash budget implementation, and challenges influencing Cash budget implementation.

2.2 Cash Budgeting

Budgeting is one of the fundamental decision-making processes in organizations. During Cash budget formulation, officials determine the portion of the organization's resources that the manager of each unit will be authorized to spend. Budgets often establish performance goals for the unit in terms of costs, revenues, and/or production (Little et al., 2002).

This is a succinct and accurate summation of the importance of the budgeting function within the majority of organizations. Some industries use budgeting as a control of expenditures, while other businesses use budget functions as a tool for planning, a means of communication, or as a goal to measure performance. The benefits of budgeting are not minimized despite the source of initial funding (i.e. public funds, taxpayer funds, shareholder investments or privately acquired monies). Although companies institute budgeting formats in different ways, all companies benefit from its use, and budgeting functions perform an important mechanism in a firm's organizational architecture-corporate and business success depends on it (Little et al., 2002).

Budgeting is a management tool. In order that it should be effective it should combine in it the various processes viz planning and programming, execution, control, review and evaluation. Traditional budgeting system is essentially designed to facilitate financial and legal accountability of the firm. In order that the budget should go beyond these two aspects, and provide a comprehensive picture of bank efforts in terms of functions, economics of different programmes, the output and the relationship between the resource provided and the results achieved, and also provide an effective reporting system, the concept of performance budgeting took shape. Performance budget can, therefore, be defined as a comprehensive operational document conceived and presented in terms of functions, programmes and activities with their financial and physical aspects interlinked (Zimmerman, 2003).

After understanding the contents of the traditional Cash budget of any department, the study of its performance Cash budget would make the Cash budget more comprehensible. The important feature of the document is the programme-workload summary and the explanation of financial requirements. Usefulness of the performance budget of any Department depends on the extent to which the programme workload There are, however, certain limitations to the usefulness of the performance Cash budget technique. Some firm operations are not susceptible to any satisfactory system of physical measurement. Many outputs cannot be precisely quantified. The usefulness of the technique is, therefore, limited to only those projects which lead to physical achievements which are quantifiable. In short, the performance Cash budget would serve a very useful part in respect of departments handling developmental activities, while in other cases, their usefulness is very limited.

2.3 Cash budget Implementation

Cash budget implementation is public expenditure policy and therefore the manner in which public expenditure is managed will definitely impinge on the implementation of the Cash budget (Premchand 1994). Cash budget implementation or execution of the Cash budgets an activity that takes place throughout the financial year and is the cutting edge of the Cash budgets it involves all branches of the government unlike the more technical and selective participation of officials in Cash budget formulation. (Ramakrishnan, 1997).

The primary concern during the Cash budget implementation process is to ensure the fulfilment of the financial and economic aspects of the budget. The financial tasks include; spending the amounts for the purposes specified, minimizing savings and avoiding lapses or rush of expenditures during the end of the year. The economic tasks on the other hand are; ensuring that the physical targets of programmes and projects are achieved and the macro-economic aspects of the Cash budget such as borrowing and deficit levels are also achieved. In managing Cash budget implementation one of the key areas of focus is the revenue and expenditure flow pattern.

Premchand (1994) states that implementation of the Cash budget requires an advance program of action evolved within the parameters of the ends of the Cash budget and means available. This framework, he further states, should include the following: identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate. The budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work namely:

(a) An allocation system under which expenditure is controlled by release of funds.

(b) Supervision of the acquisition of goods and services to ensure value for the money spent.

(c) An accounting system that records firm transactions and provides a framework for an analysis of their implications, and

(d) A reporting system that permits a periodic appraisal of the actual implementation of policies.

Companies must prepare forecasts of the financial receipts and payments in order to facilitate prompt release of funds for the actualization of their activities and programmes. Release of funds by the Ministry of Finance is an instrument that is very critical to the Cash budget implementation process. When planned and affected properly it can facilitate the implementation tasks of spending agencies, while the negative use of the same process may hamper the activities of the agencies. In the course of Cash budget implementation another key factor that has to be taken into account is the issue of cost increases.

In most companies in the banking industry programs and projects cost increases are the rule rather than the exception and cases of cost increases have been known to inflate project budgets by as high as 100 percent. These increases have to be anticipated and policies formulated to counteract them or provide for them as has been suggested by Premchand (1994) through creation of a contingency reserve The phenomena of excess expenditure also critically effects budget implementation. It may occur as a result of cost increase or as a consequence of poor management

Excess expenditures cause instability in the resource allocation process and are discouraged by many companies, some even providing legislative restrictions. Schick (1999) observes that a country can have a sound budget and financial system and still fail to achieve its intended targets. This is because the rules of the game by which the Cash budgets formulated and implemented are equally important and do influence outcomes.

For efficient Cash budget implementation, the budget funds should be released on time. Internal controls (within departments) should be generally preferred to external controls performed by central agencies, but the internal controls require a strong monitoring and auditing system. Commitments and verification controls should be internal to avoid excessive interference by central agencies in budget management. When payment processing and accounting controls are decentralized, central control on cash is required. When payment processing and accounting controls are centralized, it should be verified that payments are made on time and according to the budget and the cash plan, without additional prioritization. The use of modern technology should make it possible to reconcile the need to decentralize controls for efficiency and the need to centralize data on budget execution for expenditure control. Also rules for virement should allow both flexibility and control over the major items. Carry-over appropriations should be authorized, at least for capital expenditures, but the procedure needs to be regulated.

Lastly the outsourcing of banks activities should be considered, but caution is needed in contract preparation and management Procurement for activities that are outsourced should be competitive.

2.4 Cash budgeting Process in the Banking Industry

The major objective is to investigate the challenges faced in the process of implementation of a Cash budget in the banking industry.

The goals of the Cash budget are broadly defined as:

(a) Attaining fiscal discipline through setting realistic ceilings in order to remain within aggregate resource constraints.

b) Attaining allocative efficiency by ensuring that expenditure allocations are to priority areas

(c) Attaining operational technical efficiency by ensuring that outputs are achieved at the least cost by applying performance targets of output relative to inputs.

Budget implementation should be reviewed periodically to ensure that programs are implemented effectively and to identify any financial or policy slip-ups.

Budget implementation has been an issue of organisation concern for a long time. The concern arises because of the impact it has on banking industry performance and outcomes. During the last decade, the capacity of the banks to provide essential services to citizens has been increasingly and seriously strained by the large gap between revenues and expenditures, growing balance of payments difficulties, the increasing demand for services and a decline in the efficiency of operations of the service

Budget rationalization which should be carried out when faced with resource constraints is totally lacking in as often times they do not focus their expenditures on critical activities in the development and recurrent budgets thus resulting in allocation of funds to areas that are not in line with national priorities (Zimmerman, 2003).

2.5 Techniques used in budgeting

Comprehensive budgeting continues to be of prime importance in virtually all organizations. The analytical methods used for budgetary estimation can be classified under three broad categories (Welsch et al 1988). The direct estimate method involves special techniques of cost analysis used only in special cases, namely, the direct analysis of historical data coupled with an interpretation of related managerial policies. It involves estimates of cost variability by direct analysis, inspection, and judgment. The budgeted high- and low-point method, on the other hand, is based on the concept of developing two expense Cash budget allowances at two different assumed levels of activity for certain expenses in a responsibility centre. The correlation method is commonly used when assuming linear relationships. For the correlation method, two techniques are oftentimes used: a scatter graphs technique and regression analysis technique of least squares. The technique of least squares is particularly useful and objective when analyzing historical data. It is important to realize, however, that the results are often misleadingly precise; therefore, the decision-maker must have experience and management judgment

Linear regression models present a means of structuring data around a particular form of analysis, often driven by an underlying statistical theory or methodology felt to be appropriate. Typically in economics, especially in economics, statistical techniques are restricted to forms of regression analysis that attempt to define the relationship between a series of independent variables and a dependent variable. Regression analyses are popular in microeconomics because, by log transformation, elasticities can be derived for independent variables. For example, a regressing quantity demanded by price levels, when logged, provides the elasticity or sensitivity of demand to changes in price. Thus, in modelling resistance, one could use such a method of analysis to derive the sensitivity of the level of resistance. Nevertheless, this sort of modelling is useful only at an explanatory level, using observational data, rather than for purposes of evaluating new interventions or policies where assumptions will be needed (Srijariya et al, 2002).

System dynamics is an analytical modelling technique. Its origins are attributed to Forrester in his pioneering work on "industrial dynamics" in the 1960s (Forrester, 1961).

Models are the key tools in dynamic financial analysis. Such models are "a systematic way to express our wealth of descriptive knowledge about industrial activity. The model tells us how the behaviour of the system results from the interactions of its component parts." The system dynamic model combines both qualitative and quantitative aspects and aims to enhance the understanding of complex systems to gain insights into system behaviour. The qualitative aspect entails the construction of "causal maps" or "influence diagrams" in which the system structure and the interrelations between the components of a system are explored. The quantitative aspect entails the developments of a computer model in which flows of material or information around the system are modelled (Dutta, 2001).

Simulation is a tool that has become widely accepted by managers for several reasons: it is relatively straightforward and flexible; it can be used to analyze large and complex real-world situations that cannot be solved by conventional quantitative analysis; and it allows "what-if" analysis, that is, a manager can try out several policy decisions within a matter of minutes. On the other hand, statistical techniques are methods for analyzing collected data, rather than for deriving conceptual models of the interrelationships between the variables of interest. Although such techniques might be useful in the analysis of data, it is difficult to use for driving the development of a complex system model. Therefore, comparing the two methods will provide the useful data for analysis and decision-making (Srijariya et al, 2002).

In the private sector, management often has to evaluate a large number of capital investments opportunities. They are accountable for the management of organizational resources, which will be allocated to capital projects if and only if the investments are profitable and provide expected return to stockholders of the firm. The potential risks and rewards of these capital investments and major undertakings must be carefully weighed and evaluated. The essence of financial management in the private sector is to determine which capital investments are valuable and profitable to the firm.

Discounted cash flow analysis, such as net present value, internal rate of return, profitability index, and breakeven time, as well as the payback period, are the most commonly used capital budgeting techniques in practice. These capital budgeting techniques focus on the impact of the capital investment on the firm's cash flows. In discounted cash flow analysis, the present value of cash inflows over the life of the capital investment is evaluated against the present value of its cash outflows. The firm's cost of capital and required rate of return are accounted for by the discount rate used in discounted cash flow analysis (Reid, 2002).

2.6 Pitfalls Brought About By Use of Discounted Cash Flow Analysis

Despite the conceptual soundness of discounted cash flow analysis, its use in practice is anything but flawless. Management often compares proposed projects to the status quo (asset replacement), assuming the future cash flows will continue at current levels if no action is taken. Kaplan and Atkinson also point out that there tends to be an overemphasis on the quantifiable aspects of capital projects as compared to intangible measures of benefits and costs.

Other reported common pitfalls in discounted cash flow analysis include arbitrary cut offs on the timing and amount of cash flows, unrealistic discount rates or required rates of return, inappropriate assumptions about reinvestment rates, misrepresentation or omission of inflation effects, and inappropriate risk adjustments. The nature of each of these pitfalls and how they may induce suboptimal project selections a will be described in the following section making bank managers aware of their shortcomings in budget implementation

2.6.1 Using the Status Quo as the Baseline in Evaluating New Capital Investment

When evaluating a new capital investment proposal, the manager, either consciously or subconsciously, is comparing the proposal with some alternative investments. Unless alternative investments are being proposed at the same time, the present condition or status quo provides a convenient and seemingly reasonable baseline for evaluating a new investment proposal.

The potential problem with using the status quo as the baseline is that it may overlook the impact of inaction The assumption that nothing will be affected by deciding not to replace an existing asset is not realistic. Consider the case where the bank manager is evaluating the upgrading of the banks building's heating system In a period of fiscal constraints, the bank manager is likely to postpone the upgrade as much as possible. However, he/she has overlooked the impact on energy costs as the current heating system deteriorates and becomes more and more inefficient. Also, as the heating system ages, more maintenance and repair will be needed. Thus, the cost savings from an upgrade increase at a greater rate as the current heating system deteriorates and becomes more inefficient. In fact, the cost savings may outweigh the initial cost of upgrading the heating system. Hence, simply assuming that the status quo will remain unchanged bias decisions against (desirable) capital investments (Lee &Johnson 1974).

2.6.2 Imposing arbitrary cut-off on Timing of Cash Flows

Sometimes, managers reportedly limit the number of future periods that they consider in evaluating capital projects. Such cut offs have the purported advantage of limiting the organization's risk exposures but they also can introduce a bias. Imposing an arbitrary cut off period (or maximum payback period) on the cost savings of a capital project can introduce a bias against projects that have large amounts of cash flows (in terms of cost savings) in their later years or that sustain cash flows over a long period of time.

2.6.3 Using Unrealistic Discount Rate or Required Rate of Return

When applying the net present value method, a discount rate has to be specified for determining the present value of future cash flows. Theoretically, this discount rate should be the expected return from alternative uses of the resources and can be proxied by the organization's weighted cost of capital. The use of a weighted cost of capital as the discount rate works for banks that do not have a profit objective.

The weighted cost of capital of a firm depends on the nature of its business and risk, which is affected by its capital structure. For a bank, its sources of funds from the interest and debt structure determine its nature of risk. In general, the cost of debt can be used as a proxy for a bank's cost of capital. For banks with large amount of debt, the higher the cost of debt/capital, the higher the discount rate that would be used in determining the present value of capital projects. In general, the range of weighted cost of capital for low-risk to high-risk organizations is about 5 to 8 percent. When higher discount rates are used in application, it results in a bias against accepting capital projects that would otherwise be valuable to the organization.

While calculating a project's internal rate of return does not require a discount rate to be specified, a hurdle rate needs to be established as a benchmark in evaluating capital projects. With an unrealistically high hurdle rate, it is likely that some projects that are valuable to the banks will be rejected.

2.6.4 Unrealistic Assumptions about Reinvestment Rates and budgeting

Under the net present value method, cash flows that occur during the project's life are assumed to be reinvested at the discount rate specified for the net present value calculation as is against initial budgeting process. The internal rate of return method, on the other hand, assumes that cash inflows are reinvested at a rate equal to the internal rate of return. As discussed earlier, managers tend to use high discount rates and required rates of return when applying discounted cash flow analysis. Thus, the reinvestment rates for both the net present value method and the internal rate of return method, especially projects with a higher internal rate of return, are overstated. Accordingly, discounted cash flow analysis using higher discount rates will bias against projects with more cash flows later in the project's life.

2.6.5 Accounting for Inflation Effects

An organization's weighted cost of capital reflects the return that the providers of capital require from the organization. As such, it already includes an allowance for expected inflation. When using the weighted cost of capital to evaluate projects, the cash flows need to be adjusted for inflation. Otherwise, the effects of inflation would be double counted (once through increasing the weighted cost of capital and again via using cash flows in real terms).

The pitfall is that some managers may not adjust predicted future cash flows for expected inflation, thus inadvertently causing the effects of inflation to be double counted. By failing to consider the effects of inflation on relevant costs, an unintended bias against projects with a longer horizon is introduced. This bias comes about because the more distant a future cash flow, the greater the compounding effect caused by inflation. Thus, nominal rates should be used in discounting nominal (inflation-adjusted) cash flows, whereas cash flows of constant purchasing power should be discounted by the organization's real cost of capital.

2.6.6 Excessive Risk Adjustment

Adjusting the discount rate or hurdle rate is a common approach to accounting for the risks of capital investments when applying discounted cash flow analysis. Similar to the adjustments for inflation, this approach can introduce an intended bias in project selection. In general, the larger the risk premium added to the discount rate, the more future cash flows are discounted in obtaining a project's net present value. Thus, to avoid introducing an inadvertent bias against projects with longer horizons and/or with more of their cash inflows in later years, it is important not to overly inflate the discount rate as an allowance for risk.

A further aspect of managing capital investment is to be sure that the expected costs and benefits are realized as well as to respond to unexpected future changes. Thus, post expenditure audits are as important as a correct application of discounted cash flow analysis to capital budgeting decisions.

CHAPTER THREE

3.0 RESEARCH DESIGN & METHODOLOGY

3.1 Introduction

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

3.2 Research Design

This research problem can best be studied through the use of a descriptive survey. Descriptive research portrays an accurate profile of persons, events, or situations. Surveys allow the collection of large amount of data from a sizable population in a highly economical way. It allows one to collect quantitative data, which can be analysed quantitatively using descriptive and inferential statistics. Therefore, the descriptive survey is deemed the best strategy to fulfil the objectives of this study. Descriptive survey has also been successfully used in other studies on commercial banks for example (Ngugi,1999) used descriptive survey design in the empirical analysis of interest rates spread in commercial banks in Kenya .Section A "Biographical Data" used quantities and section B "Extent and Challenges" used qualitative design.

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

3.3 Population

The population of this study consisted of 44 Commercial Banks in Kenya that have been inspected, assessed and classified as commercial banks by the Central Bank of Kenya and operate in accordance with Chapter 488 Banking Act of Kenya (see appendix II).

3.4 Simple Sampling Technique

The sample size constituted 30 commercial banks in Kenya. This size constituted 68.18% of the whole population. The targeted banks were selected using a simple random sampling technique. Every bank was expected to produce one respondent who was preferably being the finance manager or any other personnel conversant with Cash budget implementation.

3.5 Data Collection Methods

In order to identify the challenges faced in Cash budget implementation in the banking industry in Kenya, well formulated questionnaires were dropped and picked to and from the sampled banks. These questionnaires were addressed to the finance managers.

3.6 Data Analysis

The data collected was checked for completion and coded. The analysis was done in terms of descriptive statistics such as mean scores, standard deviations and the results will be presented using tables, graphs and charts for ease of understanding.

The data collected under Section A of the questionnaire was analyzed using descriptive statistics while data collected under section B was analyzed using correlation model to provide an understanding to investigate the challenges of Cash budget implementation in the banking industry in Kenya by top Managers. It was edited for accuracy, uniformity, consistency, completeness and arranged to enable coding and tabulation before final analysis, (Cooper and Emory, 1998).

CHAPTER FOUR

4.0 DATA FINDINGS, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter discusses data findings. analysis. interpretation and presentation. The topic of research was to investigate the challenges of budget implementation in local commercial banks in Kenya. Descriptive survey was undertaken for the study where the population was the local commercial banks in Kenya, which include among others the Kenya Commercial bank. Co-operative bank and Equity bank. A sample of 35 respondents was selected from lists of famous Kenya-based bank financial managers and accountants which form the sampling frame. Proportional sampling was done in order to satisfy the respondents' classes (70% from financial managers and 30% from accountants). Out of the 30 respondents that the researcher had targeted, 24 of them were able to successfully fill and return back the questionnaires to the researcher. The response rate was therefore 80%. The data collected was analyzed using SPSS and the output presented in form of tables. pie charts and bar charts. The research made the use of frequencies, percentages and Likert scale to interpret the information. For easier analysis, the chapter is divided into two parts: demographic information and the information on cash budgets implementation challenges.

4.2 Findings from the Demographic Information

This section concentrated on the demographic information of the respondents. The research was interested in knowing the respondents designation. work experience. length of time in respective department. total assets value in their department and the total number of employees in their department. Information on this section will enable the researcher judge whether they chose the appropriate persons for the study

Table 4.1: Respondent's Designation

	Frequency	Percent
Financial Manager	15	62.5
Accountant	9	37.5
Total	**24**	**100.0**

Table 4.1 above illustrates the respondents' designation. According to the table, 62.5% were financial managers while 37.5% were accountant. This implies that majority of the respondents were financial managers by designation. The reason for this could be explained by the fact that cash budget implementation is handled by the finance department. The same is illustrated by the pie chart below.

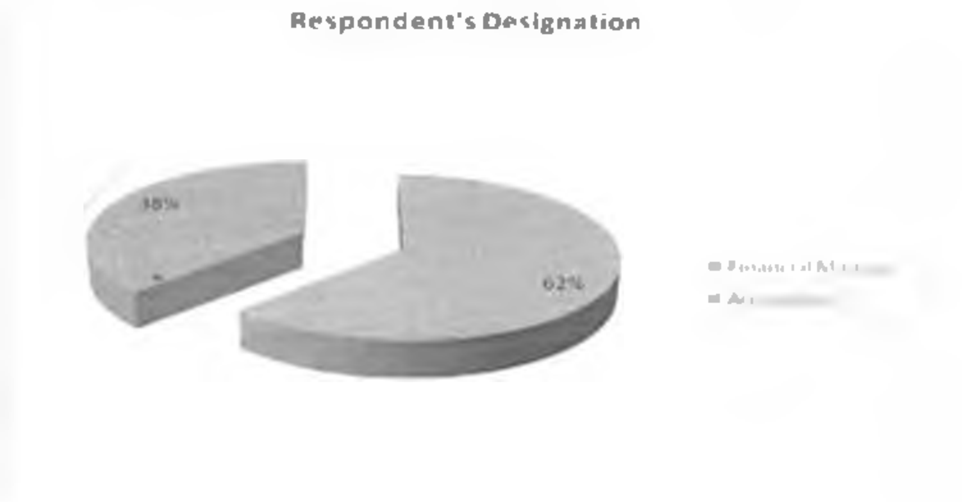

Table 4.2: Respondent's total work Experience

	Frequency	Percent
1-3 Years	4	16.7
3-6 Years	13	54.2
6-10 Years	4	16.7
Over 10 Years	3	12.5
Total	**24**	**100.0**

Table 4.2 above shows the total work experience of the respondents in their respective Departments in the organization. We note that 54.2% had a work experience of 3-6 years, 16.7% had a work experience of 1-3 years and 6-10 years while only 12.5% had a work experience of over 10 years. This indicates that majority of the respondents had a work experience of more than3 years. The reason for this could be the researcher wanted to interview respondents who had sufficient work experience in the field of finance. The same is illustrated in the bar chart below.

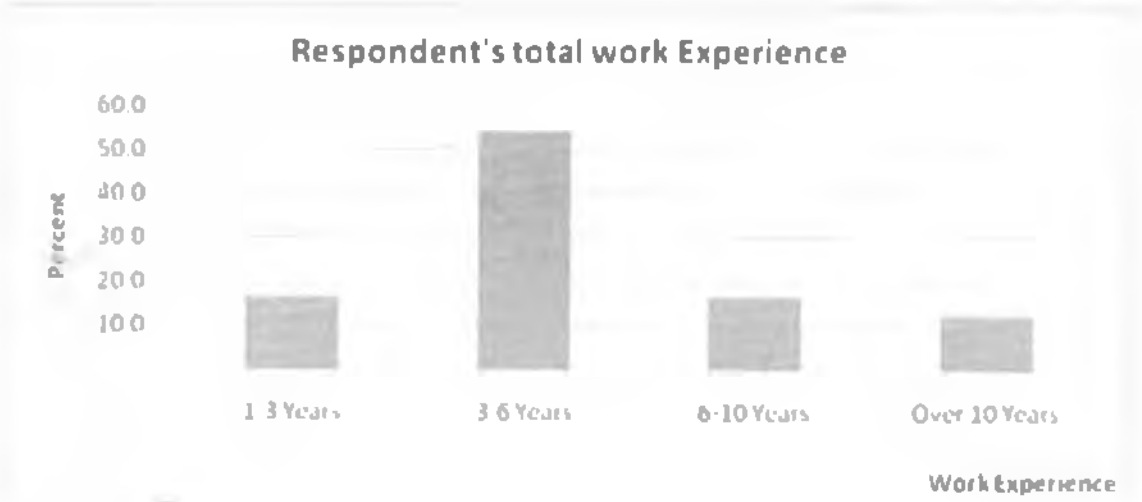

Table 4.3: Respondent's length of Time in the Department

	Frequency	Percent
Less than 1 Year	7	29.2
1-3 Years	10	41.7
3-6 Years	4	16.7
6-10 Years	2	8.3
Over 10 Years	1	4.2
Total	24	100.0

Table 4.3 above denotes the respondent's length of time in their respective department. It indicates that 41.7 % of the respondents had stayed in their department for a period of 1-3 years, 29.2% for a period of less than one year with only 4.2 % having stayed for a period

of over 10 years. The majority of the respondents had stayed for more than 1 year. This could be because of the researcher's need to get correct information regarding the organization. Below is a bar chart illustrating the same information.

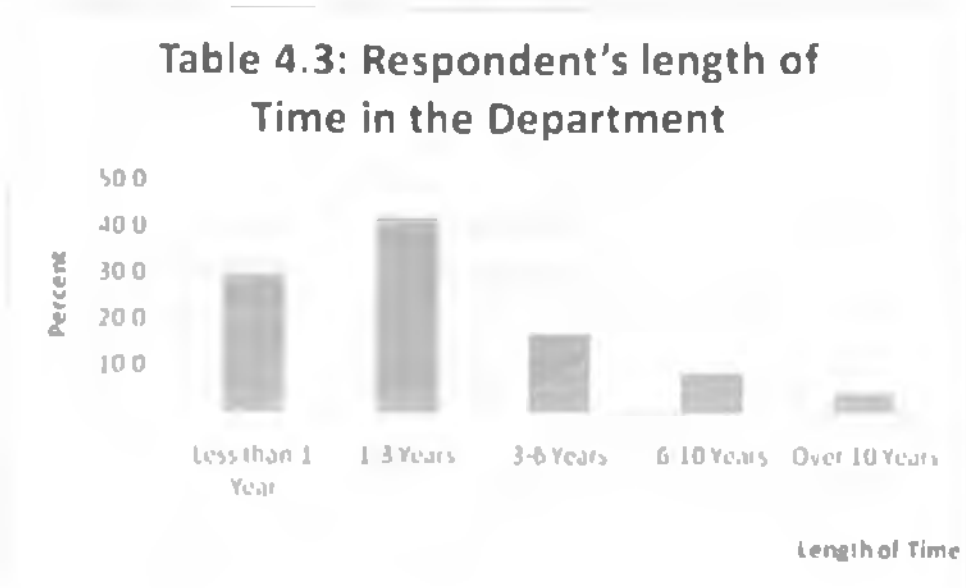

Table 4.4: Total Assets Value in the Respondent's Department as at 2007

	Frequency	Percent
Less than Kshs 500 million	13	54.2
Kshs 500 million-1 billion	3	12.5
1 billion- 3 billion	8	33.3
Total	24	100.0

Table 4.4 above demonstrates the total assets value in the respondents department. It portrays that 54.2% of the respondents had an asset value of less than Kshs 500 million while only 8% had an asset value of 1 billion – 3 billion. The researcher therefore deduce that majority of the respondents organizations had an asset value of less than Kshs 500 million. This could be because the researcher's study targeted local commercial banks. Below is a pie chart illustrating the same.

Table 4.4: Total Assets Value in the Respondent's Department as at 2007

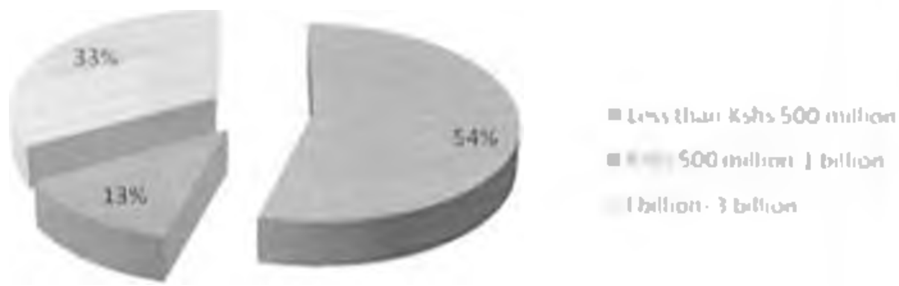

Table 4.5: Total number of Employees in the Respondent's Department

		Frequency	Percent
	Less than 30	16	66.7
	31-100	8	33.3
	Total	24	100.0

Table 4.5 above demonstrates the number of employees in the respondent's department. From the table, 66.7% represents less than 30 employees whereas 33.3% represents 31-100 employees. It's clear that most of the respondents' organizations had less than 30 employees. This might be due to the few number of employees employed by banks in their finance department. Below is a pie chart illustration of the same.

Table 4.5:Total number of Employees in the Respondent's Department

4.2.1 Conclusion

This section dealt with the demographic information of the respondents. According to the research, majority of the respondents were financial managers by designation, had a work experience of more than 3 years and had stayed for more than 1 year in their department. In addition the majority of the respondent's organizations had an asset value of less than Kshs 500 million and had less than 30 employees. This indicates that the researcher used a relevant sample because they had enough experience and had served in their respective departments for more than 1 year. This has an indication that the research could represent a true view of the matter.

4.3 Information on Cash Budget Implementation Challenges

This section discussed the information on cash budget implementation challenges in the respondent's organization. The research used Likert – Scale to analyze the data where a five point rank was used. Mean and standard deviation were used to show the extent to which some Budget purposes are relevant to the respondents department

Table 4.6: Whether the Respondent's Department has a long-range Cash budget plan

		Frequency	Percent
	Yes	16	66.7
	No	8	33.3
	Total	24	100.0

Table 4.6 above denotes the respondent's department availability of long –range cash budget plan. From the table, 66.7% of the respondent's department have long-range cash budget plan while 33.3% do not have. Thus the majority of the banks have long-range cash budget plans. This could be due to the need by the Central bank to Commercial banks to utilize funds well which necessitates their banking with the Central Bank. The same is illustrated in a pie chart below.

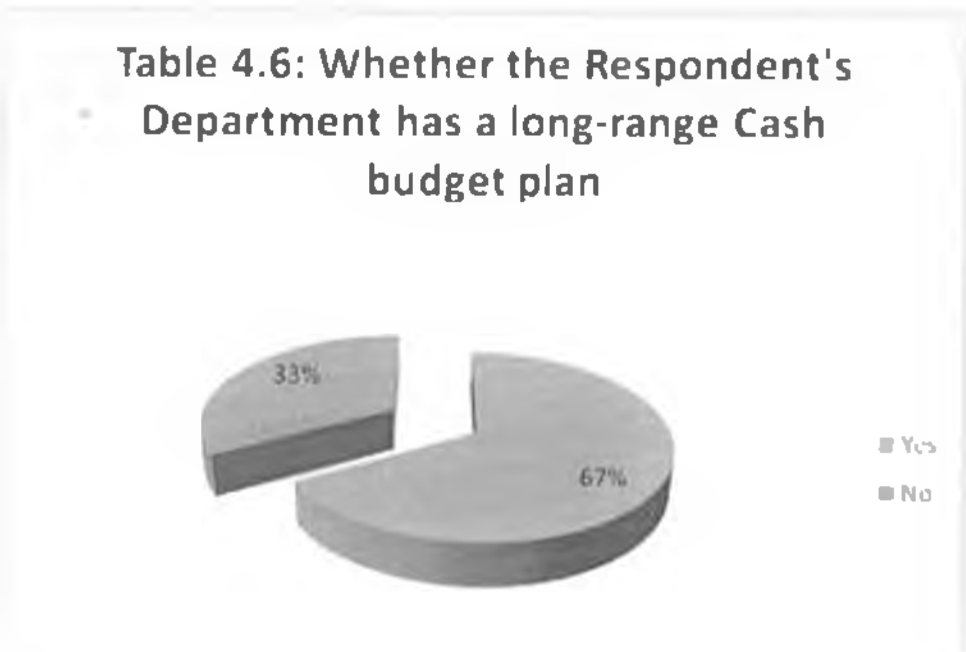

Table 4.7: The Respondent's length of time His /Her Department's long Range Cash Budget Plan covers

	Frequency	Percent
1-3 Years	12	75.0
3-6 Years	4	25.0
Total	16	100.0

Table 4.7 above shows the respondent's length of time the Departments long-range cash budget plan covers. It shows that 75% covers 1-3 years, whereas 25% covers 3-6 years. Therefore majority of the respondent organization's long-range cash budget plan covers less than 3 years. This could be due to the need to keep revising financial forecasts by banks. Below is a pie chart indicating the same.

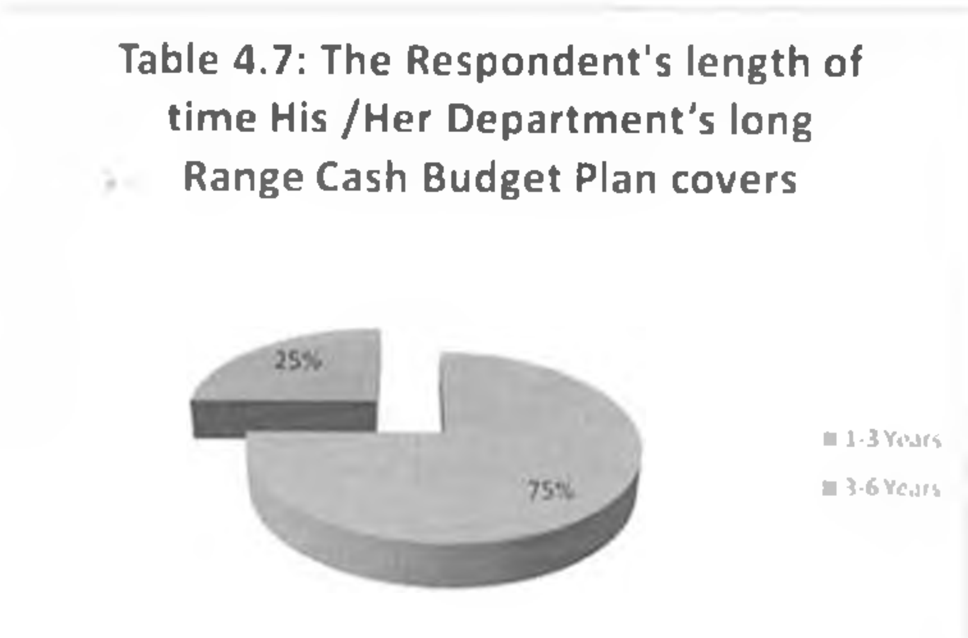

Table 4.8: Level of Importance of some budget purposes in the Respondents' Department

	Not Important at All	Less Important	Moderately Important	Important	Very Important	Mean	Std. Dev.
Forecast the Future	0	0	0	16	8	4.3	0.5
Assisting Controls	0	0	8	8	8	4.0	0.8
Means by which Management communicates	0	0	2	9	13	4.5	0.6
Means of Performance Appraisal	0	0	1	14	9	4.3	0.6
Motivating Employees	0	10	4	8	2	3.1	1.0
Controlling Performance by Calculating and Investigating	0	2	6	14	2	3.7	0.7

Table 4.8 above illustrates the level of importance of some budget purposes in the respondent's department. A five point Likert scale was used to interpret the level of importance ranging from very important to not important at all. Accorded to scale those purposes not important were awarded 1 while those very important were awarded 5. Within the continuum are 2 for less important, 3 for moderately important and 4 for important. Also mean and standard deviation was used to analyze the data. According to the researcher those purposes with a mean close to 5 were considered very important while those with a mean close to 1 were considered not important at all. On the same note the higher the standard deviation the higher the level of disagreement or dispersion among the respondents. According to the table budget as a means by which management communicates was considered very important with a mean of 4.5 and a standard deviation of 0.6. Other equally important purposes were future forecasting, assisting

controls, and means of performance appraisal. They have a mean ranging from 4.0-4.3. This implies that majority of the respondents value the budget more for these purposes. On the other hand they view the purpose regarding employee motivation as less important. This could be due to the heavy workload brought about by budget implementation programmes and strict standards to be followed. They might consider this a demotivation. The bar chart below illustrates the same.

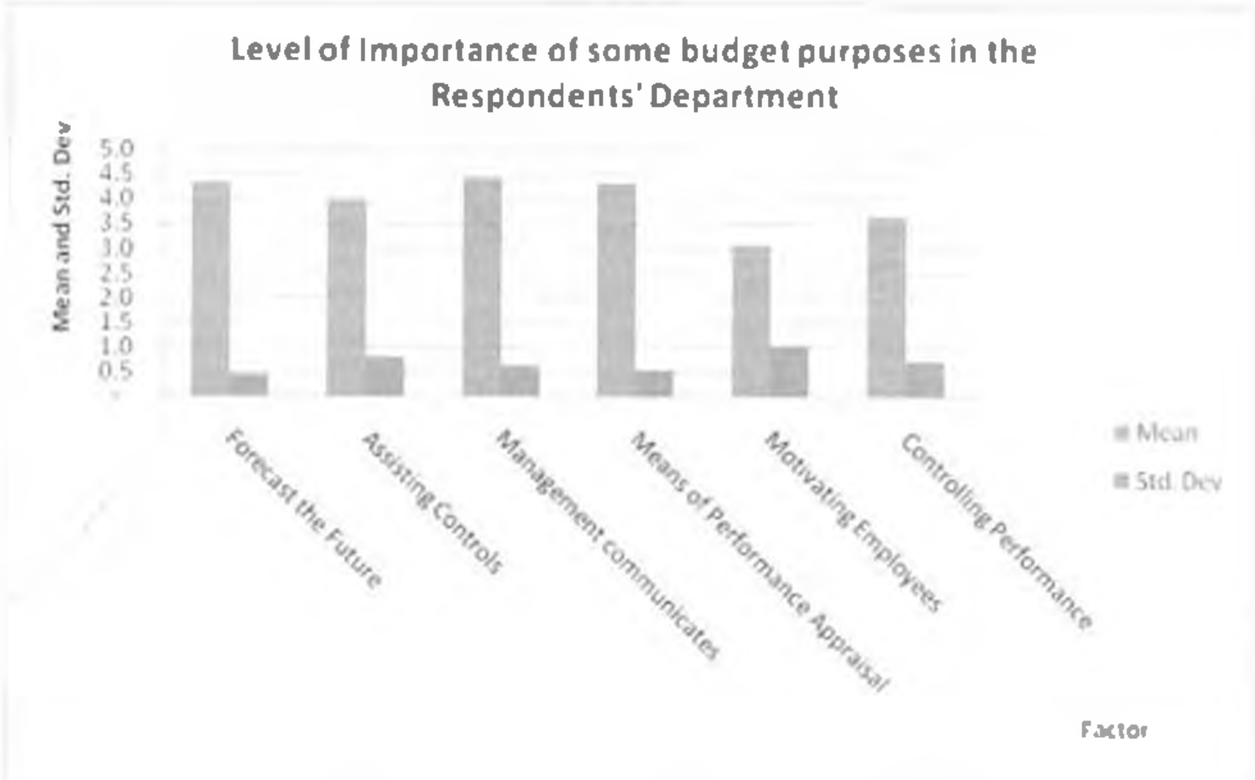

Table4.9: Respondent's View on Whether the Budgeting Process takes Appropriate time Duration

		Frequency	Percent
	Yes	24	100.0

Table 4.9 above shows the respondent's view on whether the budgeting process takes appropriate time duration. All the respondents unanimously concluded that the budgeting

process took appropriate time. This could be because of the regulatory standards by the Central Bank.

Table 4.10: Authority making the Final Decision on the Cash Budget Proposals

	Frequency	Percent
The Accountant	8	33.3
CEO	8	33.3
Operational Manager	8	33.3
Total	24	100.0

Table 4.10 above shows the respondent's view on the authority making the final decision on the cash budget proposals.33.3% suggested it was the Accountant, another 33.3% suggested the CEO and a similar 33.3% suggested Operations Manager. The numbers of respondents in support of either of the three authorities were similar. This could be because of the different management styles and ownership by the Kenyan banks. The bar graph below demonstrates the same.

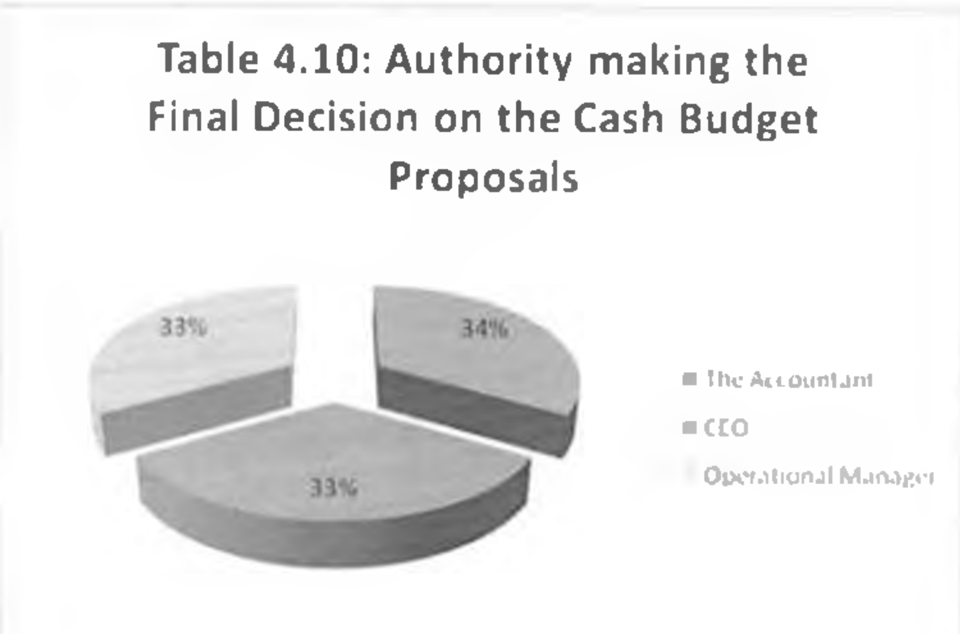

Table 4.11: Whether the Respondent's Department Prepares Fixed Cash Budget

	Frequency	Percent
Yes	16	66.7
No	8	33.3
Total	24	100.0

Table 4.11 illustrates if the respondent's department prepares fixed cash budget. It denotes that 66.7% prepares cash budgets while 33.3% don't prepare cash budgets. The majority of the respondents prepare fixed cash budgets. This could be due to the need to make clear forecasts and to avoid a lot of liquidity due to fluctuations or variability. This is represented by the pie chart below.

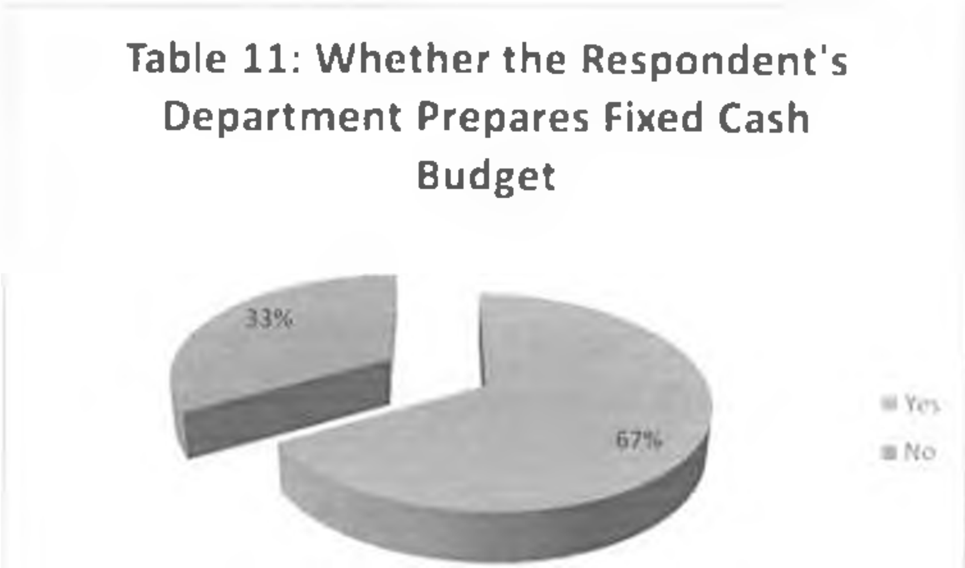

Table 4.12: Whether the Respondent's Department Prepares Variable Cash Budget

	Frequency	Percent
No	24	100.0

Table 4.12 above denotes whether the respondent's department prepares variable cash budget. The entire respondent's unanimously said their department do not prepare cash budgets. This could be due to the high risk of fluctuations and high liquidity.

Table 4.13: Whether the Respondent's Department Prepares Both Fixed and Variables Budgets

		Frequency	Percent
	Yes	16	66.7
	No	8	33.3
	Total	24	100.0

Table 4.13 shows the respondents view on whether their departments prepare both fixed and variable budgets. There were 66.7 % who prepared and 33.3 who did not prepare both budgets. The majority prepared both budgets. This could be so because due to variable costs there is always a need to have both fixed and variable budgets. The pie chart below highlights this view.

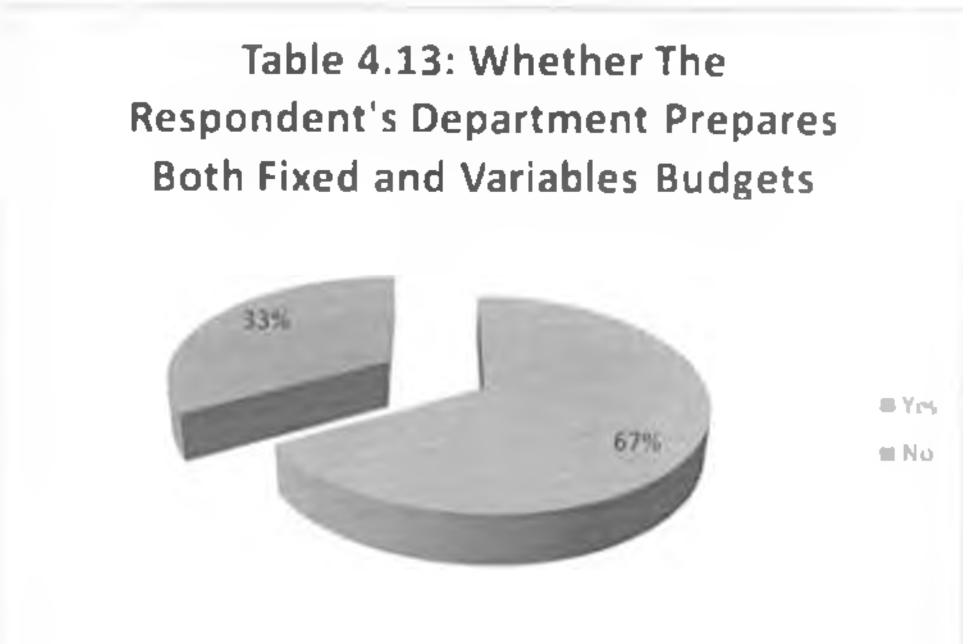

Table 4.14: Whether the Respondent is involved in the Budgeting Process

	Frequency	Percent
Yes	8	33.3
No	16	66.7
Total	24	100.0

Table 4.14 above shows whether the respondent's are involved in the budgeting process. According to the table 66.7 % are not involved while 33.3% are involved. Thus majority of the respondents are not involved. This could be due to maybe the budgets being made by the Central bank for commercial banks. Below is a pie chart illustrating the same.

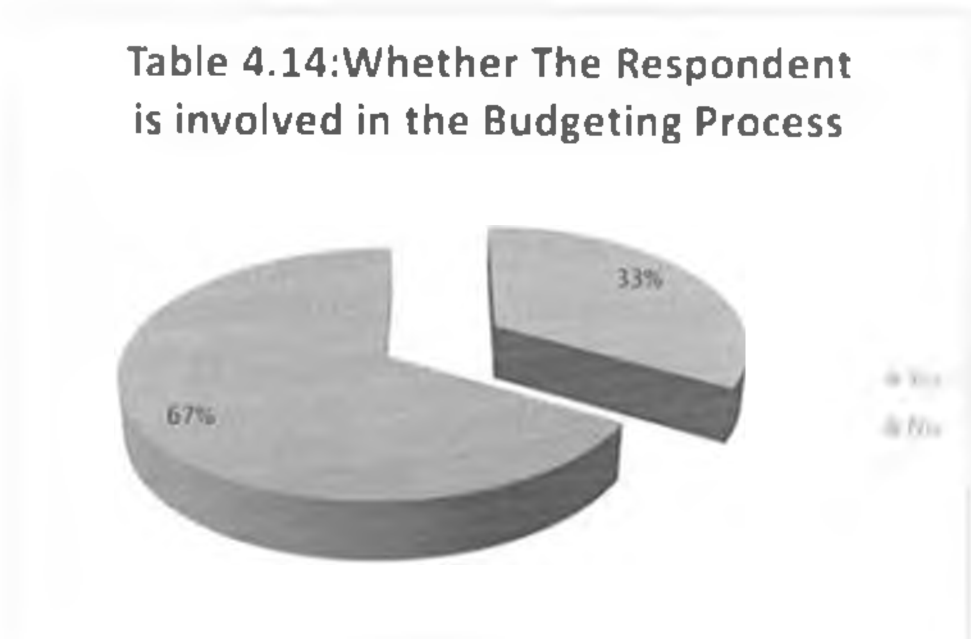

Table 4.15: Whether there are any Challenges facing Cash Budget Implementation In the Respondent's Company

		Frequency	Percent
	Yes	16	66.7
	No	8	33.3
	Total	24	100.0

Table 4.15 above indicates if there are challenges facing cash budget implementation in the respondent's company. According to the table, 66.7% said yes while 33.35 said no. Therefore the majority said there are challenges facing cash budget implementation in the respondent's company. This could be so because of the risk in handling money matters. Below is a chart to illustrate the same.

Table 4.16: The Management Overcome the Budgeting Challenges in His/ Her Company

	Frequency	Percent
Strongly agree	8	33.3
Agree	12	50.0
Neutral	4	16.7
Total	24	100.0

Table 4.16 above illustrates if the respondents agree that the management can overcome the budgeting challenges in their companies In regard to the same, 50% agree the management can be able. 33.3% strongly agree while only 16.7 are neutral. Thus the majority agreed that the management can be able too overcome the challenges. This is because there could be the right channel through which the, management can follow. The same is illustrated below using a bar graph.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The researcher was investigating the challenges facing budget implementation in the local commercial banks in Kenya According to the research, 62.5% were financial managers while 37.5% were accountant. This implies that majority of the respondents were financial managers by designation. Majority of the respondents had a work experience of more than3 years having stayed for more than 1 year in their departments. Majority of the respondents' organizations had an asset value of less than Kshs 500 million with less than 30 employees.

On the total asset value of the respondents department, 54.2% of the respondents had an asset value of less than Kshs 500 million while only 8% had an asset value of 1 billion – 3 billion. The researcher therefore deduce that majority of the respondents organizations had an asset value of less than Kshs 500 million. On the number of employees in the respondents' department, 66.7% represents less than 30 employees whereas 33.3% represents 31-100 employees This implies that most of the respondents' organizations had less than 30 employees.

With regards to the respondents' department availability of long range cash budget plan. 66.7% of the respondent's department have long-range cash budget plan while 33.3% do not have. Thus the majority of the banks have long-range cash budget plans. Regarding the level of importance of some budget purposes in the respondent's department a five point Likert scale was used to interpret the level of importance ranging from very important to not important at all Accorded to scale those purposes not important were awarded 1 while those very important were awarded 5. Budget as a means by which management communicates was considered very important with a mean of 4.5 and a standard deviation of 0.6. Other equally important purposes were future forecasting, assisting controls, and means of performance appraisal. They have a mean ranging from 4.0-4.3. This implies that majority of the respondents value the budget more for these purposes. On the other hand they view the purpose regarding employee motivation as less important. On the respondents view on whether their departments prepare both fixed and variable budgets. There were 66.7 % who prepared and 33.3 who did not prepare both budgets. The majority prepared both budgets. At the same time, 66.7 % were not involved in budget process while 33.3% were involved. . In regard to the same, 50% agree the management can be able, 33.3% strongly agree while only 16.7 are neutral. Thus the majority agreed that the management can to overcome the challenges.

5.2 Conclusion

The researcher was investigating the challenges facing budget implantation in the local commercial banks in Kenya According to the research, 62.5% were financial managers while 37.5% were accountant. This implies that majority of the respondents were financial managers by designation. Majority of the respondents had a work experience of more than3 years having stayed for more than 1 year in their departments. Majority of the respondents' organizations had an asset value of less than Kshs 500 million with less than 30 employees. This indicates that the researcher used a relevant sample because they had enough experience and had served in their respective departments for more than 1 year. This has an indication that the research could represent a true view of the matter.

5.3 Recommendations

From the study the researcher recommends that, when the management is making the budget, it should concentrate budget implementation in their organizations. This will help their organizations to forecast their future as well as assisting them in financial controls. Communication within the organization should also be well enhanced such that conflicts between the employees and their managers will be reduced. Through proper implementation of budgets in organizations, management will be able to benchmark on the various operations and this will acts as standard through which the organization will measure the level of its performance as well as the challenges and how to overcome the challenges.

5.4 Suggestion for Further Study

The researcher recommends that a study on budget implementation process should be carried out to ensure that the study on budget implementation is complete. This will give the policy makers a better understanding on how budget becomes implemented, the challenges and the relevant stages through which the process undergoes.

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Appendix I: Questionnaire

SECTION A: GENERAL INFORMATION

Kindly answer the following questions by ticking in the appropriate box

1. Name of the Bank: ______________________________

2. What is your designation? ______________

Finance Manager [ ]

Chief Accountant [ ]

3. What is your total work experience?

Less than 1 year [ ]

1 – 3 years [ ]

3 -6 years [ ]

6 -10 years [ ]

Over 10 years [ ]

5 What is your length of time in the Department?

Less than 1 year [ ]

1 – 3 years [ ]

3 -6 years [ ]

6 -10 years [ ]

Over 10 years [ ]

6. What is the total asset value in your department as at 2007?

Less than Kshs 500 million [ ]

Kshs 500 million – 1 billion [ ]

1 billion - 3 billions [ ]

Over 3 billions [ ]

7. What is the total number of employees in your department: Please tick one

Less than 30 [ ]

31 – 100 [ ]

100 and more [ ]

SECTION B: CASH BUDGET IMPLEMENTATION CHALLENGES

1. Does your Department have a long-range Cash budget plan?

Yes [ ] No [ ]

2. If your answer is yes, what is the length of time period your long range Cash budget plan covers?

1 3 years [ ]

3 -6 years [ ]

6 -10 years [ ]

Over 10 years [ ]

3. Budgets have a number of purposes, indicate how important do you think that each of the following purpose is relevant for your Department (please indicate the influence of each purpose using a rating scale):

Factors	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
To forecast the future					
Assist in control					
As a means by which management communicates to other levels of department					
As a means of performance appraisal					
To motivate employees to do better					
To control performance by calculating and investigating					

4. Do you think budgeting process takes appropriate time duration?

Yes [ ] No [ ]

5. Who makes the final decision on the Cash budget proposals?

Chief Accountant [ ]

CEO [ ]

Operational Manager [ ]

6. Does your Department prepare? (Answer Yes or No)

Fixed Cash budget Yes [ ] No [ ]

Variable Cash budget Yes [ ] No [ ]

Both fixed and variables Yes [ ] No [ ]

7. Are you involved in the budgeting process?

[ ] Yes [ ] No

8. Are there any challenges facing Cash budget implementation in your company?

[ ] Yes No [ ]

10 If yes, list the challenges?

a) ________________________________

b) ________________________________

c) ________________________________

d) ________________________________

e) ________________________________

11. Which is the challenge that you think greatly affect Cash budget implementation in your company? (Explain briefly)

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12. The management can be able to overcome the budgeting challenges in the company. Do you agree to this statement? Please tick appropriate scale.

a. Strongly agree

b. Agree

c. Neutral

d. Disagree

e. Strongly disagree

13. What are the possible solutions to the challenges facing your company?

Appendix II: Commercial Banks in Kenya

1. African Banking Corporation
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. CFC Bank
7. Charterhouse bank
8. Chase bank
9. Citibank
10. City Finance bank
11. Co-operative bank of Kenya
12. Commercial Bank of Africa
13. Consolidated bank
14. Daima bank (Statutory)
15. Development bank of Kenya
16. Diamond Trust bank
17. Dubai bank
18. EABS bank
19. Euro Bank
20. Equatorial Commercial bank
21. Equity bank
22. Family bank
23. Fidelity Commercial
24. Fina bank
25. Giro commercial bank
26. Guardian bank
27. Habib A.G.Zurich
28. Habib bank
29. HFCK

30. Imperial Bank
31. Investment and Mortgages bank
32. K-Rep bank
33. Kenya Commercial bank
34. Kenya Post Office Savings Bank
35. Middle East bank
36. National bank of Kenya
37. National Industrial Credit bank
38. Oriental Commercial bank
39. Paramount Universal bank
40. Prime Bank
41. Southern Credit bank
42. Stanbic bank
43. Standard Chartered bank