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A SURVEY OF OPERATIONAL BUDGETING CHALLENGES IN THE
INSURANCE INDUSTRY IN KENYA //

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DECLARATION

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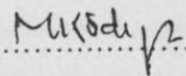
I, the undersigned, declare that this proposed project is my original work and that it has not been presented in any other university or institution for academic credit.

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SUPERVISOR

This thesis has been submitted for examination with my approval as university supervisor.

Signed  Date 18/11/2008

M.K. ODIPO

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ABSTRACT

The study surveyed the challenges of operational budgeting system in the insurance industry in Kenya. The study sought to bring out the challenges in formulating operational budgets in the insurance industry in Kenya and to propose solutions to the major challenges. The objectives of the study were to determine the challenges faced when formulating an operational budget in the insurance industry in Kenya and also to establish the effectiveness of those operational budgets.

This study was descriptive in nature and the researcher used the survey method. The population of this study consisted of 42 currently licensed insurance companies in Kenya.

Data for the study was collected using a structured questionnaire. The data collected was then analysed with the help of Excel Spreadsheets.

From the findings, the researcher found that operational budgets were effective in the insurance industry as they served their purpose of forecasting the future, assisting in control, acting as a means by which management communicates to other levels of department, acts as a means of performance appraisal and also it motivates employees to do better.

The study also found that the challenges faced when formulating the operational budgets were inability to achieve the required value of new business, management of acquisition and maintenance costs, time constraints, desire for comfort budgets, lack of continuity in the committee, competence levels of budgeting teams, non-adherence to the laid down budgets by departments, lack of adequate authority to spend despite allocation, non-achievement of the main top line income earners, cost fluctuation or inflation on costs, lack or poor participation, poor coordination of the exercise, measurement of some factors is difficult (estimations) and at times it is inflexible to changes/adjustments and also it is expensive as a control/monitoring tool.

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DEFINITION OF TERMS

Activity Based Budget (ABB)

This is a method of budgeting in which activities that incur costs in each function of an organization are established and relationships are defined between activities. This information is then used to decide how much resource should be allocated to each activity. An ABB system therefore establishes a cost and effect relationship between the various activities.

Operational Budgeting

This is a statement that embraces the impact of operating decisions. It contains forecasts of sales, net income, and the cost of goods or services sold, selling and administrative expenses and other expenses.

Zero Based Budgeting (ZBB)

This is a method of budgeting in which all revenues and expenditures must be justified each new budgeting period, as opposed to only explaining the amounts over and above the base year actuals or budgets. It is a radical approach to budgeting that starts from a zero base and builds up the budget. ZBB therefore avoids the deficiencies of incremental budgeting and move towards allocation of resources based on need or benefit.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

Kadondi, (2002) conducted a survey of capital budgeting techniques used by companies listed at the Nairobi Stock Exchange (NSE) and noted that companies operate in an increasing competitive and volatile environment and it is critical that they make use of management tools that can help them survive and prosper. These plans co-ordinate and reflect the various activities within an organisation and assist in organisational control, decision making and performance evaluation (Kadondi, 2002).

Budgeting systems are universal. Long considered a necessary tool in managing a company, the budgeting process frequently consumes six months of management time in negotiations, planning and target-setting. Such systems are intended to coordinate the activities of the units and motivate managers. They are used in simple organisations and in vast and complex enterprises (Anthony, 1965).

Simiyu, (1977) undertook a study of the problems of budgeting and motivation at the supervisory level in manufacturing firms in Kenya where he asserted that the budget is a planning and control tool available to an organization. It is a quantitative plan detailing out the methodology to be followed in resource acquisition, allocation and utilization over a specified period of time. Activity Based Budgeting (ABB) focuses on planning the various activities required to be undertaken in future projects (Simiyu, 1977).

Obulemire, (2006) conducted a survey of budgeting practices in secondary schools focusing on public secondary schools in Nairobi where he noted that the operational budget reflects incremental improvement to existing operations. The strategic budget authorizes the initiatives required to close the planning gap between desired breakthrough performance and that achievable by continuous improvement and business as usual. The strategic budget identifies what new operations are required; what new

capabilities must be created; what new products and services must be launched; what new customers, markets, applications and regions must be served; and what new alliances and joint ventures must be established.

Strategic budgeting focuses on the anticipated scale of each of the programs, the infrastructure needed to support that level of programming and a realistic assessment of how the organization might be able to support this vision. The strategic budgeting gives an overview of the program whereas the operational budgeting is more detailed as it lays out the resources required to accomplish such a program (Allison & Kaye, 2005).

The limitations of managing by the budget have become apparent. Welch CEO of General Electric Company in US decried the role for budgets in corporations: "The budget is the bane of corporate America. It never should have existed.....making an operational budget is an exercise in minimization. You are always getting the lowest of people, because everyone is negotiating to get the lowest numbers." Bob Lutz, former president of Chrysler Corporation, declared that "budgets are tools of repression, rather than innovation" (Kaplan & Norton, 2001).

A 1998 reader survey in the journal CFO (cited by Kaplan & Norton, (2001)) indicated that 90 percent of respondents thought their operational budgeting was "cumbersome". The survey also noted that the problems with operational budgeting are not unique to America but are prevalent in all companies in the world (Kaplan & Norton, 2001).

Muleri, (2001) surveyed the budgeting practices among the major British Non-Governmental Organizations in Kenya where he found that operational budgeting promotes centralization of responsibility and accountability, absorbs significant resources across the organization and acts as a barrier to customer responsiveness (Muleri, 2001).

An effective operational budget is instrumental in controlling costs and hence the current move to lean and efficient structure among organisations as a competitive advantage tool. An operational budget highlights detailed plans for conducting operations throughout the

budget period. This study will explore and explain one of the most powerful management processes in use today, namely budgeting; the end result of the budgeting process is the preparation of plans and actions for future periods. Though several studies undertaken focussed on budgeting, none of the researchers studied challenges facing operational budgeting in Kenya thus there exists a knowledge gap from which this study was conceived.

1.1.1 The Insurance Industry in Kenya

The main players in the Kenyan insurance industry are: insurance companies, reinsurance companies, insurance brokers, insurance agents and the risk managers. The statute regulating the industry is the insurance Act; Laws of Kenya, Chapter 487. The office of the commissioner of insurance was established under its provisions to strengthen the government regulation under the Ministry of Finance. There is also self regulation of insurance by the Association of Kenya Insurers (AKI). The professional body of the industry is the Insurance Institute of Kenya (IIK), which deals mainly with training and professional education. Recently there was formed the Insurance Regulatory Authority (IRA) mandated to supervise and regulate the insurance industry players. According to the (AKI) Insurance Industry Report for the year 2006, there were 43 licensed insurance companies in 2006 with 21 companies writing general insurance, 7 writing life insurance while 15 were composite. There were 197 licensed insurance brokers during the year. The gross premium written by the industry was KShs 41.68 billion compared to KShs 36.42 billion in 2005 representing a growth of 14.54%. The gross premium from general insurance was KShs 29.20 billion while life business premiums and pensions contributions amounted to KShs 12.48 billion. The gross profit before tax rose from KShs 4.32 billion in 2005 to KShs 5.80 billion in 2006 representing a growth of 35%.

AKI mainly attributed the good performance to the overall economic growth of 6.1% in the country. Over the same period, the total assets held by the industry increased by 20.6% to KShs. 110.07 billion while the total liabilities incurred increased by 17.3% to KShs. 82.67 billion. The net assets increased by 31.6% to KShs. 27.40 billion.

The claims and total expenses (including net commissions) increased by 22.7% and 15.4% to KShs. 21.20 billion and KShs. 14.77 billion respectively.

Insurance business can broadly be classified into general and life. Despite this classification the different classes of insurance businesses can be viewed as lines of business along the profit centre concept. According to the Kenya Insurance Survey KPMG, (2004), the General insurance industry in Kenya is mainly driven by four main lines of business: Motor- Commercial, Fire- Industrial and Engineering, Motor- Private and Personal Accident. The life insurance industry is mainly driven by two main lines of business: Ordinary Life and Superannuation, which includes Group Life Insurance and Deposit Administration. The Survey revealed that the General insurance business is facing two major challenges. The first challenge is to come up with a solution for companies whose viability is threatened by their inability to meet policy holder claims. The second major challenge is how to generate growth for an industry that has significant potential for growing as a percentage of GDP but has been stagnant. In contrast to the General insurance business, the life insurance business enjoyed a real cumulative average growth rate of 8.6 per cent between years 2000 and 2004. One serious challenge facing the life insurance is the increasing difficulty of managing the HIV/AIDS epidemic. Other challenges facing the insurance industry in Kenya include: structural weaknesses, Kimura (2002); fraud by both clients and employees, Mutiga (2003), high claims, delays in claim settlement, delayed premium collection, lack of liquidity leading to collapse of some firms, low economic growth, Ikiara (2001), poor governance and industry saturation, Makove, (2002).

1.2 Statement of the Problem

Issue management in the insurance industry demand that insurance companies should have effective systems in place to counter unpredictable events that can sustain their operations and minimize the risks involved. The budgeting approach adopted should represent an accepted top-down methodology for corporate strategic planning and while it identifies critical success factors, it can highlight the key information requirements

of top management. In addition, if the budgeting process factors are identified and controllable, management can take certain steps to improve its potential for success.

Operational budgeting involves the development of financial plans for the organization, typically for a year. While annual budgets need not be subdivided into shorter periods, monthly or quarterly budgets are especially useful for anticipating cash needs and for comparing actual experience with plan. A comprehensive master budget requires planning for all phases of the operation: sales, marketing and general administration. Development of an operating budget requires meticulous organization of relatively large amount of information. Careful attention to detail is essential. Effective operational budgeting supports the achievement of cash contribution goals, which in turn help in financing capital acquisition. An operational budget consist of a forecast of the revenues expected from sales of goods and services and the expenses expected to be incurred, under efficient operations, for the goods and services to be produced and delivered to the customers. The operational budget specifies the ongoing expenses to maintain existing products and customers, as well as the expenses incurred to launch new products and attract new customers during the next period.

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

earlier in the year when there is more uncertainty about the future year.

Owing to the limited research on operational budgeting in Kenya's organisations, this study therefore is a survey on the challenges insurance companies face in formulation of operational budgets. This proposed study seeks to fill the knowledge gap existing on the area of operational budgeting. The study employs the "industry-level" analysis approach, rather than the approach adopted in company-level studies as this would enable generalization across the insurance industry.

1.3 Objectives of the study

The study was guided by the following objectives: -

1. To determine the challenges faced when formulating an operational budget in the insurance industry in Kenya.
2. To establish the effectiveness of the operational budgets in the insurance industry in Kenya.

1.4 Limitations of the survey

In attaining its objectives, the survey was limited to 42 insurance companies currently licensed by the Insurance Regulatory Authority from which only one respondent was picked from each company. The survey was therefore limited to the degree of precision of the data obtained from the respective respondents.

In addition, the respondents selected for the survey were senior staff in the various insurance companies who are busy and the researcher had to continually remind them to complete the questionnaires. The timing of the survey was not very appropriate as it coincided with the budgeting period for most insurance companies. However, most respondents (71.4%) eventually completed and returned the questionnaires.

1.5 Importance of the study

The study is invaluable to the following:

To the insurance industry stakeholders: the study is invaluable to the insurance companies management in that it has provided an insight into the various approaches towards operational budgeting process and how operational budgets could be used to ensure efficient utilization of resources.

To the government: the study is useful to the government in policymaking regarding taxation and other regulatory requirements of the insurance companies.

To the academicians: the study has provided a useful basis upon which further studies on budgeting in the private sector could be conducted.

1.6 Suggestions for future studies

The researcher recommend that an in-depth replicate study should be carried out on how the insurance companies overcome operational budgeting challenges from which a link can be developed that will help insurance companies in dealing with the operational budgeting challenges from formulation to implementation.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are operational budgeting, budgeting process, importance of budgetary accounting, various budgeting systems, reforms in the budgeting systems and budgeting systems in the financial industry.

2.2 Operational Budgeting

O'Dea, (1985) asserted that budgeting lies at the heart of business management. "Budgetary planning and control is the most visible use of accounting information in the management control process. By setting standards of performance and providing feedback by means of variance reports, the accountant supplies much of the fundamental information required for overall planning and control" (O'Dea, 1985).

Allison & Kaye, (2005) note that, historically a budget is simply a forecast of expenditures and revenues for a specific period of time. However, as the structure of businesses has become more complicated, the function, scope, and management of the budget has become accordingly more complex. From its original function as a purely financial document, the business budget is now "generally used as a tool to formulate intelligent decisions on the management and growth of a business venture" enabling businesses to set priorities and monitor progress toward both financial and non-financial goals (Allison & Kaye, 2005).

Fanning, (1999) argued that operational budget concept places emphasis on planning and budgeting resources for the accomplishment of service objectives as compared to the traditional budget which bases decisions on line-item costs. He further stated that the

traditional budget in organisations provide detailed costs of resources by the use of line-item object accounts. These accounts just show the total cost of a particular class of labour or type of material that has been approved as a budget item for an entire organizational unit, usually a department. Some workload data may be provided in the budget but it is generally not related to the cost of performing the work. He concluded that neither efficiency nor effectiveness data are included in this type of budgets (Fanning, 1999).

Bunce & Fraser (1997) were of the opinion that organisation's operational budget is organized by programs, service delivery plans and activities. During the budget development process, line item object accounts are used to budget within each activity, and it is the activity which generates the production units that accomplish the service objective. The operational budget thereby directly relates the labour, materials and other costs in the budget to the results that are to be produced. This link-up provides the means for measuring both the efficiency and effectiveness of resource utilization (Bunce & Fraser 1997).

Obulemire, (2006) states that the overall purpose of the operational based budget system is to establish a process to assist program managers in scheduling work and resources in order to efficiently and effectively carry out the organisation's goals and policies contained in its strategic plan. This purpose is summarized in the following concepts;

First there is integration of long-term planning and evaluation with the budget process by relating the organisation's work efforts to stated service levels aimed at accomplishment of the general plan, goals and policies of an organisation. Secondly there is defining an organisation's business in service level terms by use of performance measures and program statements to describe planned accomplishments, which contribute to achieving the general plan's goals and policies of the organisation. Thirdly there is recording the work hours, products and financial aspects of achieved accomplishments. Finally, there is measuring the efficiency and effectiveness achieved in accomplishing budgeted

objectives (Obulemire, 2006).

The above concepts are inter-related. Under the operational budget method, the general plan's goals are directly related to specific programs and program operational statements. The program operational statement provides answers to following questions: What is the purpose of the program? How will this purpose be achieved? What key results are expected to be produced? The service delivery plans are accomplished by activities in which all work hours and other costs are charged and the products provide statistics on the efficiency of production through product cost and products per hour. Additionally, the effectiveness of each operation's accomplishments is also measured through operational measures (Obulemire, 2006).

2.3 Budgeting Process

Monitoring and evaluating in fact is learning. There is no alternative to budgeting and budgetary control. Monitoring/evaluating should become a second nature to any operational manager. Realized results ex-post must be compared to the (necessary) estimates ex-ante. In theory, the way to the solution is simple. However, in practice, working-outs are often not beyond dispute as they should be. The variances must be reported quickly enough to the right people (Rusth, 1990).

The process of preparing a meaningful and useful budget is best undertaken as an organised and structured group exercise. The budget process involves asking a number of questions. These start with plans and goals, not numbers. These questions can only be answered by programme and finance staff working together:

- What are the objectives of the company?
- What activities will be involved in achieving these objectives?
- What resources will be needed to perform these activities?
- What will these resources cost?
- Where will the funds come from?

- Is the result realistic?

Since many different people will need to use the budget for different purposes, they should be able to pick it up and understand it without any additional explanation. Clarity and accuracy is crucial, particularly if staff change during the life of a project. So it is important to keep notes on all budgeting assumptions and how calculations have been made (Pickup, 1985).

2.3.1 Estimating Costs

The cost estimate is what helps an organisation determine realistically what it will cost to implement its operational plan. When an organization is carrying out its plans it will probably need to make use of a wide range of inputs. Inputs include people, information, equipment, skills etc. Most of these inputs will have a cost attached to them. These are the costs that an organization needs to estimate in order to develop a budget. Careful cost estimation helps in developing an accurate budget and also helps monitor and control the actual costs of carrying out activities (Schmidgall, 1995).

The costs that any organization needs to estimate mainly fall into the following categories:

Operational costs – These are the direct costs of doing the work e.g. the cost of hiring a venue, or of printing a publication, or of travelling to the sites where fieldwork needs to take place. Here the budgeting committee would include materials, equipment, transport and services (Schmidgall, 1995) into the budgets.

Organisational costs (also called core costs) – These are the costs of the organisational base, including management, administration and governance. Once an organisation has decided on the best organisational set-up to support its operational plans, it will incur the organisational expenses on a regular basis – even if it does not carry out its plans or have activity levels as high as it had hoped. So, for example, if an organisation hires premises

for four projects but only manage to carry out two, it will still have to pay rent for the extra space. If the organisation has hired a full-time receptionist on the same belief, it will still have to pay her salary, even if she is under-utilised.

Staffing costs – These are the costs for organisations' core staff – the people involved in management, the people doing work that cuts across projects. These costs can be included as a category under “organisational costs”. These costs include their salaries and any benefits such as medical aid or pension fund payments for which the organisation is responsible (Kadondi, 2002).

Capital costs – These are costs for large “investments” which, while they may be necessary because of a project or projects, will remain organisational assets even after the projects are over. Vehicles and equipment such as computers and photocopiers fit here. They may be used by all projects, or they might only be required for a specific project. Depending on how the organisation intends to use the equipment, it might budget for it under operational costs or under organisational costs.

2.3.2 Budgeting Guidelines

While budgeting depends to a certain extent on the particulars of an organisation or project, there are certain guidelines which apply across projects and organisations.

These are not rules that are fixed for all time. They offer some guidelines that can help deal with common budgeting process situations (Kadondi, 2002).

Firstly, it is usual for long-term projects and organisations to prepare a budget which makes projections for several years at a time. While it is usually only the budget for the forthcoming year that is really quite accurate, the projections for the following years gives some indication of the levels of funding that are likely to be needed. Some allowance is usually made for inflation for subsequent years, as well as for the anticipated activities which may differ from the first year. A three-year budget should be based on a

three-year plan (O'Dea, 1985).

Secondly, contributions in kind (not money, but goods) should be included as a note to the budget. Although they are not part of the budget, they reduce budget costs and so should be indicated. This includes the contribution made by volunteers in the form of sweat equity. Sweat equity is a term used to describe the contribution made to a project by people who contribute their time and effort. It can be contrasted with financial equity which is the money contributed towards the project. It is used to refer to a form of compensation by businesses to their owners or employees (O'Dea, 1985).

Thirdly, some costs that need to be estimated but that often get forgotten like start-up costs, research and development, democracy and governance, marketing or public relations – building a professional image, replacement of capital goods and monitoring and evaluation costs for projects (O'Dea, 1985).

Fourthly, guideline requires that budget estimates should be informed guesses and not just guesses. An organisation needs to carry on its homework, get quotes, phone around to arrive at a likely cost etc. This involves checking any organisational figures from previous years that may provide helpful information. There is need to note down any price increases affecting the organisation that are already known (e.g. a salary increase of 10% that may have already been agreed) and notes of any unusual expenses that are likely to occur (e.g. moving organisation's offices) should be made. A few shillings may not seem a big amount, but when multiplied many times over this kind of discrepancy can make a big difference in the budget (Fanning, 1999).

It is also important to keep the notes made during the budgeting process. As an organisation plans its budget and makes decisions about how it will estimate costs, there is need for those involved in the budgeting process to keep their notes handy so that they can go back and check where the amounts came from. They may, for example, work out the workshop costs on the basis of a certain amount for photocopying, based on an estimated per page cost. When, a year later, the costs are higher than anticipated, they

should go back to these notes and see where the discrepancy comes in. Or, in another scenario, an investor may ask the organisation to explain how the budgeting committee arrived at the cost per participant for workshops.

Lastly, for management purposes the budget for the forthcoming year should be broken into a monthly budget. This will help the management when monitoring the organisation cash flow. It will also help the management to pick up variances quickly.

2.3.3 Budget Line Items

Line items are the actual items listed in an organisation budget. For example, under the category “training costs”, “stationery” might be a specific line item. Under the category “governance”, “training for Board members” may be a specific line item.

It is up to the budgeting committee members to decide what the organisation categories will be and to decide what the line items under each category will be. So, for example, one organisation may include “governance” under “management”, and “investor liaison” under “fundraising”, while another may have them as separate categories or line items.

If an organisation is preparing a budget for the first time, it should begin by listing all the items that are going to cost the organisation or project money. Later on, the management will have some idea of the categories and items that make sense for the organisation or project so it will be able to take short cuts when the budgeting committee lists the line items.

Once an organisation has the list, the budgeting committee then groups things into categories according to the emphasis they put on categories in the organisation’s management practices. For example, if management thinks it is important to keep track of training costs, then “training costs” would be a category. Items such as stationery, venues, printing costs, food, accommodation, transport, and trainers’ fees and so on would be line items under that category.

The budgeting committee should think in terms of cost centres. A cost centre is a grouping of activities that make a coherent financial unit. Each project within the organisation programme might be a cost centre. The budgeting committee then budgets both income and expenditure for that cost centre and keep the organisation financial records in terms of cost centres. This enables the budget committee to assess each project, department or unit financially. If they opt for a cost centre approach, the cost centres will determine the main categories under which to list line items.

Sometimes it is possible to work out how much a category of expenses is costing even if that category has not been listed as such, and the item is reflected as a line item under a number of categories. An organisation or project may not have a category "transport", but if management wants to know how much transport is costing the project or organisation, they can add up the transport line item listed under several categories. The line items are also influenced by the source of budget funds.

2.4 Importance of Budgetary Accounting

Budgetary or appropriation accounting consists of tracking and registering operations concerning appropriations and their uses. It should cover appropriations, apportionment, any increase or decrease in appropriations, commitments/obligations, expenditures at the verification/delivery stage and payments. Budgetary accounting is only one element of business accounting system but it is the most crucial for both formulating policy and supervising budget implementation. In particular, weaknesses in budgetary accounting and recording make quality analysis of the performance, outputs or outcomes impossible (Hope and Hope, 1997).

Most large organisations keep registers for their transactions at each stage of the expenditure cycle, or at least at the obligation stage and the payment stage. This, whatever their accounting system or budget execution procedures are, is important. Many small and medium enterprises keep similar registers, either at the spending department level or through centralized control procedures. However, in both cases,

budgetary accounting presents inadequacies. On the one hand, when registers are kept by departments, information is not systematically available at the level of the Chief Finance Officer, which would need it to supervise budget implementation. In practice, in some of these organisations budgetary accounting covers only payments. On the other hand, where control procedures are centralized, sometimes information on budget execution concerns operation steps that do not correspond to the stages in the expenditure cycle (Fanning, 1999).

2.5 Traditional Budgeting Systems

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

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

2.6 Budgeting Systems: Concerns about Inefficiencies and Ineffectiveness

With regard to being inefficient, for instance, it is generally considered that the traditional budgeting process is very bureaucratic and protracted (Bunce and Fraser, 1997; Fanning,

1999). In particular, it is claimed that budgets take up too much management time, often involving numerous revisions and substantial delays (Fanning, 1999). Significant concerns regarding the apparent ineffectiveness of traditional budgets, meanwhile, include: that typically such budgets encourage parochial behaviour, reinforcing departmental barriers while hindering flexibility, responsiveness and knowledge sharing; that they are seen as a rigid commitment, constraining management to out-of-date assumptions while inhibiting both management initiative and the pursuit of continuous improvement; that they strengthen the traditional vertical chain of command rather than empowering the people on the organization's front line; and that they emphasize cost-minimization rather than the maximizing of value (Bunce and Fraser, 1997; Hope and Fraser, 1997). Overall, it is considered that such budgeting systems often fail to give lasting improvement or generate congruent behaviour (Bunce and Fraser, 1997; Fanning, 1999) – indeed, Hope and Hope, (1997) summarize the situation by concluding that: the budgeting process is too rigid, too internally focused, adds too little value, takes too much management time, and encourages the wrong managerial behaviour.

It is suggested that a significant number of these problems of inefficiency and ineffectiveness relate to the fact that traditional budgeting systems were actually initially designed just as an aid to financial forecasting, cash flow management and the control of costs and capital expenditure. In recent times, though, budgets have also been utilized to support such important management functions as communicating and determining corporate goals and objectives, allocating resources and appraising performance functions for which the budgetary control system was never designed and for which it is not at all well suited (Bunce and Fraser, 1997). It is perhaps not surprising then that it is considered that the traditional budgeting system is “out of sync” with the needs of organizations in the information age and that a new approach to achieving management's purposes for budgeting is needed (Hope and Fraser, 1997; Hope and Hope, 1997).

2.7 Budgeting Systems: Suggested New Approaches

It has been suggested that it may be possible to meet the budgetary needs of

organizations in the information age through adopting “better budgeting” processes including, for example, Activity-Based Budgeting (ABB) and Zero-Based Budgeting (ZBB) (Fanning, 1999). However, it is being increasingly argued that just “tinkering” with an organization’s budgeting systems will not be adequate. Instead, it is suggested that what is really needed is a fundamentally new approach to such important budgeting purposes as forecasting and resource allocation, performance measurement and control, and cost management – an approach which incorporates a range of “alternative steering mechanisms” that especially promote empowerment, flexibility and knowledge-sharing (Hope and Fraser, 1997).

More specifically, researchers such as Hope and Fraser propose that the important functions of forecasting and resource allocation would be better achieved through the use of rolling forecasts, which should be prepared quickly and updated when required and which should not be constrained by the traditional annual planning cycle. Also, as these forecasts will need to be as objective and accurate as possible, they will necessitate good access to relevant external indicators as well as the swift and open transmission of key data around the organization. In the meantime, Hope and Fraser also anticipate that the purposes of performance measurement and control will no longer be based on the traditional “actual versus budget” comparison, but rather will be focused on strategic milestones and relative measures – all determined within the context of a balanced scorecard framework. Furthermore, they consider that effective cost management will be better achieved by supporting the development of an organizational culture based on adding value and continuous improvement reinforced by an organization-wide, long-term reward system. Particularly useful tools that may be adopted in this respect include Activity-Based Management (ABM) and benchmarking (Hope and Fraser, 1997).

2.8 Budgeting Systems in the Financial Industry

Given the previously noted concerns regarding traditional approaches to budgeting, it is interesting to note that research undertaken with regard to the use of such systems within the financial industry has identified that operations of all sizes appear to place

considerable importance on their traditional budgeting activities (DeFranco, 1997), utilizing them on a regular basis and viewing them as a potentially valuable control tool (Brander Brown, 1995). Furthermore, the development of “bottom-up”, participative approaches to budget determination as well as other more sophisticated budgetary control techniques are becoming increasingly widespread – especially in multi-unit operations (Schmidgall and Ninemeier, 1987; Schmidgall et al., 1996), while the use of more simplified systems has been viewed as being more appropriate for smaller and/or single unit operations, or where perceptions of environmental uncertainty are high (Rusth, 1990).

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

Umbreit, 1987).

Suggested improvements to overcome such perceived limitations include the provision of higher levels of properly controlled and co-ordinated information (Schmidgall and Ninemeier, 1987), and the incorporation of a wider range of indicators – including more qualitative data (Eder and Umbreit, 1987). Additionally and, perhaps, reflecting the increasing complexity and competitiveness of the industry, a range of other suggested improvements and developments have also recently begun to (re)materialize. For instance, although the need for more clearly identified management information needs – including in relation to budgets – is long-established (Geller, 1984), calls for more up-to-date, relevant critical success factors are again being heard (Jones, 1995; Atkinson and Brander Brown, 2000). Similarly, despite the fact that it has been recognized for some time that planning within the insurance industry should be proactive rather than reactive, involving the anticipation of possible alternative scenarios (Lee and Powell, 1972; Rusth and Lefever, 1988), it is apparent that such associated tools as flexible budgetary control have not, as yet, been widely used (Collier and Gregory, 1995; Harris and Brander Brown, 1998).

This study therefore is a survey of the challenges of operational budgeting systems within the insurance industry in Kenya.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research design

This is a descriptive survey study aimed at establishing the challenges of operational budgeting process in the insurance industry in Kenya. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon.

3.2 Population

The population of interest of this study was the Insurance Companies that are operating in Kenya (See appendix III). There were forty two (42) insurance companies licensed by the Insurance Regulatory Authority.

The study being a survey implied that data was collected from all the 42 insurance companies in Kenya. This therefore means that census method was used.

3.3 Data collection

In order to identify the challenges faced in operational budgeting in the insurance industry in Kenya, self-administered drop and pick questionnaires were distributed among sampled employees currently employed by insurance companies in Kenya. Questionnaire is designed to identify the challenges that are faced in the formulation of operational budgets by insurance companies in Kenya.

The study being a survey meant that one (1) employee was selected from each of the 42 insurance companies and administered with the questionnaire. The staff in the insurance

companies included managers and other staff in the ranks of management. This made it easier to get adequate and accurate information necessary for the research.

The researcher used structured questionnaires as the main data collection instrument. The questionnaires had both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that may not have been captured in the close-ended questions.

Secondary data sources were employed through the use of previous documents or materials to supplement the data received from questionnaires and information from interviews.

3.4 Data analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. A content analysis and descriptive analysis was employed. The content analysis was used to analyze the respondents' views about the challenges in the operational budgeting process. The data was then be coded to enable the responses to be grouped into various categories. Descriptive statistics were used to summarize the data. This included percentages and frequencies. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the research. From the study population target of 42 respondents, 30 respondents responded and returned the questionnaire, constituting 71.4% response rate.

4.2 Analysis and interpretations

Respondent's designation

On the respondents' designation, the study found that the respondents were in varying designations such as Assistant General Manager (finance), chief accountants, deputy chief accountants, finance managers and managers.

Total work experience in years

The study also sought to find out the respondents total work experience. From the study, the respondents experience in years ranged from 5 to 24 years. This was a clear indication that the respondents were well versed with the challenges of operational budgets in the insurance industry.

Length of time in the company

The researcher also sought to find out the length of time in years that the respondents had been in their companies. From the findings, the length of time ranged from 8 months to 15 years.

Table 1: Number of employees in the company

	Frequency	Percent
Less than 50	8	26.7
50-100	12	40.0
Above 100	10	33.3
Total	30	100.0

On the number of employees in the company, the study found that majority of the companies had 50-100 employees as shown by 40% of the respondents, followed by 33.3% of the companies that had above 100 employees, while 26.7% had less than 50 employees.

Existence of an operational budget plan in the companies

The study also found that all the companies had an operational budget plan as was indicated by the respondents.

Table 2: The length of time period that the operational budget plan covers

	Frequency	Percent
1-3 months	3	10.0
8-12 months	12	40.0
1-3 years	11	36.7
Over 3 years	4	13.3

Total	30	100.0
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The respondents were also requested to indicate the length of time period that the operational budget plan covered. From the findings, the majority of respondents reported that the operational budget plan in their company covered 8-12 months as shown by 40%, 36.7% said 1-3 years, 13.3% of the respondents said that it covered over 3 years, while 10% of the respondents reported that it covered 1-3 months.

Respondent's involvement in the preparations of operational budgets

The study also revealed that all the respondents were involved in the preparations of operational budgets. This could have been because of their designations in their companies.

Table 3: Existence of a budget committee in the company

	Frequency	Percent
Yes	26	86.7
No	4	13.3
Total	30	100.0

The findings in the above table revealed that most companies had a budget committee as indicated by 86.7% of the respondents. The members of the budget committee included; General Manager finance, operations manager, human resources manager, business development manager, senior accountant, underwriting manager, audit committee, Managing Director and CEO and others said that all managers were also in the budget committee.

13.3% of the respondents reported that there was no budget committee in their

companies.

Table 4: Level of agreement on whether all the senior staff in the company participates in operational budget preparation and discussions

	Frequency	Percent
Strongly agree	24	80.0
Agree	3	10.0
Neutral	3	10.0
Total	30	100.0

The study also sought to find out whether all senior staff in the companies participated in operational budget preparation and discussions. From the findings in the above table, the majority of respondents as shown by 80% strongly agreed that all senior staff in their companies participated in operational budget preparation and discussions, 10% agreed with this, while 10% were neutral on whether all senior staff in the companies participated in operational budget preparation and discussions.

Table 5: Basis that the operational budgets were broken down

	Frequency	Percent
Time	4	13.3
Cost unit	4	13.3
Time and cost unit	22	73.3
Total	30	100.0

On the basis that the operational budgets are broken down, the majority of respondents as shown by 73.3% said that they were broken down on the basis of time and cost unit, while the respondents who said that they were broken down on the basis of time and those who said cost unit were shown by 13.3% in each case.

Table 6: Budgets that the company prepares

	Frequency	Percent
Fixed budget	9	30.0
Variable budget	2	6.7
Both	19	63.3
Total	30	100.0

The researcher also sought to investigate the budgets that the insurance companies prepared. From the findings in the above table, the majority of the companies prepared both fixed and variable budgets as shown by 63.3%, 30% of the companies prepared fixed budget, while 6.7% of the companies prepared a variable budget.

Table 7: Purpose of the operational budgets to the Company

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	mean
Forecast future	76.7	23.3	0	0	0	1.2
Assist in control	63.3	36.7	0	0	0	1.4

As a means by which management communicates to other levels of department	50.0	26.7	13.3	10	0	1.8
As a means of performance appraisal	13.3	76.7	10.0	0	0	1.9
To motivate employees to do better	13.3	66.7	20.0	0	0	2.1

The findings in the above table show the level of agreement of respondents on the importance of the operational budgets to the companies.

From the findings, the majority of the respondents strongly agreed that the operational budgets were important to forecast the future as shown by a mean score of 1.2 and also in order to assist in control as shown by a mean score of 1.4.

Further, majority of the respondents agreed that operational budgets were important as a means by which management communicates to other levels of department as shown by a mean score of 1.8, as a means of performance appraisal shown by a mean score of 1.9 and also to motivate employees to do better as shown by a mean score of 2.1.

Table 8: Respondents' opinion on whether operational budgeting process takes appropriate time duration

	Frequency	Percent
Yes	17	56.7
No	13	43.3
Total	30	100.0

The respondents were also requested to give their opinion on whether operational budgeting process takes appropriate time duration. From the findings, the majority of the respondents as indicated by 56.7% felt that operational budgeting process takes appropriate time duration in their companies, while 43.3% were of the opinion that in their companies operational budgeting process does not take appropriate time duration.

Table 9: Responsibility of making the final decision on the operational budget proposals

	Frequency	Percent
CEO	5	16.7
The board	23	76.7
Any other	2	6.7
Total	30	100.0

The study also sought to find out on the responsibility of making the final decision on the operational budget proposals. From the study, the majority of the respondents (76.7%) reported that the board had the responsibility of making the final decision on the operational budget proposals, 16.7% said the CEO, while 6.7% said others i.e. the principal shareholders.

Whether the prepared operational budgets serve their purpose

The study also revealed that the prepared operational budgets served their purpose in the insurance companies as was indicated by all the respondents.

Table 10: Allowing of modifications after the operational budget has been drawn

	Frequency	Percent
Yes	18	60.0
No	12	40.0
Total	30	100.0

From the findings in the table, the majority of the respondents as shown by 60% reported that modifications were allowed after the operational budgets had been drawn in their company, while 40% of the respondents reported that modifications were not allowed after the operational budgets were drawn in their company.

Main stages of operational budgeting process

The study also sought to find out the main stages of operational budgeting process.

From the study the main stages were; preparation of budget templates, circulation to various units, consideration of reviewed unit budgets, review of company budget by finance, review by executive committee, approval by technical partner, review by audit committee, approval by the board. Other stages included, collecting of the historical data, distributing the data to the relevant managers, seeking the projections and their rational, incorporating this into standard templates, reviewing the figures for accuracy and presenting the figures to the management, board and principal shareholders. Others stages of operational budgeting were noted as departmental budgeting by departmental heads (each department with its peers), senior management meeting (strategy) to discuss the overall, consolidating the agreed final numbers to the comprehensive one paper, presentation to the board for approval or any other suggestions or amendment, implementation of the budget with laid down guidelines.

The stage that takes the longest time and the reason for this

The respondents were also requested to give the stage that takes longest time and the reasons. From the findings, this stage was the departmental budget planning and data collection, getting information and assumptions from different managers- this was because managers have other different targets and sometimes do not take the budgeting exercise seriously and unit budgeting preparation- this is because it is normally zero based budgeting.

Challenges facing operational budgeting in the company

The study also found that there were challenges facing operational budgeting in the insurance companies as was indicated by all the respondents.

Challenges facing operational budgeting in the insurance industry in Kenya

The study also sought to find out the challenges facing operational budgeting in the companies. From the study, these challenges were;

Achieving the required value of new business, management of acquisition and maintenance costs, time constraints, desire for comfort budgets, lack of continuity in the budget committees, competence levels of budgeting teams, non-adherence to the laid down budgets by departments, lack of adequate authority to spend despite allocation, non-achievement of the main top line income earners, cost fluctuation or inflation on costs, lack or poor participation. Other challenges identified were; poor coordination of the exercise, measurement of some factors is difficult (estimations), sometimes the pressure from above is too much, at times it is inflexible to changes/adjustments and also it is expensive as a control/monitoring tool.

Challenge that greatly affects operational budgeting in the company

The researcher also requested the respondents to give the challenges that they thought greatly affected operational budgeting in the company. From the study, these

challenges were;

Non- commitment- various heads do not take budget seriously leading to giving too high or ambitious budgets which they end up not achieving leading to complaints from the board, limited time for the activities which goes hand in hand with the coordination of the exercise, budgeting may coincide with other routine seasonal activities, management of expenses during low production times and also management of peoples expectations against approved budget is also a challenge.

Table 11: Respondents level of agreement on whether management can be able to overcome the operational budgeting challenges in the company

	Frequency	Percent
Strongly agree	11	36.7
Agree	19	63.3
Total	30	100.0

The respondents were also requested to give their opinions on whether the management could be able to overcome the operational budgeting challenges in the company.

From the findings in the above table, the majority of respondents as shown by 63.3% agree and 36.7% strongly agree that the management can be able to overcome the operational budgeting challenges in the company.

Possible solutions to the operational budgeting challenges facing the company

On the possible solutions to the operational budgeting challenges facing the insurance companies, the respondents suggested that all units should be involved in the budget preparation, evaluation and control cycle, management should avail more time in reviewing variances, budget exercise should also get adequate time allocation

and proper participation/co-ordination of the exercise led by the CEO. An all inclusive operational budgeting will give rise to commitment and objective to all the staff to meet and know their expectations and also they suggested that a calendar of events should be prepared at the beginning of every year where certain critical events like budgets can be addressed and incorporated.

From the article we can suggest the following assumptions, conditions and recommendations were made. The responses were positive the adoption of the study. The researcher had intended to study managers on challenges of operational budgeting in the insurance industry in Kenya.

5.2 Discussion

In this study, all the 30 interviewees expressed having implemented budget in their work. In most companies (70%) covered it financial and some (30%) study was done by their employees but a budget committee which included Finance Manager, Accounts Manager, Marketing Manager, Human Resources Manager, Information Systems Manager and a member representing industry and Managing Director (MD). It was also clear that it was implemented all the units and participated in financial budget formulation. The study also established that the operational budgets were broken down to the units of work and used well to make comparisons and use them comparatively with the financial and business budgets. The purpose of all operational budgets according to the study was to forecast the future amount of income, as a means to attract investment commitments to help growth of department, as a means of performance evaluation and check the performance to be better. The nature of the research was qualitative and exploratory including results to be an ongoing and appropriate time distributed the subjective data regarding the final decision on the operational budget committee was not clear.

The study also found that the operational budgets covered their margins as well as expenses. It was also clear that most companies allowed participation of employees.

CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following discussions, conclusions and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to obtain responses on challenges of operational budgeting in the insurance industry in Kenya.

5.2 Discussions

From the study, all the 30 insurance companies had an operational budget in place which in most companies (90%) covered 8 months and above. The study also found that most companies had a budget committee which included General Manager (finance), operations manager, human resources manager; business development manager, chief accountant, underwriting manager and Managing Director/CEO. It was also clear that in most companies all the senior staff participated in operational budget formulation and discussions. The study also established that the operational budgets were broken down on the basis of time and cost unit in most companies and also most companies prepared both the fixed and the variable budgets. The purpose of the operational budget according to the study was to forecast the future, to assist in control, as a means by which management communicates to other levels of department, as a means of performance appraisal and also to motivate employees to do better. The majority of the respondents also felt that operational budgeting process in their company took appropriate time duration and the responsibility of making the final decision on the operational budget proposals was with the board.

The study also found that the operational budgets served their purpose in the companies. It was also clear that most companies allowed modifications after the operational

budgets had been drawn. The main stages of the operational budgets in various insurance companies were preparation of budget templates, circulation to various units, consideration of reviewed unit budgets, review of company budgets by finance, review by executive committee, review by audit committee, approval by the board. Other stages in some insurance companies were, collecting of the historical data, distributing the data to the relevant managers, seeking the projections and their rational, incorporating this into standard templates, reviewing the figures for accuracy/consistency and presenting the figures to the management, board and principal shareholders. Other stages included departmental budgeting by departmental heads (each department with its peers), senior management meeting (strategy) to discuss the overall, consolidating the agreed final numbers to the comprehensive one paper, presentation to the board for review and approval or any other suggestions or amendments and implementation of the budget with laid down guidelines. The stages that took the longest time were; departmental budget planning and data collection, getting information and assumptions from different managers- this was because managers had other different targets and sometimes do not take the budgeting exercise seriously; unit budgeting preparation- this is because it is based on zero based budgeting.

The study also established that operational budgeting in the insurance companies faced some challenges which included inability to achieve the required value of new business, management of acquisition and maintenance costs, time constraints, desire for comfort budgets, lack of continuity in the committee, competence levels of budgeting teams, non-adherence to the laid down budgets by departments, lack of adequate authority to spend despite allocation, non-achievement of the main top line income earners, cost fluctuation or inflation on costs, lack or poor participation, poor coordination of the exercise, measurement of some factors is difficult (estimations) and at times it is inflexible to changes/adjustments and also it is expensive as a control/monitoring tool.

The respondents were of the opinion that management could be able to overcome the challenges of operational budgeting in the company by involving all the units in the

budget preparation, evaluation and control cycle, management availing more time in reviewing variances, hence, budget exercise should get adequate time allocation and proper participation/co-ordination of the exercise led by the CEO. An all inclusive operational budgeting will give rise to commitment and objectives to all staff to meet and know their expectations. In addition, a calendar of events should be prepared at the beginning of every year where certain critical events like budgets can be addressed and incorporated.

5.3 Conclusions

From the study, the researcher concluded that operational budgets were effective in the insurance industry as they served their purpose of forecasting the future, assisting in control, acting as a means by which management communicates to other levels of department, acts as a means of performance appraisal and also it motivates employees to do better.

The researcher also concluded that in the process of operational budgeting, the insurance companies faced some challenges which were inability to achieve the required value of new business, management of acquisition and maintenance costs, time constraints, desire for comfort budgets, lack of continuity in the committee, competence levels of budgeting teams, non-adherence to the laid down budgets by departments, lack of adequate authority to spend despite allocation, non-achievement of the main top line income earners, cost fluctuation or inflation on costs, lack or poor participation, poor co-ordination of the exercise, measurement of some factors is difficult (estimations) and at times it is inflexible to changes/adjustments and also it is expensive as a control/monitoring tool.

5.4 Recommendations

From the findings and conclusions, the study recommends that in order to address the challenges of operational budgeting, the insurance companies should ensure that all the units in the organization are involved in the budget preparation, that the budget preparation is allocated enough time and that there should be proper participation/co-ordination of the exercise led by the CEO.

It is also recommended that operational budgets should be used properly in order to ensure that organization's resources are utilized efficiently and within the budget as much as possible.

The study also recommends that operational budgets should be prepared in such a way that everybody who is required to use it will be able to understand it without any difficulties.

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APPENDICES

Appendix I: Letter of Introduction to Respondents

University of Nairobi

School of Business

P.O BOX 30197

Nairobi.

19th September 2008

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a masters' program student at University of Nairobi, School of Business.

In order to fulfil the master's program requirements, I am undertaking a Finance research project on "challenges of operational budgeting in the insurance industry".

Your organization has been selected to form part of this study. Therefore, I kindly request you to assist me to collect data by filling out the accompanying questionnaire

The information provided will be used exclusively for academic purposes and will be held in strict confidence. Thank you.

Yours faithfully,

J.M. Kigochi

M.K. Odipo

Student

Supervisor

Appendix II: Questionnaire

Kindly answer the following questions by ticking in the appropriate box or filling the spaces provided.

Part A: General information

1. Company Name: _____
2. What is your designation? _____
3. What is your total work experience in years? _____
4. What is your length of time in the Company? _____
5. What is the total number of employees in your Company: Please tick one

Less than 50

50 – 100

Above 100

Part B: Budget planning

1. Does your Company have an operational budget plan?
 Yes No
2. If your answer is yes, what is the length of time period your operational budget plan covers?
1 – 3 Months
4 – 6 Months

7-9 Months []

8-12 Months []

1-3 Years []

Over 3 Years []

3. Are you involved in the preparation of operational budgets?

[] Yes [] No

4. Is there a budget committee in your Company?

[] Yes [] No

If yes, who are the members of this committee?

Please specify with office titles:

a) _____

b) _____

c) _____

d) _____

e) _____

5. All senior staff in your Company participates in operational budget preparation and discussions. Do you agree to this statement? Please tick appropriate scale.

1. Strongly agree

2. Agree

- 3. Neutral
- 4. Disagree
- 5. Strongly disagree

6. On what basis do you break down your operational budgets?

- Time
- Cost unit
- Time and cost unit
- Others, please specify _____

7. Does your Company prepare? (Answer Yes or No)

Fixed budget? _____

Variable budget? _____

Both? _____

8. Operational budgets have a number of purposes, indicate how important do you think that each of the following purpose is relevant for your Company (please indicate the influence of each purpose using a rating scale): -

- 1. Strongly agree
- 2. Agree
- 3. Neutral
- 4. Disagree

5. Strongly disagree

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					

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

Yes [] No []

10. Who makes the final decision on the operational budget proposals?

The Accountant []

Operational Manager []

CEO []

The Board []

Any other []

Part C: Effectiveness of the budgeting process

11. Do the prepared operational budgets serve their purpose?

Yes [] No []

12. Are modifications allowed after the operational budget has been drawn?

Yes [] No []

13. Please give the stages of operational budgeting process?

14. Which stage takes the longest time and why?

Part D: Challenges of Operational Budgeting

1. Are there any challenges facing operational budgeting in your company?

[] Yes No []

2. If yes, list the main challenges?

a) _____

b) _____

c) _____

d) _____

e) _____

3. Which is the challenge that you think greatly affects operational budgeting in your company? (Explain briefly)

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

a. Strongly agree

b. Agree

c. Neutral

d. Disagree

e. Strongly disagree

5. What are the possible solutions to the major operational budgeting challenges facing your company?

Thank You.

Appendix III: List of Insurance Companies in Kenya

1. Africa Merchant Assurance Company Limited
2. CFC Life Assurance Limited
3. AIG Kenya Insurance Company Limited
4. A P A Insurance Limited
5. Apollo Insurance Company Limited
6. Blue Shield Insurance Company Limited
7. British-America Insurance Company Limited
8. Cannon Assurance Company (K) Ltd
9. Concord Insurance Company Limited
10. Co-operative Insurance Company Limited
11. Corporate Insurance Company Limited
12. Directline Assurance Company Limited
13. Fidelity-Shield Insurance Company Ltd
14. First Assurance Company Limited
15. Gateway Insurance Company Limited
16. Geminia Insurance Company Limited
17. General Accident Insurance Company Ltd

18. Heritage Insurance Company Limited
19. Insurance Company of East Africa Limited
20. Intra Africa Assurance Company Limited
21. Jubilee Insurance Company of Kenya Limited
22. Kenindia Assurance Company Limited
23. Kenya Orient Insurance Company Limited
24. Kenya Alliance Insurance Company Limited
25. Lion of Kenya Insurance Company Limited
26. Madison Insurance Company Limited
27. Mayfair insurance Company Ltd
28. Mercantile Insurance Company Limited
29. Metropolitan Life Assurance Company Limited
30. Occidental Insurance Company Limited
31. Old Mutual Life Assurance Company Limited
32. Pacis Insurance Company Limited
33. Pan Africa Life Assurance Company Limited
34. Phoenix of East Africa Assurance Company Ltd
35. Pioneer Assurance Company Limited

36. Real Insurance Company Limited
37. Standard Assurance Company Limited
38. Tausi Assurance Company Limited
39. The Monarch Insurance Company Limited
40. Trident Insurance Company Limited
41. Trinity Life Assurance Company Limited
42. UAP Insurance Company Limited