UNIVERSITY OF NAIROBI

CHALLENGES OF BUDGETING AT NATIONAL SOCIAL SECURITY FUND

BY

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DECLARATION

This management research project is my original work and has not been presented for a degree in any other University

Signed: -- Date: 21/11/08

MARTIN K. WAMAE: D/61/P/8499/01

I confirm that I am the supervisor of this student and I have read this final draft and I believe it to be the student's own original work.

Signed: -- Date: 23/11/2008

HERICK ONDIGO

DEDICATION

This Project is dedicated to my family and friends for the inspiration and support they gave me throughout my MBA studies

ACKNOWLEDGEMENT

First and foremost I would like to appreciate the works of all those who participated in one way or another towards the completion of the research proposal.

Much thanks goes to my project supervisor for personal guidance during the period of preparing and writing the report. The professional advice has been of great help to me.

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LIST OF ABBREVIATIONS

CAP:	Chapter
GoK:	Government of Kenya
NARC:	National Rainbow Coalition
NSSF:	National Social Security Fund
PPPs:	Public-Private Partnerships

ABSTRACT

A budget whether for a public organization or 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). The royal institute of public administration puts it thus: *"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"* (Coates, 2002).

This was a case study aimed at establishing the challenges of budgeting process at NSSF. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon.

The objectives of the study were; to investigate the challenges faced when drawing up a budget to be used by the organization and also to determine how the organization can effectively face the budgeting challenges.

The study was a case study which was carried out in the National Social security Fund, the population of interest was the board of directors and the senior as they are the ones concerned with budgeting issues at the organisation. There are fifteen (9) Board Members and ten (16) senior managers at NSSF. This was the target population for the study. The researcher used questionnaires, observation and interview as the main instruments of collecting data. The content analysis was used to analyze the respondents' views about the factors affecting budgeting process. The data was be coded to enable the responses to be grouped into categories and presented using tables, percentages and frequencies.

From the study, the researcher found that NSSF faced some challenges when drawing up budget, the biggest challenges included; on- 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

In order to overcome these challenges, 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 chairman of the board.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

A budget whether for a public organization or 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). The royal institute of public administration puts it thus: *"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"* (Coates, 2002).

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, 2004). The budget thus stipulates which activities and programs should be actively pursued, emphasized or ignored in the 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 at this level, that projects and activities requiring attention and hence financial support can be identified. As Lewis (2005) says, "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 (Lewis, 2005).

Companies in the private sector are profit motivated. As such, their budgeting reflects a conscious effort on their part to plan for certain desirable results and controls to maximize the chances of achieving those results (Ndiritu 2007). 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 budget preparation exercise and it therefore sets out the 'ground rules' for the preparation of the 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, 1983). 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.

Premchand (1994) states that implementation of the budget requires an advance program of action evolved within the parameters of the ends of the 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. First an allocation system under which expenditure is controlled by release of funds is put in place. Secondly there is supervision of the acquisition of goods and services to ensure value for the money spent. Thirdly an accounting system that records government transactions and provides a framework for an analysis of their implications is implemented. The final phase involves a reporting system that permits a periodic appraisal of the actual implementation of policies (Premchand, 1994).

Effectiveness of budget implementation process will be assessed by addressing the various variances. A comparison between the actual performance and the budgeted performance should be done (Hongren, 1983).

Budgeting systems are universal and have been considered an essential tool for financial planning. These systems are meant to organise and encourage the performance of managers of small as well as large and complex organisations (Abernethy and Brownell, 1999). Traditionally in the public sector, budgets were seen as the primary planning document (Alam and Lawrence, 1994; Johnston, 1998).

The coming into power of the NARC Government in 2003 which was elected on a platform of increasing transparency and accountability meant that public sector enterprises should operate under the same commercial principles as the private sector, so as to become more economic, efficient and effective. However, in order for this to be achieved it has been necessary to be aware of the negative connotations should the budgeting process not be structured in such a way as to suit the structural and institutional environment of the organisation. Various reforms have been put in place which has improved the management of the public organisations in Kenya in the past five years. The Government of Kenya (GoK) is pursuing a national development agenda that seeks to instil rapid and sustained economic growth and reduce the high incidence of poverty through wealth and employment creation. This development agenda is well articulated in the Economic Recovery for Wealth and Employment Creation (ERS). Under this programme the government has put in place Public Financial Management (PFM) Reform Program which among its key elements of the PFM reform programme identified within the strategy include strengthening budget formulation, execution, accounting and reporting.

Public corporations throughout Africa are facing an ever growing pressure to meet citizens' demand for more and better public services. Rapidly developing markets in an increasingly competitive economic environment raise the need for elaborating and adopting new technologies, modernising infrastructure, and investing massively in a cleaner environment. Ageing populations push up demand for additional outlays in health care and pension, and the problems of structural unemployment call for more extensive social benefits, while squeezing public revenues through a narrower tax base. On the revenue side, tax competition among national jurisdictions exerts a pressure on local and regional public budgets.

The same development is observed on an international scale, large-scale tax cuts being on the agenda of several national governments, each of them seeking to enhance the attractiveness of the country's investment climate to spur economic growth. While members generally welcome a stricter control on NSSF, they also wish to see more investment programmes and be assured to receive their benefits efficiently and without delays (Manyarkiy, 2006).

1.1.1 The National Social Security Fund

The National Social Security Fund (NSSF) was established in 1965 by an Act of Parliament (CAP 258 of the Laws of Kenya) in order to administer a provident fund scheme for all workers in Kenya. Initially the fund operated as a government department under the Ministry of Labour but as its membership grew and its operations became complex, the NSSF Act was amended in 1987 to transform it into an autonomous State Corporation. Since 1988, the Fund has been operating under a Board of Trustees, which is constituted by representatives of 3 key stakeholders: the government, workers, and employers.

In recent years NSSF has embarked on an ambitious reform programme intended to convert it from a National Provident Fund Scheme to a Social Insurance Pension Scheme. As a converted scheme, the new NSSF will operate as a mandatory National Social Insurance Pension Scheme, serving as workers 1st pillar of social protection. Everyone with an income (except those excluded by national and international law) should be registered as a contributing member (Manyarkiy, 2006)..

Sadly, NSSF's history has been marred by scandals and ill-conceived investment policies. Indeed, some regrettable investment decisions were made by the Fund in the early and mid 1990s. However, in recent times, aggressive reform policies have been implemented to prevent the errors of the past from recurring. NSSF's operations are now conducted in an atmosphere of transparency, accountability, and with a renewed commitment to efficient delivery of social security services in Kenya (Manyarkiy, 2006).

Membership has grown steadily over the years and by the end of 2003, the Fund had a cumulative registered membership of about 3 million. The average current membership accounts range from 900, 000 to 1.2 million. Today, NSSF continues to work on enhancing its organizational performance and improving the quality of services it provides to its members.

NSSF's principal goal is the provision of financial security to its members after they have retired from regular paid employment. In pursuit of this objective, NSSF invests its members' contributions in various sectors of the economy. In determining the criteria for investing funds, NSSF is guided by an Investment Policy that stipulates that investments must be secure from risks such as inflation, default, interest rate fluctuation, maturity and liquidity. The ventures undertaken by NSSF must be high-yielding It is imperative that surplus funds are available, before the decisions to invest is made. This safeguards the interest of the members such that NSSF cannot invest at the expense of benefit payments. Investments are presently held in the following areas: government bonds/securities, real estate, equity shares, banks and non-financial institutions. Income earned from NSSF investments is shared among members of the fund whose accounts are currently earning a return based on NSSF's investment earnings. A small portion of the investment income is used to defray the operating expenses of NSSF.

1.2 Statement of the problem

Public institutions which undertake budgeting on a hierarchical basis face a situation at each level in the hierarchy, there is a possibility that the original requests will be changed in one way or another as the various budgets are processed further and aggregated. One of the major challenges therefore that affect these budgets with regard to implementation since those that made the initial budgets, which were later amended during aggregation, may resist the proposed budgets (Heller & Aghvelli, 2005).

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 public sector in several countries. With the growing challenges of budgetary crises and fiscal shocks, the need for enhanced budget processes and innovative financial management techniques are increasingly felt in developing countries and transition economies. Budgets could be used to allocate funds optimally by funding those projects promising the highest returns (Hongren, 2003). Trentin, (2004) suggest that companies might have very good plans but fail to implement them fully therefore deriving any benefits from budgets.

Effective implementation of budgets enables a firm effectively and efficiently utilizes its resources (Hongren, 2003).

NSSF is a tripartite organization run by the Government, workers and employers with representation from the board of trustees, the Government, Federation of Kenya employers and the Central Organization of Trade Unions - Kenya. In formulating the Fund's policies the Board of Trustees acts strictly in accordance with the NSSF Act, which places the best interests of NSSF members above all other considerations. The Fund has introduced the concept of cost center accounting and zero-based budgeting allowing managers to spend within the planned budget. This has enabled administrative costs to be reduced and enhanced line manager's accountability (Manyarkiy, 2006).

This study is based upon the need to analyses the challenges faced by the NSSF in preparation of budgets and that the scarce financial resources are used to the optimum. The study addresses those concerns with a view to investigating budgeting challenges facing NSSF.

With the inadequate resources and many interest groups to be satisfied by the NSSF many challenges are bound to be experiencing when drawing up the budget. This study aims to identify these challenges and where in the process are they prevalent.

1.3 Objectives of the Study

1.3.1 Overall Objective

The main objective of the study was to investigate the challenges of budgeting process at the NSSF.

1.3.2 Specific Objectives

The study specifically sought to achieve the following objectives: -

(i). To investigate the challenges faced when drawing up a budget to be used by the organization.

(ii). To determine how the organization can effectively face the budgeting challenges.

1.4 Significance of the study

The study is invaluable to the following:

a) To the NSSF: the study is invaluable 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.

b) To the government: the study is useful to the government in policymaking regarding the financing of the public organization.

c) To the academicians: The study provides a useful basis upon which further studies on budgeting in the public sector could be conducted.

The next chapter looks at the previous literature that had been done on challenges of budgeting in organisation. The chapter commences by introduction, then presenting literature on budgeting process at the public sector, reforms in the budgetary process, factors influencing budgeting process and challenges facing budgeting.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.0 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 budgeting process, constraints in budget implementation, reforms in the budget process and factors influencing budget implementation. There are several authors who have discussed the issue of budgeting in the public and private sector both foreign and local authors. This chapter reviews the works of these authors. Among these authors whose works are reviewed here include Ndiritu (2007), Ambetsa (2004), Kadondi (2002), Muleri (2001), Premchard, (2004), Schick, Coates (2002) and Trentin (2004) among others

2.1 Budgeting Process in the Public Sector

Many developing and transition economy countries are planning significant investments in infrastructure, education, healthcare and other important areas. However, these countries often encounter difficulties in developing and implementing public investment programs that meet their needs. Limited financial resources are one important reason, but in most of the countries, institutional and procedural weaknesses add significantly to the problems created by financial constraints. Public investment processes tend to be highly fragmented, and ad-hoc decisions and sub-optimization are prevalent. The focus is often on mobilizing financing and little effort is put into ensuring the quality of the projects. As a result, public investment portfolios are often inefficient. Significant resources may be spent on prestige projects with limited social value ("white elephants") whereas highly beneficial projects remain unrealized.

The public investment process also entails a number of methodological difficulties. The absence of market-related prices for many government services makes it difficult to numerate the social benefits of programs and projects and to take decisions based on their net benefits.

There exist several techniques for assessing such benefits, but they all involve significant elements of subjectivity and can at best help to inform the decisions. The need to compare programs and projects with different timeframes, and the inherent uncertainty in many of the parameters, create additional methodological challenges.

In addition, many of the systemic challenges in public sector decision-making processes become particularly difficult for public investments. Investments are complex and individual decisions can have significant impact. In particular, the fragmentation of decision making, combined with incomplete or asymmetric information about the implications of the decisions, makes it very difficult to ensure that public investment decisions are consistent across different sectors and projects, and over time.

The purpose of public organization is the reduction of economic, social, and psychic suffering and the enhancement of life opportunities for those inside and outside the organization. It is then understood that the purpose of a public organization is to serve society through social development. However, quality service of public organizations nowadays is influenced and limited by the financial allocation and support of its activities. Thus, the budget process and the budget goals of a public organization strongly determine the public organization's performance (Trentin, 2004).

A public sector budget is used as an instrument to allocate public resources toward achieving some public value. Public decisions must weigh the cost of public action against the worth of the activity to society. One must should understand and remember that the public service should be aimed for the benefit of the public itself. Thus, even if an activity contributes to the society yet does not give any practical gain, the organization may be able to identify it immediately. Also, this provides a time frame for decisions regarding the organization's services and activities.

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.

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 (Schwarz, 1987).

The budget serves as a financial plan that operates as a statement of revenue and expenses of an organization (Gleason 2003). Budgets may then be used to look forward as a plan and/or look backward as a monitor. This is due to the limiting feature of the budget to the activities, which the organization may involve in. With budget goals, an organization can also check and verify expenditures that are appropriate. Furthermore, budgets give indications of the revenue flows.

The budget process is made up of activities that include the development, implementation, and evaluation of a plan for the provision of services and capital assets. An effective budget process includes several essential features, which includes, but are not limited to the following:

i. The budget process incorporates a long-term perspective;
ii. The budget process establishes links to broad organizational goals;
iii. The budget process focuses the budget decisions on results and outcomes;
iv. The budget process involves and promotes effective communication with stakeholders;
v. The budget process is based on a "team approach" for program managers and administrative management; and
vi. The budget process provides incentives to government management and employees.

At some levels of public organisations, the goal of public budgets was intended to inhibit theft. Budgetary control acts as prevention against misuse of funds, since effective monitoring of expenditures lessens the possibilities of embezzlements.

Rules establish procedures, and they also establish the limitations of behavior. Control assumes that spending must agree with appropriation. Appropriation expresses the objective of the authorizing agent or the legislature.

Control maintains information on expenditures so as to preserve an audit trail. Take into consideration the principle of fiscal accountability. This principle applies to private goods but is often suspended when we are speaking of public goods. Nevertheless, public goods include public expenditures; thus consequently there must be some accountability. Budget control requires encumbrance control throughout the year, and not just at the end of a budget period. It is important therefore that the budget managers be able to track the flow of resources accurately.

Finally, public budgets should satisfy requirements that are often not necessary in private organization budgets. These requirements are unity, universality (also called the gross budget rule), solidarity and transparency. Unity means that all resources and all expenditures of the public organization must be stated in a single document. This principle gives fiscal authorities a thorough view of all public financial matters. Universality indicates that all revenues are accounted for in their gross amount. This principle requires that all revenues are properly accounted for without any compensating against spending items. The gross budget rule also prohibits the public organization from increasing their resources beyond their budget appropriation in any way other than those provided by law. Solidarity suggests that all revenues should serve to fund all expenditures. This principle avoids "ear-marking" by which parts of the budget are seized or kept back for special interests. Last, transparency denotes that the budget should be free from falsification and fraud. This principle of transparency requires that the budget document be a public document.

The budget process and goals in the public organization is therefore an indispensable and relevant part for the organization to function and perform properly in its responsibilities. It should then be seen that proper budget objectives and procedures does not only serve as a financial strategy but also as a financial and organizational safeguard.

2.1.1 Timetable

There are several stages involved in constructing a budget before it can be submitted for approval to the governing body or a senior manager. It is a good idea to prepare a budgeting timetable and start the process early. This could be up to six months before the start of the financial year, depending on the size of your organisation and the approach you plan to take (Schwarz, 1987).

2.1.2 Budget Headings

When setting a budget for the first time or when reviewing a budget, it is important to pay attention to the Chart of Accounts (list of accounts codes). This is because the budget line items also appear in the books of account and on management reports. If the budget items and accounting records are not consistent then it will be very difficult to produce monitoring reports once the project implementation stage is reached (Premchand, 2005).

One way of achieving consistency is to prepare an information sheet for people preparing budgets in your organisation. For instance, this could list all of the main types of income and expenditure that a project or department might have in a typical year. It can help jog people's memories and remember all the relevant costs (Premchand, 2005).

2.1.3 Estimating Costs

It is important to be able to justify your calculations when you are estimating costs. Even if you use the incremental method of budgeting, do not be tempted to simply take last year's budget and add a percentage amount on top for inflation. You should also think about whether all the costs are justified. Last year's budget can be very helpful as a starting point; but it can also be misleading and contain historical inaccuracies (Diamond, 2003).

2.1.4 Contingencies

Try to avoid the practice of adding a 'bottom line' percentage for so-called 'contingencies' on the overall budget. As a rule, donors do not like to see this and it is not a very accurate way of calculating a budget. It is better to calculate and include a contingency amount for relevant items in the budget – e.g. salaries, insurance, and fuel. Every item in your budget must be justifiable – adding a percentage on the bottom is difficult to justify – and difficult to monitor.

2.1.5 Forgotten costs

Many a failed project is based on an under-costed budget. There is a tendency in the public sector to under-estimate the true costs of running a project for fear of not getting the project funded adequately. The most common of the forgotten costs are the indirect or non-project costs. There is a tendency in some departments to under-estimate the true costs of running a project for fear of not getting the project funded. The most common of the forgotten costs are the indirect or non-project costs. Some of the most often overlooked costs include staff related costs (e.g. recruitment costs, training, benefits and statutory payments), start-up costs (e.g. publicity), overhead or core costs (e.g. rent, insurance, utilities), vehicle running costs, equipment maintenance (e.g. for photocopiers and computers), governance costs (e.g. board meetings, AGM) and audit fees. After all that have been considered, then a budget is drawn for the whole organization (Heller & Aghvelli, 2005).

The primary concern during the budget implementation process is to ensure the fulfillment 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 budget such as borrowing and deficit levels are also achieved. In managing budget implementation one of the key areas of focus is the revenue and expenditure flow pattern

Aggregate revenues tend to be below the projections on which the budget is based as observed by Kiringai and West (2000). In situations when revenue inflow is low and therefore cash releases are effected as budgeted, ministries are often forced to reduce expenditures. As a rule, personnel emoluments and statutory obligations for example debt payments are exempt from expenditure reductions, therefore.-e implementation of development projects and purchase of goods and services suffer severe budgetary reductions (Kiringai and West 2000). This result in distortion of priorities and reduction in productivity as the recurrent costs of development projects cannot be met. One of the major problems in the implementation of the budget especially the development budget (which is the focus of this study), is the recurrent cost problem. Heller & Aghvelli define the recurrent cost problem as the failure to provide adequate funds to operate and maintain a project or programme. The recurrent cost problem arises when the recurrent outlays are sufficiently below the level necessary lo operate or maintain a project at its intended level to result in a noticeable loss in output, inefficiency or an obvious deterioration in plant and facilities (Heller & Aghvelli, 2005).

Gray & Martens (2003) developed a measure to illustrate the recurrent cost problem. The method referred to as the G-M measure calculates the ratio of current expenditures on other goods and services to expenditure on wages and salaries (the coefficient of effectiveness) (Gray & Martens, 2003). Using tills measure for the case of Kenya in the period 1972-1980, the G-M measure rose significantly reflecting the fact that during the period recurrent expenditure grew rapidly. However this did not in any way result in a reduction in the recurrent cost problem in Kenya. The conclusion to be drawn from this is that the growth in recurrent expenditure has been absorbed mainly in non-development oriented services rather than being used to alleviate the recurrent cost problem (Ambetsa, 2004).

Premchand (2003) states that implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available adequate (Premchand, 2003). 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 (Premchand, 2004). 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, (Muleri, 2001)

(b) Supervision of the acquisition of goods and services to ensure value for the money spent, (Brigham, 2005)

(c) An accounting system that records government transactions and provides a framework for an analysis of their implications, and (Kadondi, 2002)

(d) A reporting system that permits a periodic appraisal of the actual implementation of policies (Ndiritu, 2007).

State Corporations 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 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 budget implementation another key factor that has to be taken into account is the issue of cost increases (Cohen, 2004).

In most government 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 (2004) through creation of a contingency reserve. The phenomena of excess expenditure also critically affect budget implementation (Premchand, 2004). 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 government, 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 budget is formulated and implemented are equally important and do influence outcomes (Schick 1999).

Budget implementation has been an issue of public concern for a long time. The concern arises because of the impact it has on public sector performance and outcomes. During the last decade the capacity of the government 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 public service (Dvorkovich, 2001).

Budget rationalization which should be carried out when faced with resource constraints is totally lacking in public institutions and often 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 (Report of the Government Projects Review Committee 1993).

2.3 Reforms in the Budgetary Process

The Report and Recommendations of the Working Party on Government Expenditure (1982) identified major flaws in the budgeting process amongst other issues and recommended the introduction of certain reforms to the process. It recommended inter alia that to improve on budgeting especially the development budget no project should be considered for inclusion in

the forward budget without a detailed schedule of implementation covering all its components has been prepared and approved. In 1985 the
Government recognizing the limitation of the budgetary process to prioritise expenditures and in a reaction to the concerns raised by the Working Party Report, introduced the Budget Rationalization Programme (BRP) in 1986. The BRP sought to rationalize and improve the pattern of allocation of budgetary resources in conjunction with a program of borrowing and other policy measures in order to bridge the gap between resources and the sectoral requirements (Public Expenditure Review, 2004).

The intention of adopting the BRP was two fold namely to increase the productivity of scarce budgetary resources by allocating them in accordance with well defined priorities and to improve the planning and budgetary process in the Ministry of Finance and in the spending agencies so that the improvements visualized are institutionalised and implemented through the budgetary process. The Forward Budget was the principal instrument for the implementation of the BRP as it would be used to rank projects in categories of high and low priority, with those ranked high being funded fully, while those ranked low would either be deferred, re-designed or even cancelled (Public Expenditure Review, 2004).

Some measure of success was realized through the BRP although it did not translate into efficient allocation and utilization of expenditures. The main reason for the ineffectual success was due to the fact that Ministries faced with budget reduction in the non-wage recurrent expenditure, resorted to using the development budget to finance its operations and maintenance requirements. As a large portion of the development budget is donor financed, Ministries were reluctant to reduce the number of projects in their portfolio as this would limit chances of donor assistance (Public Expenditure Review, 2004).

The rationalization programme also required the instituting of reforms in the Civil Service and Parastatal Sector with the aim of reducing the wage bill in order for the savings realized to be re-allocated to the non-wage O&M expenditures and the development budget. These reforms were only effected in 1993 when the Voluntary Early Retirement Scheme (VERS) was implemented (Public Expenditure Review, 2004).

2.4 Factors Influencing Budgeting Process

Two key factors influence budgeting process namely, 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 budget implementation is affected to the extent that the expenditures have to be reduced and some projects and programmes postponed altogether. External resources in the form of loans and grants are also factored into the budget following commitment by donors. 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-fulfillment of donor conditions (Pollitt & Bouckaert, 2004).

The above situation will lead to a shortfall in budget financing and the only realistic alternative if the budget is to be implemented in full is to resort to domestic borrowing. There however is a limit to the amount of domestic borrowing that can be permitted due to its consequences as interest rates and also inflation. The Central Bank of Kenya Amendment Act (1996) limited the borrowing by the Kenya Government to 4% of its revenue of the last audited accounts (Central Bank of Kenya Amendment Act, 1996).

2.4.1 Principal findings

Federal priority setting for research occurs at three levels: First there is the establishing of Federal goals for research, Secondly the budget allocation processes for research within the White House and Congress that in the aggregate produce the Federal research portfolio and thirdly Federal agencies and departments in achieving their missions in accord with the President's priorities for research. This report focuses on the second level, that is, the White House and Congressional processes that in the aggregate produce the Federal portfolio of investments in research (Pollitt & Bouckaert, 2004).

The allocation of funds to national research goals is ultimately a political process that should be informed by the best scientific advice and data available. A strengthened process for research allocation decisions is needed. Such allocations are based now primarily on faith in future payoffs justified by past success. They are difficult to defend against alternative claims on the budget that promise concrete, more easily measured results and are supported by large and vocal constituencies (Pollitt & Bouckaert, 2004)).

The pluralistic framework for Federal research is a positive aspect of the system and increases possibilities for funding high-risk, high-payoff research. An improved process for budget coordination and priority setting should build on strengths of the current system and address weaknesses in data, analyses, and expert advice. There is a need for regular evaluation of Federal investments as a portfolio for success in achieving Federal goals for research, to identify areas of weakness in national infrastructure for S&T, and to identify a well-defined set of the top priorities for major new research investments. Additional resources are needed to provide both Congress and the Executive branch with data, analyses, and expert advice to inform their decisions on budget allocations for research (Pollitt & Bouckaert, 2004).

2.5 Challenges facing Budgeting

Sixty years ago V. O. Key laid down a challenge for economists to resolve the 'basic budgeting problem' namely, faced with limited resources, 'On what basis shall it be decided to allocate x dollars to activity A instead of activity B?' (Key, 1940). He went on to suggest that solutions to this problem might be found through the application of economic theory. He warned, however, that a budgeter's holy grail – an all-embracing theory of resource allocation that could be applied in practice – would probably prove to be a chimera since the problem of reconciling competing demands between different policy goals and interests was essentially one of political philosophy (Key, 1940). If that line of inquiry failed, Key proposed that solutions might be found through an improved understanding of the institutional arrangements by which resource allocation decisions are made, which would entail a 'careful and comprehensive analysis of budget process' (Key, 1940).

Over the past sixty years, attempts to resolve the basic budgeting problem have been made from both these starting points. This has entailed a subtle reformulation of Key's question. Initially, attention focused on the application of economics in the design of methods which could guide policy makers by defining the basis – the guiding principles and criteria – for allocation decisions. Subsequently, attempts were made to arrive at a better understanding of budgeting behaviour and institutional dynamics, identifying how – the process by which – resource allocation decisions are and should be made (Musgrave, 1999).

At the same time, the analytical framework for analysis of the basic budgeting problem has broadened. It is now recognised, following Musgrave (1999), that solutions to resource allocation cannot be abstracted from other functions of the public expenditure management system, namely the pursuit of macro-economic stability and efficiency in the use of public funds. From the 1970s the problem of macro-economic stabilisation dominates the literature and resource allocation is, for the most part, treated as a secondary issue. Similarly, it is no longer assumed that budgetary allocation decisions are automatically transformed into budgetary outcomes. Resource allocation in the public sector is determined by both the criteria and process of decision making and the process of budget execution. Inevitably, this has widened the institutional scope of the basic budgeting problem. Whereas attention once focused exclusively on core policy institutions – the legislature, Ministries of Finance and spending agencies – it is now clear that departments within spending public organisations, right down to the field level service delivery units, also have a role to play (Dvorkovich, 2001)..

Changing approaches to an old problem are not merely of academic interest. All of the approaches to the basic budgeting problem – whether normative or positivist in intent – have influenced the design of budget institutions, procedures and analytical methods. Changes in budget practice have, moreover, tended to proceed incrementally and cumulatively, so that many of the innovations introduced in early reforms are still in place today. Thus, today's budget governance structures are essentially the same as those introduced in the late 19th and early 20th centuries when modern budgeting systems were first established. Similarly, the analytical methods and process proposed by rationalists in the 1960s continue to be used today. Indeed, the rationalist approach is still the prevailing paradigm for policy makers. Consequently, an understanding of the various approaches to the budget problem continues to be relevant today, even where the validity of these approaches has subsequently been questioned, and research on these approaches is still ongoing (Musgrave, 1999).

The problems related to public investments and to management of investments within the budget process are surprisingly common. They tend to be quite similar across countries with different legal and political traditions, institutional frameworks and budget priorities. Investment budgets are often fragmented. The most common form of capital budget fragmentation occurs when parts of the capital budget are financed and executed outside the budget. Until a few years ago, this was the rule more than the exception for projects financed by external grants and loans. The donors' rationale was that regular budget procedures provided insufficient safeguards and monitoring of the funds. However, this approach tended to divert scarce resources to managing the off-budget mechanisms, and often led to further weakening of the general budget systems. In the last few years, many grant recipients and international institutions have worked to integrate all grant and loan funds in the budget process, but there is still considerable resistance from some donors and lenders. In developing countries, separate budgets for current and capital spending were widespread in the past, but this has become increasingly less common. When investment budgets are partly or fully separated from operational budgets, coordination between the different budget areas will suffer, and funding levels will be arbitrary and inconsistent (Trentin, 2004).

In many countries, budget management focuses on crises and short term decisions. There is often little focus on the medium and long term implications of annual budgets, leading to under-financing of the capital budget. Projects are often selected in order to send political signals, not to maximize benefits. A common argument for public investments is that "we need to show the public that something is happening". Political cycles often lead to excessive emphasis on projects that can be realized quickly. There are no reasons to believe that projects that are very visible, or can be implemented quickly, should be particularly beneficial. On the contrary, effective project development, analysis and implementation tend to be quite time-consuming (Manyarkiy, 2006).

Many countries have difficulties in establishing credible and realistic budget envelopes for public investments. Uncertainty about whether investment funds will be available undermines ministries' incentives to prepare high-quality project proposals. At the same time, the absence of a hard budget constraint makes it very difficult to ensure effective competition between different investment projects. Often, these problems are the result of basic difficulties in developing credible macroeconomic and fiscal frameworks, because of capacity problems and weak institutions. In these countries, budget discussions tend to focus on marginal adjustments to budget limits based on general considerations and very little attention is given to the quality and priority of individual projects and programs. These discussions are often coined in terms of percentage points of GDP and rely heavily on spurious comparisons (Musgrave, 1999).

There is often ambiguity, about which investments should be done by public organisation, public enterprises or the private sector. This ambiguity creates uncertainty about the availability of investment funds for core government services. The scope for government investments has changed significantly over time, in line with technological and political developments. In many countries investment in energy and telecommunications infrastructure was originally done by governments, later moved to public enterprises, and has now shifted to the private sector. Unless the government has clear policies in this area, there will be considerable uncertainty about which projects should be put forward as candidates for government financing (Cohen, 2004).

Public-private partnerships (PPPs) can improve efficiency and expand financing options, but PPP mechanisms are often undefined, unclear or inconsistent. There are several examples of investment projects that can be realized more efficiently in collaboration between public and private interests than as pure government undertakings. However, many PPPs are little more than creative financing schemes designed to circumvent budgetary discipline and many of them prove to be very expensive for the budget. In countries that have made effective use of PPP arrangements, this is usually one element of a well-designed, comprehensive framework for public investment.

The structure and timing of the investment planning process is often poorly matched with the medium-term and annual budget process. This is a major problem in most transition and developing countries. It is very common that investment project development is done in parallel with budget preparation. This means that decisions regarding capital investments will be taken on the basis of preliminary data and assessments, with high uncertainty. The failure to fully coordinate investment planning and budgeting is often an indication of more general weaknesses in budget calendars and processes. This is an area which may seem quite simple, but where we often can find many of the root causes of unreliable budgets. Investment proposals are inadequately developed and analyzed in most developing and transition economies. Some countries put significant effort into the costing of the projects, and in developing realistic implementation schedules. However, in many countries even the costing of the projects is inadequate. Even more importantly, very few countries prepare realistic assessments of projects' benefits and use this for consistent cost-benefit analysis. If cost-benefit analysis is done, it is often done as a mere formality. There are significant inconsistencies and quality differences between different investment proposals, and there is little basis for effective competition between the different proposals, in particular across sectors (Cohen, 2004).

The decision criteria for investment proposals are often unclear. In the absence of credible cost-benefit analyses, projects cannot be selected on the basis of cost-benefit ratios. Decisions are often ad-hoc and non-transparent and put little emphasis on the quality of project design and analysis. This also undermines the incentives for good project design (Kadondi, 2002).

Budgeting in the public organisations is also faced with the challenge of how to ensure that investments have the expected impacts. Cost estimates for investment projects are often unrealistic. They may change significantly as projects progress, undermining the expected net value of the project. If cost increases are absorbed in annual budget updates, agencies have incentives to under-estimate initial costs. If cost reductions can be reallocated to other projects, they have incentives to over-estimate initial costs, and to extend the implementation period. Both approaches can lead to inefficient selection and implementation of projects.

There is usually no information or very little information about the operating costs for new investments at the time they are decided. This frequently leads to inefficient decisions, in particular the selection of projects with lower initial investments but significantly higher life-time costs. In addition, it is often difficult to secure the necessary operational funds for utilizing the investments at a later stage.

Maintenance costs for existing capital stock are frequently under-budgeted. This severely undermines the ability of these investments to produce the expected benefits. Investment projects may be disproportionately targeted for budget cuts. The capital budget includes large, discrete budget components, which can yield significant budget reductions through single decisions. This can lead to highly protracted implementation periods, increasing life-time costs and undermining the benefits of the projects.

Very few developing and transition economy countries have systematic ex-post evaluation of investment projects. Even when projects are very well designed, analyzed and implemented, there is considerable uncertainty in many parameters. It is important to monitor the actual project results, compare these with the initial estimates, and use this information to further improve project development, analysis and implementation mechanisms.

The budget cycle is a crucial process in all organisations. However, in the public sector, it is overlooked as a tool for improving the efficiency of the organisation as a whole. But changes are afoot that mean public organisations must take a long, hard look at their budgeting, forecasting, monitoring and reporting arrangements to find out just how well they are working and whether they can deliver more value. In public bodies the budget has a special significance as a public statement of how the organisation intends to spend its public funding in the year ahead, and has an important role as a control mechanism.

The reporting of spending against budget targets is a crucial aspect in demonstrating accountability and stewardship to the public. Because of this, the focus has tended to be on a fixed one-year planning horizon, with in-year monitoring and the reporting of financial results after the close of the financial year. This is a somewhat linear set of discrete processes. The financial environment is now moving towards medium-term three-year settlements for public services, with pressure for faster closing, and a greater emphasis on efficiency, performance outcomes and value for money. The budget and reporting cycle, therefore, needs to adapt as a tool to support these developments.

The evidence from literature review of the arrangements in most public bodies points to reform as necessary to encourage better engagement between an organisations' leaders, managers and finance staff. They must increase the focus on the medium and longer term and develop stronger integration with performance management. They also need to make a more dynamic use of the known financial and service data throughout the financial year to modify future plans.

Modern budgeting can support performance management by integrating known outcomes with frequent reforecasting, and using the analysis of underlying pe rformance and trends to take a view on the future. Rolling forecasts that are formally reviewed and updated each quarter are potentially a powerful tool. Looking ahead 18 months, quarterly forecasts are developed, with the first two quarters profiled in detail for the coming months. As each quarter passes, an additional quarter is added to maintain the 18-month forward view. At each quarter the forecasts are recast and combined with actual spend and presented as a trend analysis.

Combining financial trends with performance output trends allows an overall integrated picture to be presented. Through frequent reforecasting, managers are encouraged to develop their skills and remain engaged with planning what the future will look like. By linking trend analysis for expenditure and income with patterns in key performance indicators, they will gain a deeper understanding of the key cost drivers and variables for their business. This process also helps to streamline the year-end close, because financial results have been prepared for each quarter.

The quarterly revision of the financial plan offers the opportunity to redirect resources at frequent intervals. If a spending programme is not capable of using its allocated funds these can be redirected. For the organisation's leaders, the forecasts act as a tool for relating funds with the outcomes they buy. Because the financial and performance trends lie side by side, the organisation is better able to assess value for money. A substantial proportion of the cost base in public service organisations is fixed in the short term and by introducing 18-month forecasts rolling forward, the impact of changes in the cost base can be reflected (Muleri, 2001).

Similarly, events that may only have a minimal impact on the current financial year are captured and their impact and implications in the future clearly mapped. This 18-month rolling approach is a continuous process, not an isolated activity. The potential benefits are that managers will constantly scan for issues, which pose challenges or offer opportunities for the business. Likewise it will encourage the organisation's leaders to review regularly the future sustainability of the business and its finances. The organisation will be constantly challenged to understand and review the outcomes and outputs which its current resources are delivering and to consider how adverse variations can be managed, and favourable variations maximised (Ndiritu, 2007).

Most of the local literature available so far has studied budgeting in the private sector and public sector dealing with; budgeting practices (Muleri, 2001), and the effectiveness of the budgeting (Ndiritu, 2007). One early study had tackled problems associated with budgeting which studied problems associated with budgeting in manufacturing firms (Simiyu, 1977). This study wishes to investigate the challenges of budgeting in the public sector with a case study on NSSF as no previous study has done this.

The next chapter discussed the methodology that was employed in carrying out the research where the research design, target population and study sample have been explored. The chapter discusses the process of data collection as well as piloting and data analysis.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the research design, target population, research instruments, piloting of the instruments, data collection and data analysis procedures that were used in this study. It discusses the methodology used to establish the challenges of budgeting process at NSSF.

3.2 Research design

This was a case study which took a descriptive research approach aimed at establishing the challenges of budgeting process at NSSF. According to Donald and Pamela (1998), a descriptive study is concerned with finding out the what, where and how of a phenomenon. . According to Schinler and Coopers (2004) descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions.

Descriptive research design serves a variety of research objectives such as descriptions of phenomenon or characteristics associated with a subject population, estimates of proportions of a population that have these characteristics and discovery of associations among different variables.

The disadvantage of the descriptive design is that since setting is completely natural, with all variables present, cannot identify cause, lower response rate and need to **design** questions for self-administration, most respondents don't take time to respond to open-ended questions and good questionnaires provide a script for researcher to follow throughout interviewing process

3.2 Target Population

The study was carried out in the National Social security Fund, the population of interest was the board of directors and the senior as they are the ones concerned with budgeting issues at the organisation. The target population chosen by the study was advantageous since the directors and senior managers are more averse with budgeting and challenges thereof and would give precise, relevant and correct information on challenges they come across.

There are fifteen (9) Board Members and ten (16) senior managers at NSSF. This was the target population for the study.

Table 1: Target Population

Strata	Number	Percentage
Board of Trustees	9	29%
Senior Managers	16	71%
Total	**25**	**100%**

Source: NSSF Human Resource Records, 2008

3.3 Data collection

For the purpose of colleting data, the researcher used questionnaires, observation and interview as the main instruments. The questionnaires had both open and close-ended questions. The questionnaire was ideal because the researcher gave the respondents time to respond to the items during their free time bearing in mind that they were administered when the respondents were on duty. The respondents were issued with questionnaires to fill by themselves. The questionnaires were designed based on the research objectives. These consisted of three sections with the first section seeking to find out the general information about the respondents while the remaining four sections budget process and challenges of budgeting respectively.

The close-ended questions provided for 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.

A pilot testing was done first to ensure reliability of the data collection tool. The pretest was done on a sample of 10 respondents from NSSF employees. Sampling employees for the pretest was important since they were not the target population and since they worked for the organization under case study the pretest would form a good base upon which amendments to the questionnaires were made. After the pretest, the questionnaires were appropriately amended.

3.4 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. A content analysis and descriptive analysis were employed. The content analysis was used to analyze the respondents' views about the factors affecting budgeting process. The data was then coded to enable the responses to be grouped into categories. According to Bernard Berelson, (1971), the method of *content analysis* enables the researcher to include large amounts of textual information and systematically identify its properties, e.g. the frequencies of most used keywords (KWIC meaning "Key Word in Context") by detecting the more important structures of its communication content. Yet such amounts of textual information must be categorised analysis, providing at the end a meaningful reading of content under scrutiny.

According to Ole Holsti, (1969), content analysis is useful in making inferences, describe and make inferences about characteristics of a data obtained and make inferences about the effects of the data obtained. Pie charts, tables and graphs were used as appropriate to present the data collected for ease of understanding and analysis. Descriptive statistics was used mainly to summarize the data. This included percentages and frequencies.

The next chapter focuses on data analysis and presentation. The chapter commences by introducing how data analysis was carried out then focuses on the presentation and analysis of the data obtained and the inference thereof.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis and the results of the data collected through the questionnaires. The analysis is based on the data collected from the questionnaires sent to NSSF board of directors and senior managers. From the study population target of 25 respondents, 20 respondents responded and returned the questionnaire, constituting 80% response rate. This commendable response rate was made possible since the researcher had to make telephone calls, make personal visits to the respondents reminding them to fill the questionnaires in time and to those who could not be reached the researcher had to sent E-mail to them.

4.2 General information

Gender of the respondent

The study sought to know the gender of the respondent. According to the findings, the majority of the respondents were males as shown by 60%; while 40% of the respondents were females. This information is represented in the table below

Table 2: Gender of the Respondent

Gender	Frequency	Percent
Male	12	60.0
Female	8	40.0
Total	20	100.0

Age of the Respondents

On age of the respondent the study found that majority of the respondent were aged between 35-40 years as shown by 50 % of the respondents, those that were aged below 35 years were shown by 30% of the respondents, 20% of the respondents were aged between 40 -45 years while 5% were above 50 years old.

Table 3: Age Group

	Frequency	Percent
Below 35 years	6	30.0
35-40 years	10	50.0
40-45years	3	20.0
Above 50 years	1	5.0
Total	20	100.0

Academic qualification

The study also sought to find out the academic qualification of the respondent. From the findings, the study found that the majority of the respondent had a master's degree as shown by 60%, while 40% of the respondents were graduates

Table 4: Academic Qualification

	Frequency	Percent
Graduates	8	40.0
Masters	12	60.0
Total	20	100.0

4.3 Budget process

Involvement in the Budgeting Process

The study also sought to find out who were involved in the preparation of the budget, from the finding, the chairman of the board; members of the board and consultant were involved in the preparation of the budget.

Main Elements of the NSSF Budget

The researcher also wanted to know which were the main elements of the NSSF budget and thus asked the respondent to list them .from the finding the following were the main component of the NSSF budget; fixed component and variable component

Challenges of Budgeting

The researcher also wanted to know the challenges facing budget implementation at NSSF for the past five years, from the finding of the study the following affected budget implementation at NSSF; Achieving the required value, 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.

On the sources of challenges facing budgeting at NSSF, the study found that competence levels of budgeting teams, non-adherence to the laid down budgets by departments poor coordination of the exercise, measurement of some factors is difficult (estimations), sometimes the pressure from above was too much, at times it was inflexible to changes/adjustments and also it was expensive as a control/monitoring tool were the sources of challenges facing budgeting at NSSF.

Challenges That Greatly Affected Budgeting Implementation at NSSF

The researcher also requested the respondents to give the challenges that they thought greatly affected budgeting implementation at NSSF. From the study, these challenges were; on-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 was also a challenges

Table 5: Management ability to overcome challenges

	Frequency	Percent
Strongly agree	8	40
Agree	12 .	60
Total	20	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 60 % agreed and 40 % strongly agreed that the management can be able to overcome the operational budgeting challenges in the company.

Possible Solutions to the Budgeting Challenges Facing the NSSF

On the possible solutions to the budgeting challenges facing the NSSF, 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 chairman of the board. 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.

Respondents Comments on the Overall Budgeting Practices at NSSF

The study also sought to know what was the respondent overall view of budgeting process at NSSF, from the findings of the study, the budgeting process at NSSF was quite okay despite the challenges and the budgeting team which should be well composed so as the budget can achieve its objectives within the stipulated duration

The next chapter focuses on the discussions conclusions and recommendations based on the information retrieved from the questionnaires that were filled and returned.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

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 intended to obtain responses on challenges of budgeting at NSSF. The chapter ends by looking at the limitations of the study.

5.2 Discussion

The study found that the majority of the respondent were male as shown by while the rest of the respondent were female .this is a clear indication that NSSF is dominated by male.

The study also found that majority of the respondent were aged between 35-40 years

It was also found by the study that the majority of the NSSF members were university graduates.

From the finding of the study, the chairman of the board; members of the board and consultant were involved in the preparation of the budget. It was found from the study

The following were the main component of the NSSF budget; fixed component and variable component

the study also found that the following affected budget implementation at NSSF; Achieving the required value, 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.

The study also found that competence levels of budgeting teams, non-adherence to the laid down budgets by departments poor coordination of the exercise, measurement of some factors was difficult (estimations), sometimes the pressure from above was too much, at times it was inflexible to changes/adjustments and also it was expensive as a control/monitoring tool were the challenges affecting budget implementation at NSSF.

The study also found that the challenge that greatly affected NSSF budgeting were,; on-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

The study also found that the management can be able to overcome the operational budgeting challenges in the company. it was also found that the possible solutions to the budgeting challenges facing the NSSF, 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 chairman of the board. 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.

The study also found that the budgeting process at NSSF is quite okay despite the challenges and the budgeting team should be well composed so as the budget can achieve its objectives within the stipulated duration

5.3 Conclusion

From the study, the researcher concluded that budgeting was very effective at NSSF as they served their purpose assisting in control, acting as a means by which management communicates to other levels of department, it also acts as a means of performance appraisal and also it motivates employees to do better. It is also concluded that majority of board members at NSSF were university graduates and thus NSSF was well constituted of qualified individuals. It further concluded that, the chairman of the board; members of the board and consultant were involved in the preparation of the budget and fixed component and variable component were the main component of the NSSF budget

The researcher also concluded that in the process of budgeting at NSSF 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 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

5.4 Recommendations

From the findings and the conclusions, the study recommended that in order to address the challenges of budgeting, the NSSF should ensure that all the units in the organization are involved in the budget preparation, they should also ensure that budget preparation is allocated enough time, there should be proper participation/co-ordination of the exercise led by the Chairman of the board.

It was also recommended that budgets should be used properly in order to ensure that organizations 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.

5.5 Limitations of the Study

The researcher also encountered some limitation in the course of the research. These limitations included; Low response rate. Respondents had to continually be reminded and at times soft spoken in order to respond.

This was because the target respondents consisted of board members and the senior managers and they have a very busy schedules because most of the time they are away on meetings.

The second limitation was that of finances and time. The researcher used a lot of money in the research because it took a lot of time and every time the researcher was carrying out the study, he was using money either for transport and lunch.

Another limitation was the secrecy of the company. Every company has its codes of conduct that restrict everyone including the senior managers to divulge confidential information to the public.

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APPENDICES

Appendix I: Letter of Introduction to Respondents

University of Nairobi,
School of business.
Po box 30197,
Nairobi.

Dear respondent,

RE: COLLECTION OF RESEARCH DATA

I am a postgraduate student at the University of Nairobi, school of business. I am undertaking a management research on **Challenges of Budgeting at National Social Security Fund.**

You have been selected to form part of this study. This therefore, is to kindly request you to assist me collect the data by filling in the accompanying questionnaire. The information provided will exclusively be used for academic purposes and will be treated with utmost confidence: Neither your name nor any other details shall appear in my report.

Your co-operation is highly appreciated.

Yours faithfully,
Martin Wamae
(Student) (Supervisor)

Appendix II: Research Questionnaire

Kindly answer the questions based on your understanding of the budgeting process at NSSF.

Section A: General information

1. What is your Gender?

Male [ ]

Female [ ]

2. What is your age group?

Below 35 years [ ]

35 - 40 years [ ]

40- 45 years [ ]

45- 50 years [ ]

Above 50 years [ ]

3. What is your highest academic qualification?

Masters [ ]

A' Level [ ]

Graduate [ ]

O' Level [ ]

Section B: Budget Process

4. Who are involved in the budgeting at NSSF?

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____

____

5. What are the main elements of the NSSF Budget? (Describe briefly). ____________

____

Section C: Challenges of Budgeting

6. What are the challenges facing budget implementation in NSSF for the past five years?-

7. What are the sources of the challenges facing budgeting at NSSF? (Describe briefly)

8. Which is the challenge that you think greatly affect budget implementation in NSSF? (Explain briefly)

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

a. Strongly agree
b. Agree
c. Neutral

d. Disagree

e. Strongly disagree

10. What are the possible solutions to the budgeting challenges facing NSSF?

____

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____

____

11. What are your comments on the overall budgeting practices at NSSF? ____________

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Thank you for your time and cooperation.

God bless you.