FACTORS LEADING TO SUPPLEMENTARY BUDGETS IN PARASTATALS IN KENYA

PETER MAINA GITONGA

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NOVEMBER, 2010
DECLARATION

This Management Research Project is my original work and has not been submitted for a degree in any other university.

PETER MAINA GITONGA

D61/70133/2007

Signed:.............................................. Date: 24/11/2010

The Management Research Project has been submitted with my approval as a University Supervisor.

MR. HERICK ONDIGO

Department of Finance and Accounting

Signed:.............................................. Date: 24/11/2010
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Lastly, and most importantly, I wish to thank my parents. They bore me, raised me, supported me, taught me, and loved me. To them I dedicate this project.
DEDICATION

I dedicate this publication to my family, dear parents for their inspiration and friends who have given us great support to carry out this research project.
ABSTRACT

Supplementary budget places an enormous burden on middle-income earners, between massive taxes on gross income, loss of early childcare supplement and loss of mortgage interest relief (Louderback, 2001). In the banking industry a strong relationship is evident between a formulated budget and an implemented budget. However, a modest degree of adjustment is desirable during execution to allow for the occurrence of events which were unknown or uncertain at the time the budget was authorized.

The study adopted a descriptive case study research design. The population of the study consisted of all the Parastatals in Kenya. There are 101 Parastatals in Kenya (Source: Office of Prime Minister- Office of Inspectorate of State Corporations 2010).

Simple random sampling was used to select the parastatals used in the study. The researcher selected 29 Parastatals. Primary data was collected using semi-structured questionnaires distributed to treasury officers in sampled parastatals in Kenya. The researcher used both quantitative and qualitative methods. The data collected was checked for completeness and coded for analysis. Descriptive statistics such as mean scores frequencies and variances was used to interpret the quantitative data.

From the findings the study found that factors leading to supplementary budgets in parastatals in Kenya were; budget errors, lack of strict laws governing procurement, poor planning, flexibility in parastatals operations and organizational culture that does not adhere to the budget. These factors cause variance between planned budgets and budgets as implemented in parastatals in Kenya. The study also found that supplementary budgeting was important to parastatals operations to a great extent and that it helps them achieve their objectives and helped them not to work under constrained resources. The study further found that there were greater variation between planned budget and the implemented budgets in parastatals in Kenya which were resulting from errors and poor planning.
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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Budgets are financial blueprints that quantify a firm’s plans for a future period. Budgets require management to specify expected sales, cash inflows and outflows, and costs; and they provide a mechanism for effective planning and control in organizations (Flamholtz, 2001). The budget is a standard against which the actual performance can be compared and measured. The literature on budget practices focuses on the relevance and applications of budgets to large, complex and manufacturing organizations and less on services and small organizations. Furthermore, most studies report on practices in advanced countries. The reasons for this scenario may be that the budget preparation is frequently a time consuming exercise, and it involves many people in various departments of the firms.

The size of a firm and its complexity of its operations generally influence the nature of budgeting it should adopt. For example, giant organizations should have more complex and sophisticated systems as compared to medium and small organizations. Their budget systems serve as a means of integrating the numerous divisions in addition to being planning and control tools. Budgets in the organizations serve multiple roles of planning, evaluation, coordination, communication, and decision-making. Participation in budgeting is another important issue because it reflects the degree of consensus, an important aspect of management style (Premchand, 2004).

According to Premchand, (2002), implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available; 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. He states further that 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, 2004).

A budget is an important concept in microeconomics, which uses a budget line to illustrate the trade-offs between two or more goods. In other terms, a budget is an organizational plan stated in monetary terms. The purpose of budgeting is, therefore to provide a forecast of revenues and expenditures i.e. construct a model of how our business might perform financially speaking if certain strategies, events and plans are carried out and enable the actual financial operation of the business to be measured against the forecast.

Budgeting is a vital tool in organizations for directing activities and employees' efforts towards the organization's common objectives (Covaleski et al., 2003). For example, budgeting requires the organization to engage in systematic operational planning for the near future and to consider how to best allocate its limited resources among the organization's various operating units. Budgeted results (in terms of, for example, revenues, costs, or units of production) communicate to employees the organization's expectations regarding their job performance, which is ultimately evaluated based on some comparison of actual versus budgeted results. Key players in organizational budgeting are operating unit managers, who are involved both in preparing their unit's budget and ensuring the unit's activities are carried out in accordance with the budget. Because of managers' close association with the budget and budgeting, characteristics of the organization's budgetary system will influence their attitudes and behaviors (Kenis, 1979; Merchant, 2004; Covaleski et al., 2003).

1.1.1 Supplementary Budgeting

There should be a strong relationship between the budget as formulated and the budget as executed. However, a modest degree of adjustment is desirable during execution to allow for the occurrence of events which were unknown or uncertain at the time the budget was authorized. As the budget is formulated during the second half of the preceding year, there is scope for the development of a new scenario in parallel with or after the formulation process. Analytically it is necessary to distinguish between changes which should have been
anticipated and reflected in the budget, and those which were genuinely unexpected and which now have to be incorporated (Anderson, 2001).

Public Sector is that part of the economy concerned with providing basic government services. The composition of the public sector varies by country, but in most countries the public sector includes such services as the police, military, public roads, public transit, primary education and healthcare for the poor. The public sector might provide services that non-payer cannot be excluded from (such as street lighting), services which benefit all of society rather than just the individual who uses the service (such as public education), and services that encourage equal opportunity (Awio and Northcott, 2001).

The role and scope of the public sector and state sector are often the biggest distinction regarding the economic positions of socialists, liberals and libertarian political philosophy. In general, socialists favor a large state sector consisting of state projects and enterprises, at least in the commanding heights or fundamental sectors of the economy (although some socialists favor a large cooperative sector instead). Social democrats tend to favor a medium-sized public sector that is limited to the provision of universal programs and public services. Economic libertarians and minarchists favor a small public sector with the state being relegated to protecting property rights, creating and enforcing laws and settling disputes, a "night watchman state" (Awio and Northcott, 2001).

A parastatal is a government-owned corporation, state-owned enterprise, or government business enterprise, is a legal entity created by a government to undertake commercial activities on behalf of an owner government, and is usually considered to be an element or part of the state. A Parastatal can be fully owned or partially owned by Government. Government-owned or state-run enterprises are often the result of corporatization, a process in which government agencies and departments are re-organized as semi-autonomous corporate entities, sometimes with partial shares listed on stock exchanges (Green and Monical, 2007).

Under Section 3 of the State Corporations Act, the President may establish a state corporation to perform the functions that are specified in the order. Section 4 allows the President to assign responsibility for any state corporation to a cabinet minister. The Kenya government forms parastatals to meet both commercial and social goals. Some parastatals exist to correct
for market failure. This is the case, where, for instance, the service they give cannot be profitably provided by the private investors. Sometimes they exist to meet explicit social and political objectives: provide education, health or even redistribute income or develop marginal areas. Before independence, parastatals were important tools for correcting market failure in essential services but they were also tools for excluding Africans from the economy. At independence, parastatals were re-tooled by *Sessional Paper No. 10 of 1965* into vehicles for the indigenization of the economy. Old colonial era parastatals were strengthened and refocused on Africanization. New ones were formed to cover economic sectors in which Africans were absent such as trade, finance and banking. Majority of the key parastatals that exist today were established in the 1960s and 1970s. By 1990, the Kenya government held equity in 250 commercial enterprises and had majority shareholdings in more than half of the 250 enterprises.

1.2 Statement of the Problem

Supplementary Budget places an enormous burden on middle-income earners, between massive taxes on gross income, loss of early childcare supplement and loss of mortgage interest relief (Louderback, 2001). In the banking industry a strong relationship is evident between a formulated budget and an implemented budget. However, a modest degree of adjustment is desirable during execution to allow for the occurrence of events which were unknown or uncertain at the time the budget was authorized. Banking institutions in Kenya have been using supplementary budgets either in the middle of the year or annually. Analytically it is necessary to distinguish between changes which should have been anticipated and reflected in the budget, and those which were genuinely unexpected and which now have to be incorporated (Joyce and Blayney, 2003).

Most studies on supplementary budget practices have been conducted in the developed countries. The study by Cheung (2004) into the Hong Kong situation of 35 managers revealed that supplementary budgets were widely used in banks and other financial institutions. However, in developing countries, few studies have been done on supplementary budgets. In Kenya, Ndiritu (2007), for instance, researched on effectiveness of supplementary budgeting in public institutions by studying Telkom Kenya. Kadondi (2002) did a survey of supplementary budgeting techniques used by companies listed at the NSE. Muleri (2001)
conducted a survey of budgeting practices among the major British Non-governmental organizations in Kenya and Wamae (2008) looked at the challenges of supplementary budgeting at National Social Security Fund.

There is no known study that has been done on factors that lead to supplementary budgets in parastatals in Kenya, a knowledge gap. This study seeks to bridge this gap by determining factors that lead to supplementary budget in the public sector by doing a study on parastatals in Kenya. The study will determine the importance of supplementary budgeting to parastatals operations. The study will also establish the variation between planned budget and the implemented budgets by parastatals in Kenya.

1.3 Objectives of the Study

General Objective

To determine the factors leading to supplementary budgeting in parastatals in Kenya

Specific Objectives

i. To determine the factors leading to supplementary budgets in parastatals in Kenya

ii. To determine the significance of supplementary budgeting to parastatals operations

iii. To establish the variation between planned budget and the implemented budgets in parastatals in Kenya

1.4 Research Questions

i. What are the factors that lead to supplementary budgeting in parastatals in Kenya?

ii. What is the significance of supplementary budgeting to parastatals operations?

iii. What are the variances between planned budget and the implemented budgets in parastatals in Kenya?

1.5 Significance of the Study

Parastatals - the study will be of great importance to the management of parastatals in Kenya as they will know the factors that lead to supplementary budgeting in parastatals. The study will also outline the impact and the effects of supplementary budgets to parastatals.
Academician- The study will also be invaluable to the academician and researchers in Kenya for it will provide a base upon which secondary material on budget implementation will be drawn. The study will also provide good literature on budget implementation.

Government- This study will assist the government in assessment of parastatals performance that can be able to formulate new public sector policies for better operations.
CHAPTER TWO

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. Specifically it contains review of budgeting, historical developments, theoretical review, budgeting process, empirical studies, operational budget tools, activity based budgeting, budgetary communication, budgets as performance measurement tools, and budgets as targets.

2.2 Budgeting
Budgeting plays a key role in an organization. It moves the organization from an informal reaction method of management to a formal controlled method of management (Morse et al., 1984). A budget can act as a motivator and communicator, as well as for functional co-ordination and performance evaluation (Dominiak and Louderback, 2001) of an organization.

Anthony et al (2004) list four uses of a budget. The first is to fine tune the strategic plan, the second is to help co-ordinate the activities of the several parts of the organization. The third is to assign responsibilities to managers; and last, to obtain a commitment that is a basis for evaluating a manager’s actual performance. According to Garrison (2002) four major advantages of budgeting include: giving planning top priority; providing managers with a way to finalize their planning efforts; overcoming potential bottlenecks before they occur; and coordinating the activities of the entire organization by integrating the plans and objectives of the various parts. In summary, there are four main aspects to budget: the motivations aspect; the co-ordination of resources for their best use; setting benchmarks for performance; and as a cost control mechanism (Sheridan, 2001 pp.26-7).

Review of literature on operational budgeting (Amey, 2003; Bremser, 2004; Douglas, 2002 pp.59-63) reveals that operational budgets serve dual purposes of planning and control. Flamholtz (2001 pp.153-69) developed a mechanism for effective planning and control aspects of budgets. The study by Ezzamel and Hart (2001) also supported this dual role of
budgeting. Moreover, Hopwood (2000), and Abernethy and Stoelwinder, (2005 pp.105-20) argue that budgets can be used as a control mechanism to regulate the behavior by specifying the means to produce a unit of output. Budgeting systems are universal and have been considered an essential tool for financial planning. These systems are meant to organize and encourage the performance of organisations (Abernethy and Brownell, 2007 pp.189-205). Traditionally, budgets were seen as the primary planning document (Alam and Lawrence, 2005 pp.41-51; Johnston, 2005 pp.352-68). Guthrie (2006) states that corporatization and the application of the National Competition Policy (NCP) meant that finance ministry should operate under some commercial principles so as to become more economic, efficient and effective.

Budgets are used to communicate organisation’s expectations to its clients. The budgets process provides for coordinated planning among different functional areas (Ramsey and Ramsey, 2005; Bremser, 2008). Bruns and Waterhouse (2009 pp.177-203) concluded that when production processes were relatively routine repetitive, budgets could be used effectively to achieve organizational coordination.

2.2.1 Budgeting: Historical Development
The growth and contributions of the existing budgeting literature can be presented in two ways. One form of presentation is historical, showing how research questions in each theoretical perspective grew out of interactions among practice concerns, budgeting research in other perspectives, and developments in basic economics, psychology, and sociology theories. The other form of presentation is analytical, separately describing the research questions, assumptions, and results characteristic of each theoretical perspective. Although the latter presentation mode, which we use in the following sections of this paper, is convenient for orderly exposition, it can give the impression that the three theoretical perspectives are more isolated and incompatible with each other than they actually are. Therefore, the remainder of this introduction summarizes the common historical background of the three perspectives on budgeting and describes their key similarities and differences.

The initial scholarly response to these observations was a stream of social-psychology-based research, which searched for (but did not always find) systematic evidence of the costs of
budgeting described anecdotally in the practitioner literature. Recognizing the complexity of individuals' responses to their social environments, the psychology-based research investigated the effects of budgeting on a variety of potentially conflicting mental states and behaviors, primarily motivation, stress, satisfaction, commitment, relations with peers and superiors, and individual managerial performance. This research also examined the association of these effects with specific budgeting practices such as the level of difficulty of budget targets, the supervisor's budget-related performance-evaluation style, and the extent to which employees' compensation depends on meeting budget targets. In particular, this research investigated the effects of participative budgeting, the remedy Argyris (2006) proposed to eliminate or reduce the costs of budgeting he observed.

Like the psychology-based literature, the sociology-based budgeting literature was influenced by Argyris' (2006) description of the costs of budgeting. Early sociology-based studies linked this description of budgeting with the emerging literature on organizational theory, which was synthesized by March and Simon (2005) and associated with a second study of practice commissioned by the Controllership Foundation at about the same time, examining the controllership function in organizations (Simon et al. 2007). This organizational-theory literature focused on the difficulties of decision making and coordination in large, complex organizations engaged in diverse activities in uncertain environments over many periods. In this setting, identifying optimal organizational practices seemed beyond the capabilities of boundedly rational individuals. In consequence, an important role of organizational structures and routines such as budgeting was to simplify organizational decision making. Although sociology-based research did not expect organizational practices to be always optimal, a stream of studies based on the contingency theory of organizations argued that organizations would tend to adopt practices (such as budgeting) that improved performance, and that these practices would vary systematically depending on organizational variables such as size, environmental uncertainty, and technology (Chenhall 2003).

As sociology-based budgeting research evolved, it increasingly emphasized that individuals within an organization have conflicting interests, and organizational structure and routine can establish power relations. Some sociology-based research argued that budgeting could reduce resistance to the exercise of power by concealing it in apparently neutral routine or technical
procedures such as budget formulas. Budgeting could also be identified with a social norm of rational organizational behavior, thus conferring legitimacy on decisions reached through the budgeting process. However, the breakdown of routines, structures, or shared representations through changes in budgeting (or the initial development of such routines in new organizations or subunits) could generate conflict (sometimes prolonged) that hindered the working of an organization's decision-making process. Thus, the sociology-based budgeting literature sometimes represented practices like participative budgeting and budget-based performance evaluation and compensation as ways of simplifying organizational decision making for boundedly rational individuals, and sometimes represented them as part of the construction, functioning, and occasional breakdown of power relations in and around organizations.

Argyris' study (2006) and the early psychology-based research it stimulated also played a role in early economics-based studies, as researchers began to use the emerging economics of information to analyze accounting practice, including budgeting. Citing Argyris (2006) and social-psychology-based studies such as Hopwood (2000), which documented costs of budget-based evaluation of employees, Demski and Feltham (2004) asked: What are the offsetting benefits of this practice that might account for its prevalence? How can the cost-benefit trade-off be analyzed to determine whether the combination of costs and benefits provided by one budgeting practice (such as budget-based performance evaluation and reward) is better for both employer and employee than the trade-off provided by an alternative practice? The economics-based research thus often addressed the same budgeting practices as the psychology-based and sociology-based research, but shifted the focus of primary and intensive research attention. In the psychology-based research, what was "under the microscope," showing its full complexity was the nature of individual employee reactions to budgeting practices, while many features of the organization in which these practices operate appeared only sketchily in the background. In the economics-based research, the preferences and beliefs of individuals were much simplified, and what was "under the microscope" was the nature of the optimal trade-offs in employment agreements between owners and employees with conflicting preferences and different information, and how these trade-offs affect organizational performance. In the sociology-based literature, what was "under the
"microscope" was the role of budgeting in these organizational processes and their outcomes (e.g., organizational performance). Representations of individual preferences and beliefs are relatively underdeveloped in the sociology-based research, just as representations of organizational structure and process in large complex organizations are relatively underdeveloped in the economics- and psychology-based literatures.

The research questions formulated by the budgeting literature in the last several decades are likely to remain important questions for future research: How do budgeting practices affect employee motivation and performance, as well as organizational performance? What role should budget targets play in evaluating and rewarding employees' performance? What are the costs and benefits of different levels of budget-target difficulty and different methods of setting these targets? How does budgeting help or hinder in planning and coordinating activities in complex organizations, and what is its role in generating or resolving organizational conflict? How do the answers to all these questions change with changes in non-budgeting variables such as environmental uncertainty, technology, and organizational strategy and structure?

2.2.2 Theoretical Review

It is important to note that the existing scholarly literature on budgeting has drawn on only limited portions of the social sciences on which it depends. The psychology-based literature on budgeting relies more on social psychology than on cognitive psychology. The economics-based literature on budgeting relies on principal-agent models, but not on other potentially relevant economic theory such as models of adaptive behavior in games or complementarities in organizational design. The sociology-based research on budgeting is mostly based on contingency and institutional theories rather than population-ecology or critical theories.

The level of a variable is defined at the level at which the variation of interest occurs (Rousseau 2009; Klein et al. 2001; Kozlowski and Klein 2000). For example, participative budgeting is an individual level variable when a study examines effects on individual mental states or behavior of the individuals' beliefs about how much they participate in budgeting, and the researcher is interested in variation across individuals per se, as opposed to when individuals serve as proxies for subunits or organizations. Participative budgeting is an
organizational-level variable when a study examines cross-organizational differences in participative budgeting, and the researcher's goal is to relate this variation in budgeting to variations in technology, structure, or performance across organizations.

2.3 Budgeting Process

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 program and finance staff working together (Chakravarthy and Lorange, 2006).

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, 2001). Six fundamental phases in the Budgeting process have been identified (Marsh et al, 2006; Pinches, 1982). These are: Identification of investment opportunities: this phase, although extremely important, has been often ignored, probably because it cannot be easily formalized; Development and evaluation: once investment proposals have been identified, it is necessary to analyze them thoroughly, collecting relevant and detailed information for each alternative, and evaluating their profitability and global attractiveness; Selection: a screening of investment proposals which have passed through the previous phase might be necessary because of financial or strategic factors. As a result, some projects might be cancelled or postponed to another planning period; Authorization: almost all investment projects must be approved (either by line management or by appropriate investment committees) before their implementation; Implementation and control: while the project is being carried out, follow-up procedures are indispensable to adhere to budgeted costs and deadlines and Post-auditing: in this phase the outcomes of each project are compared with budget targets in order to assess forecast accuracy and identify error patterns with a feedback effect on the whole decision process.
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, 2004).

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, 2004) 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 (Agnihothri and Taylor, 2003).

**Staffing costs** – These are the costs for organizations' 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 for organizations

While budgeting depends to a certain extent on the particulars of an organisation or project, there are certain guidelines which apply across projects and organizations. 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 organizations 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, 2001).

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, 2001).

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, 2001).
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 organizations' 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.

2.4 Factors that could lead to supplementary budgets

2.4.1 Environmental Uncertainty and Budget Participation

Agency theorists argue that the demand for participative budgeting arises because various parties engaged in the budgeting process possess differential information about uncertainty (e.g., central and local management) (Christensen, 1982; Baiman & Evans, 1983; Penno, 1990; Kerby, Reichelstein, Sen, & Piak, 1991). Participation provides a means of pooling the experience and knowledge of budgeted managers and their superiors and offers the potential to assist in resolving these uncertainties. Lawrence and Lorsch (1967) found that firms facing high environmental uncertainty tended to allow greater participation. Govindarajan (1986) and Hopwood (1976) extended this reasoning about participation in decision-making in general to participation in budgeting and suggested that greater budgetary participation should be found in organizations facing greater environmental uncertainties. This argument is supported by Simons (1987) who argues that when environmental conditions are unstable, communication around the budget has to be increased. Empirical tests tend to support these arguments (Brownell, 1985; Mia, 1989). Therefore, communication in the budget process serves a major information exchange role about critical factors of the environment. As a result, it can be argued that as environmental uncertainty increases, the likelihood of supplementary budgets increases.

2.4.2 Organizational Commitment in the Budgetary Participation and Performance

Organizational commitment is a dimension of a positive employee attitude, which has been linked to performance (Manogran, 2000). It is defined as the extent of employees' feelings and beliefs about the organization which they work for (George and Jones, 2005). The literature describes two types of organizational commitment; affective (or attitudinal) commitment and continuance commitment. Prior work involving organizational commitment has focused on affective commitment (Quirin et al., 2001). Affective (or attitudinal) commitment is defined as...
as the willingness to execute continuous effort for the success of the organization. It is characterized by a strong belief in, and acceptance of, the organization's goals and values.

Nouri and Parker (2007) proposed that budgetary participation affects job performance through organizational commitment. The authors reasoned that managers, who are allowed to participate in the budgetary process, will have higher organizational (affective) commitment and this in turn, leads to improved job performance. The authors conducted a study on 135 managers and supervisors in large multi-national corporations involved in chemical production in the USA. The authors used path analysis and found that organizational commitment plays an intervening role in the Budgetary Participation and Performance (BPP) relationship. The results reveal a positive relationship between budgetary participation and organizational commitment. The path analysis also showed a direct relationship between budgetary participation and performance. This led the authors to conclude that budgetary participation increases organizational commitment, which could lead to positive work outcomes, such as enhanced job performance. On the contrary, a more recent study by Parker and Kyj (2006), examining vertical information sharing as an intervening variable in understanding the performance effects of the relationship between budgetary participation and OC, found that there is no direct relationship between budgetary participation and OC. Both studies, however, were limited to the private sector. No work has been done on the role of OC in the BPP relationship, within public sector organizations.

2.4.3 Perception of Innovation in the Budgetary Participation

Managers' perception of innovation has been investigated in a few recent BPP studies. This variable, however, has been expressed slightly differently in each of these studies. Subramaniam and Mia (2001) used the term "managers’ value orientation towards innovation". Subramaniam and Ashkanasy (2001), described it as “the perception of innovation”, while a more recent study by Subramaniam and Mia (2001) uses the term “work-related values of innovation”. Despite the difference in terminology used, the meaning and item used to measure this construct in BPP studies have remained the same.

Of the three recent studies cited above, the work by Subramaniam and Ashkanasy (2001) is the most relevant because they test the BPP relationship using the variable Perception of
Innovation (POI). The study involved a questionnaire-survey with 114 managers from 37 companies in the Australian food manufacturing sector. The authors predicted a three-way interaction between budgetary participation, perception of innovation and attention to detail, which in turn, affects managerial performance. The results reveal a direct positive relationship between budgetary participation and performance. They also found that managers who have a high perception of innovation, participation in budget-setting, does contribute to improved performance. Awio and Northcott’s (2001) work suggests that the budgetary process is more effective in a decentralized structure, as it motivates managers, thus enhancing their performance.

Although there is no published work, to date, which specifically focuses on Organizational Commitment (OC) in the budgetary process in the public sector, the study by Dick and Metcalfe (2001) provides some insights into the role of OC, in general, in the public sector. They conducted a survey on police officers and civilian staff. They proposed that OC is higher amongst uniformed staff, compared to civilian staff. However, they found no support for this. The results, however suggest that OC is closely related to individual performance.

2.4.4 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, 2006). 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, 2004).

2.4.5 Efficiency and Effectiveness of an Organization

With regard to being efficient, for instance, it is generally considered that the traditional budgeting process is very bureaucratic and protracted (Bunce and Fraser, 2001). In particular, it is claimed that budgets take up too much management time, often involving numerous revisions and substantial delays (Fanning, 2008). 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 (Hope and Fraser, 2006). Overall, it is considered that such budgeting systems often fail to give lasting improvement or generate congruent behaviour (Bunce and Fraser, 2006) 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 (Hope and Fraser, 2006). 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, 2006). 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 Hope, 2007).
2.5 Empirical Studies

2.5.1 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, 2007).

Most large organizations 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 organizations 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, 2008).

2.5.2 Operational Budget Tools

Weisenfeld and Tyson (2006 pp.19-20.) found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. It's assumed that a large portion of the researchers indicate that variances is a good way to measure their performance. They, however, pose lack of or poor technology as a challenge of operational budget in many governmental organizations and the Ministry of Finance in particular.
Auditing management and benchmarking managements can be viewed to be other tools that determine the operation of a budget in any firm. Auditing management procedures identifies the strengths and weaknesses of a company's current performance compared to corporate standards while benchmarking management procedures enables comparisons of corporate standards to be made against industry best practice (Zairi and Leonard, 2002).

When auditing or benchmarking highlights, a gap in management performance, a strategy should be developed and targets defined, within an improvement plan, in order to attain the higher standards identified. However, the application of the highest standards available, per se, does not ensure success because a company operating to the highest standards but failing to make a profit will not remain in business for very long. Therefore, the desire to raise standards must be put into the context of overall business performance and profitability. Although benchmarking can provide short-term solutions to some problems, by identifying how other companies address the same issues, the main benefit of benchmarking is more related to changing business culture in the medium and long term. To achieve this, managers need an understanding of the underlying principles, strengths and limitations of the benchmarking process and an appreciation of the impact that economic constraints have on achievable performance standards. Benchmarking should therefore be supported by management models, which describe the issues and predict how changes in management strategy affect company performance.

Current strengths and weaknesses in company performance can then be compared with industry best practices and potential options for improving management performance can be assessed through logical and robust criteria. Descriptive models for implementing benchmarking assessments have been described (Zairi and Leonard, 2001; Bogan and English, 2003) but fundamental models, which explain the theory of benchmarking, have not been developed. Benchmarking can utilise competitive, functional, internal and generic approaches (Zairi and Leonard, 2001) in order to identify successful management strategies.

Zairi and Leonard (2001) have described the basis of benchmarking as “Understanding how better results are achieved and adapting the ‘how’ into one’s own organization so as to overtake the competition in terms of results”. The benchmarking process is therefore based on
the premise that searching out the best of the management systems in market leading companies will identify the key to superior business performance. The principles of benchmarking are equally valid for large, medium or small companies, whether they compete in local, national or international markets. However, the aims and achievable objectives of the benchmarking process may be significantly different in each situation. For example, one company may benchmark in order to improve profitability by identifying the most cost-effective way of maintaining their current standards, while another company may benchmark to identify industry best practice.

For companies aiming to achieve recognition for world-class performance, it may be necessary to move away from a purely reactive approach to benchmarking, which identifies what other groups or companies have already achieved, and move on to essentially a proactive approach by identifying and defining the highest standards achievable. In this way they will be recognized as market leaders operating through innovative example.

2.6 Activity-Based Budgeting

ABB is a full-absorption budgeting method that has gained ground on conventional methods, Brinker (2006), due to both more correct cost assessments and superb tracing of costs. Conventional costing systems, on the other hand, cannot trace—overhead costs are simply distributed as butter on bread as it were without estimating the effect of all the complexities, see Eiler and Ball (2004 pp.B2.1-B2.33), and identifying the root causes of costs. ABB systems imply a new way of thinking (Kaplan and Cooper, 2002 pp.408). They carry with them a set of questions completely different from conventional costing systems, such as “what activities would be performed within the organization, how much it would cost in order to carry out such activities, why the organization would needs to organize enterprise activities and processes, and what would be the starting part or amount required from each activity-products, services and customers?” An ABB system provides companies with an economic map of their operations that highlights the existing and anticipated costs of the enterprise activities and processes. This leads to a deeper knowledge of the cost and the profitability of products, services, customers and productive units.
Compared to conventional costing systems, ABB differs in two major points (Cooper, 2002 pp.86-8): In an ABB system, it is assumed that a cost object (products, services and so forth) consume activities, while a conventional system assumes that a cost object consume resources. There are several implications of this difference, but the most important is that ABB acknowledges that one cannot manage costs, one can only manage what is being done, i.e. the activities. With respect to cost management this point also indicates that sound cost management practices should focus on process management and not virtually solely on structure and organization as today. An ABB system utilizes drivers on several levels (for example unit-, batch-, product- and factory level), while a conventional system uses only unit-level characterizations called allocation bases. Roughly speaking, an allocation base is an arbitrary, unit-level driver. In this sense, from the point of view of the allocation, cost-drivers try to establish precise causal relations between products and consumption of activities. The problem is to choose the most suitable cost driver to undertake the allocation process. In general, this problem could be solved choosing between the following requirements: to represent the existing cause and effect relations between costs, activities and products as well as possible and to be the most cost effective to measure and to observe, see Fernández Fernández and Muñoz Rodríguez (2005 pp.192).

According to the discussion above, when discussing ABB we should remember the points highlighted by Maher (2005): Different cost allocation methods result in different estimates of a product's cost. ABB provides more detailed measures of cost than do plant-wide and departmental allocation methods. ABB can help marketing people select and price products by providing more accurate product cost numbers. ABB also benefits production because it provides better information about how much each activity cost. It helps identify cost drivers that managers did not previously recognize. ABB provides more information about product cost but requires more recordkeeping. Thus, managers must decide whether the benefits of improved decisions justify the additional cost of ABB compared to departmental or plant-wide allocation. Finally, implementing ABB requires teamwork among accounting, production, marketing, management and others.

Hence, ABB is much more accurate and driven by cause and effect relations and not the latest percentage add-on from management. In fact, O'Guin (2003 pp.36-41) reports that product
cost estimates from a conventional costing system can differ by several hundreds per cent compared to an ABB system.

2.7 Budgetary Communication

Participation by employees in the budgetary process has received considerable attention in the academic literature (Brownell, 2007 and Milani, 2008). For budgetary participation to occur, a person must become actively involved in the setting of budget goals by exchanging information and influencing outcomes (Hassel, 2004).

Although a number of previous studies have treated participation as a unidimensional construct, there is evidence that it may be at least bidimensional. First, there is the extent that communication occurs within the budgetary process and, second, the extent that a participant feels that he or she influences the budget finally allocated. As Hassel and Cunningham (2004) have argued, while a manager may have considerable communication with more senior management over budget allocations, the degree of influence over the final allocation may be minimal.

It is argued that, if budget allocations are to gain any support within an institution, communication within the budgetary process will be critical. This communication is needed if those responsible for budgeting outcomes are to have any knowledge of proposed budgetary practices and procedures, budget rationale, and intended budget goals (Katz and Kahn, 2003). While previous research has found that relevant communication can improve initial attitudinal responses to budgetary allocations, Sears D, (2001), argued that the likelihood of success is dependent on three factors: the general environment at the time, the message content, and trust in the communication provider by the message receiver. The majority of academics will relate easily to at least two of these factors. First, the general environment currently facing public organisations is one of reduced funding (Deutschman, 2004, Hardy, 2003; O'Reilly, 2002). Second, the message content that a reduction in external funding (general funding provided by the government) translates to a reduction in internal funding; funds distributed within public organisations like parastatal by way of budgetary allocations. However, while there may be a degree of acceptance of both these factors, there is evidence of a general lack of trust in the communication provider (that is the funding agencies and management
(Dahllof, Harris, Shattock, Staropoli and in’t Veld, 2000 and Ezzamel and Bourn, 2001). This was highlighted in Ezzamel and Bourn (2001), where those responsible for distributing information regarding major budget cuts were questioned both from a technical competence perspective and a neutrality perspective. Further they were blamed “for undermining the quality and ethos of the workplace, and for challenging the culture of academic freedom by promoting a ‘financial’ or accounting ‘culture’ with a different mix of values”.

2.8 Budgets as Performance Measurement Tools

Feedback is an important role of budgeting for attaining the expected quality and standards in planning, control and leadership and staffing. According to Cook (2009), feedback is generally positively associated with budget performance. Feedback focuses on the extent to which employees have achieved expected levels of work during a specified time period. Budgets being a standard for performance are also used to evaluate managerial performance (Srinivasan, 2001). Similarly, Douglas (2004) used a case study approach and found that budgeting places a high importance on the budget-to-actual comparison for performance evaluation purposes both at the corporate and the subsidiary levels. Anderson (2001) also supported this view, stating that in most companies the development of budget is still used as the main performance measurement system. Weisenfeld and Tyson (2006), in a sample of managers from two companies, found that budgeting and variance analysis can be positive tools, if the accounting information/communication process is functioning appropriately. A total of 90 percent of the respondents indicated that variances were a good way to measure their performance. All of them agreed that variance reports positively influenced them to improve performance and increase their bonuses.

A study by Joye and Blayney (2006) found that budget variances were used by 93 percent of respondents for setting goals and evaluating performance by firms. In a more recent study, Guilding et al. (2005) found that accountants tend to see variances from budget as being important, and performance appraisal was based mainly on budget achievement. Blansfield (2002) found that only 14 percent of companies have a fully integrated planning process that combines long term and operational planning, performance measures and reporting. The survey further underscored the fact that financial executives still struggle with the need to
synthesize financial and non-financial data and performance measurements in a single system in which they can also perform planning, budgeting, forecasting, financial consolidation, reporting and analysis in real time.

Output, especially in the private sector, has, historically, appeared relatively easy to measure (sales; profit; units produced; budget targets met) but some outputs, especially in the public sector, have appeared to pose more of a challenge to quantify (Pendlebury, 2004). However, with the “new way of thinking about the state” (Ridley, 1995), including the introduction of market forces via a variety of initiatives coming under the catch-all term of “privatization” (Ascher, 2004) and the devolvement of budgets, this challenge is increasingly being met.

Worker effort may be concentrated in those areas that are subject to scrutiny, possibly to the detriment of others. Effort may also include the use of behaviors incompatible with organisational values. Drury (2000) has also questioned the lack of evaluation based on longer-term performance factors than against relatively short-term budgetary indicators.

Dysfunctional behaviour associated with performance evaluation against budget targets includes the oft-reported creation of “budgetary slack”. Essentially, this is where workers endeavour, through the participatory process, to ensure that the budget target is relatively easy to achieve. By so doing, the motivational properties of the budget clearly are reduced. Lyne (2004) has pointed out that the likelihood of slack being manipulated is dependent upon a lack of congruence between the individual’s and the organisation’s goals and a lack of open and honest information sharing and communication between worker and manager.

Given managers’ need to evaluate efficiency and effectiveness, Hopwood (2000) identified four styles of employing budgetary and accounting information in the evaluation process. These were a budget-constrained style; profit conscious style; and a non-accounting style. Although Hopwood (2000) did not explain the origin or development of these, styles that were linked to concerns around accountancy issues were also linked to a variety of dysfunctional behaviors and lower reported levels of job satisfaction.
2.10 Budgets as Targets

As Lyne (2004) has stated, accounting measures and the use of budgets as targets is an obvious way in which individuals can be given clearly stated, measurable, specific goals. This, assuming that rewards are based on performance, the meeting of targets, rather than issues such as seniority for example, fits with expectancy theory. The question that then can be posed is at what level of difficulty should the budget target be set in order to maximize motivation? Expectancy theory dictates that there will be little motivating effect if the budget target is set so high that it is perceived to be unattainable, irrespective of the certainty of expected performance associated rewards on offer. Lyne (2004) has related equity theory to perceptions of the target set, either initially or upon revision if activity based budgeting is in operation. If the target is seen as irrelevant or unfair in some way then the likely effect is to de-motivate.

Revision of budget targets may also be made following a comparison of the target set and actual performance. Indeed, Becker and Green (2007), in order to maximize continuous levels of motivation, advocated this. For example, if performance is being met, or is even in excess of, expectation then, to prevent the worker “coasting”, budget targets should be revised upwards. However, one can, at this point, issue a caveat for there is possibly a strong argument for a concurrent review of extrinsic rewards to prevent the worker with the revised target experiencing equity theory related tensions. Becker and Green (2007) also advocated the revision of budget targets downwards if there is significant under performance in order to increase motivation. Likewise, one should, perhaps, issue a caveat here. Natural justice dictates that one should recognise when perceived poor performance is due to factors beyond the control of the worker (e.g. unrealistic targets, unexpected changes in the external environment that could not have been reasonably foreseen and planned for). Equally, however, it may not be in the organisation’s best interests to be seen to be “carrying” under-achievers by the revision of budgetary targets. Capability proceedings should be considered in order to assist the situation.
2.11 Summary

The literature has presented various empirical studies that have provided various views of managers and researchers on the issue of budgeting. These opinions differ and mostly they have focused on general budgeting processes and practices. However, very little study has been done in areas of supplementary budgeting thus a knowledge gap. The purpose of the present study is to add knowledge in areas of supplementary budgeting.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research questions. In this stage, most decisions are made about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identifies the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design
The study adopted a descriptive case study research design. According to Donald and Pamela (2000), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. The subject was observed in a completely natural and unchanged natural environment.

3.3 Target population
The population of the study consisted of all the Parastatals in Kenya. There are 101 Parastatals in Kenya (Source: Office of Prime Minister- Office of Inspectorate of State Corporations 2010).

3.4 Sample and Sampling Techniques
Simple random sampling was used to select the parastatals used in the study. There are 101 Parastatals in Kenya. The researcher selected 29 Parastatals. According to Mugenda and Mugenda (2003), a representative sample is one that is at least 10%-20% of the population. The respondents were the treasury officers in the Parastatals as they are the ones involved in the budgeting processes.
In simple random sampling each member of a population has an equal and an independent chance of being included in the sample. The selection of one member does not in any way affect the selection of another member. The researcher was also used purposive sampling to select those respondents that suit the purposes of this study and those believed to have the information being sought. In this case the researcher selected treasury officers in every parastatal.

### 3.5 Data collection instruments

Mugenda and Mugenda (2003) observed that, the pre-requisite to questionnaire design is definition of the problem and the specific study objectives. Primary data was collected using semi-structured questionnaires distributed to treasury officers in the selected parastatals in Kenya. The study used questionnaires primarily due to their practicability and applicability to the research problem. The questionnaire contained a mix of open-ended and closed-ended questions. The respondents were given options of checking several boxes and questions in which respondents gave their views in their own words.

### 3.6 Data validity and reliability

Mugenda and Mugenda (2003) asserted that, the accuracy of data collected largely depend on the data collection instruments in terms of validity and reliability. Validity as noted by Robinson (2002) is the degree to which result obtained from the analysis of the data actually represents the phenomenon under study. Validity was ensured by having objective questions included in the questionnaire. This was achieved by pre-testing the instrument used to identify and change any ambiguous, awkward, or offensive questions and technique as emphasized by Cooper and Schindler (2003).

Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda & Mugenda, 2003). In this study, reliability was ensured by pre-testing the questionnaire with a selected sample from one of the parastatals.

### 3.7 Data Analysis

The researcher used both quantitative and qualitative methods. The data collected was checked for completeness and coded for analysis. Descriptive statistics such as mean scores...
frequencies and variances was used to interpret the quantitative data. Data was analyzed through the aid of a Statistical Package for Social Sciences version 17 (SPSS). Content analysis was used to analyze qualitative data. Results from qualitative data were presented in prose form.
CHAPTER FOUR

ANALYSIS AND INTERPRETATION

4.1 Introduction
This chapter presents data analysis, interpretation and presentation of the research. From the study population target of 101 parastatals, the selected 29 respondents filled and returned their questionnaires, constituting 100% response rate. Data analysis was done through Statistical Package for Social Scientists (SPSS). Frequencies, percentages, mean and standard deviation were used to display the results which were presented in tables, charts and graphs.

4.2 General Information

Figure 4.1: Distribution of Respondent by Gender

The researcher sought to know the respondent gender and therefore requested them to indicate their gender. From the findings in figure 4.1, the study found that majority of the respondents were male (55.2%), while 44.8% were female. This information shows that the government of Kenya employed both gender in it parastatals. The study also established that the respondents held various positions which were heads of finance department, accountants, clerks, departmental heads, supervisors and directors.
The researcher sought to know the respondents experience in terms of their years and therefore requested them to indicate their total work experience. On the length of time the respondent had been working with their respective parastatals, from the results in figure above the study found that most of the respondents had worked with their respective parastatals for 7 to 10 years (38%), 24.1% of the total respondents indicated that they had worked with their respective parastatals for 4 to 6 years, 27.6% indicated that they had worked with their parastatals for over 10 years, whereas 10.3% had worked with their respective organization for 1 to 3 years. This information depicts that majority of the respondents (65.6%) had worked with their respective parastatals for 7 years and more, which give credibility to the information they provided to the study since they had stayed in their organization long enough to understand their organization and the subject under the study.
On the respondent opinion on whether parastatalas embark on the planned budget, from the results in figure 4.3 above, the study found that majority of the respondent as shown by 86.2% were of the opinion that parastatalas embark on planned budget, while 13.8% were of the opinion that parastatalas do not embark on the planned budget. This information shows that parastatalas embark on the planned budget. The study further revealed that the key players in the budget preparation and implementation process were auditors, accountants, finance committee, board of directors and permanent secretary in the ministry of finance.

Table 4.1: Managers having the authority to change or reallocate expenditures

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>6</td>
<td>20.7</td>
</tr>
<tr>
<td>No</td>
<td>23</td>
<td>79.3</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>100.0</td>
</tr>
</tbody>
</table>
On whether managers have the authority to change or reallocate expenditures after the budget has been approved, the study found that majority of the respondent as shown by 79.3% indicated that managers didn’t have the authority to change or relocate the budget expenditure after the budget have been approved while 20.7% were of the opinion that managers had authority to change or relocate the budget expenditure after the budget have been approved. This information shows that management of parastatals didn’t have ways to change or relocate the budget expenditure after the budget have been approved, and the only ways was through the supplementary budgets. On whether the budget calendar specified in the budget system (or other) law, and is adhered to in practice, the study revealed that budget calendar is specified in the budget system law, and is it adhered to in practice as shown by 100% of the respondent who indicated yes to the question.

Table 4.2: Extent of Variance between Planned Budget and the Implemented Budgets

<table>
<thead>
<tr>
<th>Factors</th>
<th>Very Great Extent</th>
<th>Great Extent</th>
<th>Moderate Extent</th>
<th>Low Extent</th>
<th>Not at all</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proposed budget match with the implemented budget of the organization.</td>
<td>8</td>
<td>16</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>1.9310</td>
</tr>
<tr>
<td>All the elements in the budget reflect the transactions of the organization.</td>
<td>14</td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.5172</td>
</tr>
<tr>
<td>There are major variations experienced between the planned and the implemented budget in the organization.</td>
<td>10</td>
<td>16</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>1.7586</td>
</tr>
<tr>
<td>There have been changes in the budget for the last 12 months.</td>
<td>17</td>
<td>10</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1.4828</td>
</tr>
</tbody>
</table>
The study sought to know the respondents rating of the extent to which there is variance between planned budget and the implemented budgets. From the results in table above the study found that majority of the respondents rated that there have been changes in the budget for the last 12 months to a very great extent as shown by mean of 1.4828. Those rated to great extent were all the elements in the budget reflect the transactions of the organization as shown by mean of 1.5172, they incur a lot of errors in the budget as shown by mean of 1.6207, there are major variations experienced between the planned and the implemented budget in the organization as shown by mean of 1.7586 and the proposed budget match with the implemented budget of the organization as shown by mean of 1.931. This information shows that various government parastatals were experiencing variance between planned budget and the implemented budgets to great extent.

4.4 Supplementary budgets

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>4</td>
</tr>
<tr>
<td>Two</td>
<td>12</td>
</tr>
<tr>
<td>Three</td>
<td>5</td>
</tr>
<tr>
<td>Above three</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
</tr>
</tbody>
</table>

On the number of supplementary budgets that have been submitted annually in the past 2 years in the respondents' parastatals, from the result shown in table above the study found that most of the organization as shown by 41.4% had submitted two supplementary budgets, 27.6% of the respondent indicated that their organization had submitted above three supplementary budgets, 17.2% of the respondents indicated that their organization had submitted there supplementary budgets whereas 13.8% of the respondents indicated that their organization
had submitted only one supplementary budget. This information shows that there were a lot of variance between the budget and actual cost incurred thus necessitating the need for supplementary budget. The study revealed that major factors leading to supplementary budget was variance in the budget cost and changes in cost over time due to political environment and inflation.

Table 4.4: Extent to which supplementary budgets are important in parastatals operations

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Great Extent</td>
<td>9</td>
<td>31.0</td>
</tr>
<tr>
<td>Great Extent</td>
<td>12</td>
<td>41.4</td>
</tr>
<tr>
<td>Moderate Extent</td>
<td>8</td>
<td>27.6</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The study sought to know the extent to which supplementary budgets are important in parastatals operations. From the findings as shown in the table above, the study found that majority of the respondent as shown by 41.4% indicated that supplementary budgets were important in parastatals operations to great extent, 31% of the respondent indicated that supplementary budgets were important in parastatals operations to very great extent whereas 27.6% of the respondent indicated that supplementary budgets were important in parastatals operations to moderate extent. This shows that supplementary budgets are important in parastatals operations to great extent.
### Table 4.5: Respondent rating various factors that could lead to supplementary budgets

<table>
<thead>
<tr>
<th>Factors</th>
<th>Very Great Extent</th>
<th>Great Extent</th>
<th>Moderate Extent</th>
<th>Low Extent</th>
<th>Not at all</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility in parastatals operations</td>
<td>16</td>
<td>13</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.4483</td>
</tr>
<tr>
<td>Poor planning</td>
<td>16</td>
<td>12</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1.4828</td>
</tr>
<tr>
<td>Lack of strict laws governing procurement</td>
<td>16</td>
<td>11</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1.5517</td>
</tr>
<tr>
<td>Organizational culture that does not adhere to the budget</td>
<td>18</td>
<td>10</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1.4138</td>
</tr>
<tr>
<td>Budget errors</td>
<td>12</td>
<td>13</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1.7931</td>
</tr>
</tbody>
</table>

On the respondent rating the various factors that results to supplementary budget the study found that majority of the respondent rated the following to very great extent; organizational culture that does not adhere to the budget as shown by mean of 1.4138, flexibility in parastatals operations as shown by mean of 1.4483 and Poor planning as shown by mean of 1.4828. Those factors rated to great extent as resulting to supplementary budget were Lack of strict laws governing procurement as shown by mean of 1.5517 and Budget errors as shown by mean of 1.7931. The study found that the respondents recommend that there should be strict laws governing budgeting in the parastatals so as to avoid supplementary budgets, involvement of qualified personnel in the preparation of budgets so as to reduce errors in the budgeting process and proper planning before budgeting.
CHAPTER FIVE:

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 determine the factors leading to supplementary budgets in parastatals in Kenya, to determine the significance of supplementary budgeting to parastatal operations and to establish the variation between planned budget and the implemented budgets in parastatals in Kenya

5.2 Discussions
On whether parastatals embark on the planned budget, the study found that parastatals embark on planned budget. This information shows that parastatals embark on the planned budget. The study further revealed that the key players in the budget preparation and implementation process were auditors, accountants, finance committees, board of directors and permanent Secretary in the ministry of Finance.

On whether managers have the authority to change or reallocate expenditures after the budget has been approved, the study found that managers didn’t have the authority to change or relocate the budget expenditure after the budget have been approved. This information shows that management of parastatals didn’t have ways to change or relocate the budget expenditure after the budget have been approved, and the only ways was through the supplementary budgets. On whether the budget calendar specified in the budget system (or other) law, and is it adhered to in practice, the study revealed that budget calendar is specified in the budget system law, and is it adhered to in practice.

From the findings on the extent to which there is variance between planned budget and the implemented budgets, the study found that there have been changes in the budget for the last 12 months to a very great extent. Those rated to great extent were all the elements in the budget reflect the transactions of the organization, they incur a lot of errors in the budget, there are major variations experienced between the planned and the implemented budget in
the organization and the proposed budget match with the implemented budget of the organization. This information shows that various government parastatals were experiencing variance between planned budget and the implemented budgets to great extent.

On the number of supplementary budgets have been submitted annually in the past 2 years in the respondents’ parastatals, the study found that most of the organization had submitted two supplementary budgets. This information shows that there are lot variances between the budget and actual cost incurred thus necessitating the need for supplementary budget. The study revealed that major factors leading to supplementary budget was variance in the budget cost and changes in cost over time due to political environment and inflation.

On the extent to which supplementary budgets are important in parastatals operations, the study found that supplementary budgets were important in parastatals operations to great extent. This shows that supplementary budgets are important in parastatals operations to great extent. On the respondents rating the various factors that results to supplementary budget the study found that majority of the respondents rated the following to very great extent; organizational culture that does not adhere to the budget, flexibility in parastatals operations and Poor planning. Those factors rated to great extent as resulting to supplementary budget were Lack of strict laws governing procurement and Budget errors. The study found that the respondent recommended that there should be strict laws governing budgeting in the parastatals so as to avoid supplementary budgets, involvement of qualified personnel in the preparation of budgets so as to reduce errors in the budgeting process and proper planning before budgeting.

5.3 Conclusion
From the findings the study concludes that factors leading to supplementary budgets in parastatals in Kenya were mostly as result of lot of errors in the budget which cause variance between planned budget and the implemented budgets.

The study also concludes that the significance of supplementary budgeting to parastatals operations were that it helps them achieve their specified objectives and helped them not to work under constrained resources.
The study further concludes that there were greater variation between planned budget and the implemented budgets in parastatals in Kenya which were resulting from errors and poor planning.

5.4 Recommendation
The study further recommend that there should be proper planning before budgeting and employment of qualified staff so as to reduce error in budgeting which result in variation between formulated budget and implemented budget which eventually cause the adoption of supplementary budget.
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I am an MBA student in the University of Nairobi and wish to conduct a study on the factors leading to supplementary budgets in parastatals. I wish to inform you that your parastatal was one of the selected for the study. The information and data being sought is purely for academic purposes and utmost confidentiality will be observed. I am kindly requesting for your assistance in the course of the study.

Thank you in advance.

Peter M. Gitonga.
Appendix II: Questionnaire

Section A: General Information

1. Indicate your gender below:
   Male ( )
   Female ( )

2. What is your position in the parastatal?

3. What is your total work experience?
   - Less than 1 year [ ]
   - 1 - 3 years [ ]
   - 4 - 6 years [ ]
   - 7-10 years [ ]
   - Over 10 years [ ]

4. What is your length of time in the parastatal?
   - Less than 1 year [ ]
   - 1 - 3 years [ ]
   - 4 - 6 years [ ]
   - 7-10 years [ ]
   - Over 10 years [ ]

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Section B: Budget

5. Does the parastatal embark on planned budgets?
   
   Yes [ ]  No [ ]

6. Who are the key players of budget preparation and implementation process?

7. Do managers have the authority to change or reallocate expenditures after the budget has been approved?
   
   Yes [ ]  No [ ]

8. Is the budget calendar specified in the budget system (or other) law, and is it adhered to in practice?
   
   Yes [ ]  No [ ]

9. To what extent is the variance between planned budget and the implemented budgets. Kindly tick the extent to which you agree with the statements below.

<table>
<thead>
<tr>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>The proposed budget match with the implemented budget of the</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Very Great Extent</th>
<th>Great Extent</th>
<th>Moderate Extent</th>
<th>Low Extent</th>
<th>Not at all</th>
</tr>
</thead>
</table>
All the elements in the budget reflect the transactions of the organization.

There are major variations experienced between the planned and the implemented budget in the organization.

There have been changes in the budget for the last 12 months.

We incur a lot of errors in the budget

### Section C: Supplementary budgets

11. How many supplementary budgets have been submitted annually in the past 2 years?

- One [ ]
- Two [ ]
- Three [ ]
- Above three [ ]

12. What have been the major factors leading to supplementary budgets?

13. To which extent are supplementary budgets important in parastatal operations?

- 5 – Very Great Extent [ ]
- 4 – Great Extent [ ]
- 3 – Moderate Extent [ ]
14. Kindly rate the following factors that could lead to supplementary budgets.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Very Great Extent</th>
<th>Great Extent</th>
<th>Moderate Extent</th>
<th>Low Extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility in parastatal operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of strict laws governing procurement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational culture that does not adhere to the budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget errors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. Kindly indicate any other comment that you think is useful on supplementary budgets in parastatals in Kenya

..............................

..............................

Thank you for your participation and co-operation.
Appendix III: List of Parastatals in Kenya

1. Coast Development Authority
2. Ewaso Ng’iro North Development Authority
3. Kerio Valley Development Authority
4. Ewaso Ng’iro South Development Authority
5. Tana and Athi Rivers Development Authority
6. Lake Basin Development Authority
7. Kenya Bureau of Standards
8. Kenya Industrial Estates
9. Industrial Development Bank
10. Industrial & Commercial Development Corporation
11. Kenya Wines Agencies Ltd
12. Kenya National Trading Corporation
13. Export Promotion Council
14. Investment Promotion Authority
15. Kenya Industrial Research & Development Institute
17. Export Processing Zones Authority
18. Kenya Industrial Property Institute
19. Kenya Tourism Board
20. Catering Tourism and Training Development Levy Trustees
21. Kenya Tourism Development Corporation
22. Bomas of Kenya Ltd
23. Kenya Utalii College
24. Kenya Broadcasting Corporation
25. Kenya Wildlife Service
26. Kenya Forestry Service
27. National Environmental Management Authority
28. National Water Conservation and Pipeline Corporation
29. Water Resource Management Authority
30. Water Services Regulatory Board
31. Nairobi Water Services Board
32. Nyayo Tea Zones Development Corporation
33. Nzoia Sugar Company Ltd
34. South Nyanza Sugar Company Ltd
35. Kenya Sugar Board
36. Kenya Sisal Board
37. Pyrethrum Board of Kenya
38. Agriculture Finance Corporation
39. Chemelil Sugar Company ltd
40. National Cereals and Produce Board
41. Horticultural Crops Development Authority
42. Kenya Agricultural Research Institute
43. Kenya Dairy Board
44. Kenya Marine & Fisheries Research Institute
45. Kenya Plant Health Inspectorate Services
46. National Irrigation Board
47. Pest Control Products Board
48. Coffee Research Foundation
49. Agriculture Development Corporation
50. Kenya Seed Company Ltd
51. Agro-Chemical & Food Company Ltd
52. Tea Research Foundation
53. Tea Board of Kenya
54. Coffee Board of Kenya
55. Kenya Meat Commission
56. Jomo Kenyatta University of Agriculture and Technology
57. Jomo Kenyatta Foundation
58. Kenya Literature Bureau
59. Kenya National Examinations Council
60. Higher Education Loans Board
61. Moi University
62. Kenyatta University
63. Egerton University
64. Maseno University
65. Masinde Muririo University
66. University of Nairobi
67. Kenya National Library Service
68. Sports Stadia Management Board
69. National Hospital Insurance Fund
70. Kenyatta National Hospital
71. Moi Teaching and Referral Hospital
72. Kenya Medical Research Institute
73. Kenya Medical Supplies Agency
74. Kenya Railways Corporation
75. Kenya Ports Authority
76. Kenya Airports Authority
77. Kenya Ferry Services Ltd
78. Kenya Civil Aviation Authority
79. Communications Commission of Kenya
80. Postal Corporation of Kenya
81. Safaricom Kenya Ltd
82. Kenya College of Communications & Technology
83. Kenya National Shipping Line
84. Kenya Post Office Savings Bank
85. Capital Markets Authority
86. Consolidated Bank of Kenya
87. National Bank of Kenya
88. Kenya Re Insurance Corporation
89. Kenya National Assurance Company
90. Kenya Revenue Authority
91. Retirement Benefits Authority
92. Kenya Roads Board
93. Kenya Rural Roads Authority
94. Kenya Urban Roads Authority
95. Kenya Highways Authority
96. Energy Regulatory Board
97. Kenya Electricity Generating Company
98. Kenya Pipeline Company Ltd
99. National Oil Corporation
100. Kenya Power & Lighting Company Ltd
101. Kenya Energy Transmission Authority