THE RELATIONSHIP BETWEEN BUDGETARY CONTROL AND FINANCIAL PERFORMANCE OF STATE CORPORATIONS IN KENYA

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DECLARATION

I declare that this research project is my original work and has not been presented for award of degree in any other University.

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This research project has been submitted for examination with our approval as University supervisors.

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ABSTRACT

The importance of financial stability in enabling an organization to function efficiently and maximize the potential for service delivery cannot be underestimated. The quest for better service delivery under new public management in public organizations in Kenya necessitates the need for public organizations to have proper financial standing in order to run operations and motivate workers through better remuneration as well as improved working conditions. It is however disheartening that despite many measures undertaken to examine financial performance issues in public organizations, problems related to financial performance such as workers strikes due to unmet salary demands as well as poor working conditions continues to be witnessed. A scan through literature on factors affecting financial performance reveal that gaps remain on the influence of budgetary control on financial performance of public institutions. This study therefore sought to investigate the relationship between budgetary controls and financial performance of state corporations in Kenya. The study sought to accomplish the following objectives; determine the salient features of budgetary controls in state corporations, establish the human factors within budgetary controls, establish the process of budgetary control in public organizations, and determine the challenges affecting budgetary control. A descriptive survey design was used to gather data from the state corporation's managers and officers of the sampled state corporations. Stratified random and systematic sampling was used to select 14 corporations out of 138 to participate in the study. Purposive sampling was used to select 42; corporate services manager, finance manager and budget officer from each corporation to participate in the study. A questionnaire, whose content validity was checked through an expertise opinion and reliability through test pre-test methods, was used to gather information. Data analysis was done qualitatively and quantitatively to generate statistical parameters such as mean, standard deviation. The relationship between budgetary control and financial performance was undertaken through carrying out a correlation analysis of the dependent and independent variables. This was done with help of Statistical package for Social Sciences (SPSS). Discussions of the results were made based on the research objectives, then conclusions and recommendations drawn. Findings indicated that a positive relationship existed between budgetary control and financial performance of state corporations. Budgetary features reflect ability to predict financial milestones of organizations. Human factors within budgetary controls has to do with managerial commitment, employees motivation, employee training and competence as well as the attitude between managers and other employees towards the budget process. Budgetary control process as positive influence on financial performance of state corporations. It influences the financial objectives, the allocation of funds as well as investment ventures that organization undertakes. It is a process prone to political influence whose implications can spiral to financial performance. Budgetary controls are prone to challenges with may marred effective achievement of budgetary objectives. The study recommended sensitization among management and employees of state parastatal on the importance of budgetary controls in enhancing financial performance, avoidance of political interference in the budgetary process and use of budgets not only be used as tools for management and indicators of management, they should also be viewed as practical tools within which organizations should used to enhance their financial goals. Further study should be undertaken on factors affecting employees and management commitment to organizational budgets.