Budgetary Control as a Measure of Financial Performance of State Corporations in Kenya

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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. Critique of literature on factors affecting financial performance reveal that gaps remain on the influence of budgetary control on financial performance of public institutions. This study sought to investigate the relationship between budgetary controls and financial performance of state corporations in Kenya. The study sought to 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 of the sampled state corporations. 14 corporations were selected from the 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. Findings indicate that a positive significant relationship exists between budgetary control and financial performance of state corporations. Budgetary features reflect ability to predict financial milestones of organizations. Human factors within budgetary controls thus managerial commitment, employees' motivation, employee training, competence as well as the attitude affect the budget control process. Budgetary control process exhibited a positive significant influence on financial performance of state corporations through influence on financial objectives, the allocation of funds as well as investment ventures that organization undertakes. The study recommends sensitization of management and employees of state corporations on the importance of budgetary controls in enhancing financial performance, avoidance of political interference in the budgetary process and use of budgets as tools for management efficiency.

Key words: Budgetary control, budgetary process, financial performance, state corporations

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1.1 Background information

Many developing countries in Africa have engaged in detailed planning exercises of various types in the period after independence and this has resulted in a wide range of literature on planning. Little attention was paid to budgetary controls although this is generally recognized as the main instrument for allocating resources to specific recurrent and development activities. In recent years, however, budget systems have received more attention and literature on public expenditure management has become more common. The budget is increasingly recognized as the key tool for economic management (Kiringai, 2002). It is nevertheless also recognized that a country can have a sound budget and financial system and still fail to achieve its intended targets. This suggests that the rules of the game by which the budget is formulated and implemented are equally important and that they do influence outcomes (Schick, 1999). This recognition has led to a series of budget reform systems that have a broader focus on public expenditure management. Budget reforms have been attempted in Kenya from as far back as the early 1970s but the results have not been encouraging. In recent years, a key recommendation has been to shift the focus from the annual budget to a Medium-Term Expenditure Framework approach to budgeting. Kenya adopted the MTEF approach in 1999 and implemented it for the first time in the budget in June 2000 (Kiringai,2002). According to Kiringai (2002) the goals of of adopting the MTEF approach was to achieve Fiscal discipline - expenditure by line agencies must adhere to hard budget ceilings in order to remain within aggregate resource constraints. Allocative efficiency-expenditure allocation should address national development priorities and Operational (technical) efficiency- public expenditure should achieve explicit outputs at minimum cost by applying performance targets of output relative to inputs.

These goals however seem far from being met as public orgarnizations in Kenya continue to face finance related challenges linked to budgetary controls . This has been evidenced by striking of employees as a result of unmet salary demands and poor working environment. An example of such incidences reported in Kenya include doctors strike, Dixon (2011) in the health sector and lectures strike in the education sector reported by (Standard Team ,2011). This situation presents a worrying concern as the problems seem to spiral among many other public orgarnizations. It seems that many public institutions lack enough finances to faciliate adequate remuneration to workers and provide efficiency in service delivery. While there has been attempts to address financial performance challenges in public institutions , there is hardly any concrete study that has adressed the relationship between budgetary control and financial performance of state corportations. A study by public oversight authority recommended a critical assessment on role of budgetary controls in Kenya's public orgraniations. According to Surajkumar (2011) a budget is based on estimates, it may or may not be true. It is not substitute of management because, the efficiency and utility of the budgetary system depends on the skill and experience of the management. It cannot be executed automatically because continuous efforts are necessary for the execution of the budget. This makes orgarnizational managers to focus more on management issues than on budgetary control .

The need for accountability , and efficiency of service delivery in public orgranizations across Africa and in Kenya , put's public organizations at the fore front in establishment of control systems.Most of the public sector reform programmes that have taken place in developing countries during the 21st century were introduced as part of the Structural Adjustment Programmes (SAPs) of the World Bank in the 1980s. However, most of the more recent reforms, under the influence of the New Public Management (NPM), have been driven by a combination of economic, social, political and technological factors, which have triggered the quest for efficiency and for ways to cut the cost of delivering public services. Additional factors, particularly for Africa, include lending conditionalities and the increasing emphasis on good governance. With budgetary control systems being at the center of increasing orgarnizational efficiency and controlling costs , then the need to examine the role of the system in orgarnization's financial performance is of paramount importance .

This study sought to examine the effects of budgetary control systems on orgranizations financial peformance in Kenya with reference to state corporations in Kenya

1.1.1 Structure of Public institutions in Kenya

According to Dehn (2002), most public sectors have multiple tier structures with different tasks. In most cases, tasks and interests at each tier of organizational structure of public sector may conflict with each other from the viewpoint of limited resources and finite time, and various stakeholders may also have conflicting interests. At the same time, the outputs of public service agencies are often difficult to measure and systematic information is rarely available about specific inputs and outputs of service delivery, particularly in developing countries. In Kenya, the public sector consists of the central government, local authorities, state-owned enterprises and extra-budgetary institutions. The government structure can be split into two namely, administrative and economic structures. The administrative structure is exemplified by the provincial administration. Here, the government links to the grassroots or village level through Provincial Commissioners, District Commissioners and District Officers. The District Officers complete the chain through their link to Chiefs and Assistant Chiefs. The economic structure on the other hand is more complex than the administrative one. This comprises ministry headquarters at the top with provincial departmental heads and district departmental heads at the province and district levels, respectively. These links to the lowest levels through field officers like extension workers, hospital workers and teachers. The provincial departmental heads mainly provide an operational link to the districts. Not many projects and programs are implemented at the provincial level. Implementation mainly takes place at the district level. The ministry headquarters have a second line of service provision to the people through state-owned enterprises (state corporations). Funds for service provision and budget implementation can therefore be channeled to the targeted areas through the ministry headquarters, through the district offices, or through state corporations as grants. The process through which funds flow from Treasury to the facilities where service provision. State corporations which form the second line of service provision to people and act as income generating enterprises for government form the focus for this study.

1.2 Statement of the Reseach Problem

Despite the introduction of planning systems after attaining independence in Kenya, very little attention has been given to budgetary controls as a tool for achieving plan targets (Kiringai,2002).The implementation of Medium-Term Expenditure Framework approach budgetary control system requires institutional arrangements that provide correct incentives and assist in balancing priorities with affordability. It has however proved to be practically difficult to establish suitable institutions and sustain them over time especially due to perceived low financial standing of the public sector (World Bank ,2004). From the foregoing background information it’s evident that,the need for accountability , and efficiency of service delivery has been faced by financial challenges that according to Dixon,(2011) has led to spiral of strikes among workers due to unmet salary demands. However there is scanty systematically documented information where the relationship between budgetary control system and financial performance are clearly outlined . The literature reviewed largely reveal that Kenya has made attempts to adopt budgetary reforms seeking to address resource constraints ,national development priorities, and operatioal efficiency ,but a gap remain on the influence of the budgetary controls on the financial performance of state corporations This study therefore sought to investigate the relationship between budgetary control and financial performance of state corporations in Kenya, Specifically aimed to:

i. determine the relationship between salient features of budgetary controls and financial performance of state corporations in Kenya
ii. establish the factors affecting budgetary control systems and financial performance of state corporations in Kenya

iii. establish the relationship between budgetary process and financial performance indicators of state corporations in Kenya
iv. determine the relationship between challenges affecting budgetary controls in and financial performance state corporations in Kenya

1.3 Hypothesis

Using the model developed on section ..... of this research project, it was hypothesised that

i. $\beta_1 = \beta_2 = \beta_3 = \beta_4 =$ Zero. Meaning there is no relationship between the variables
ii. β_1, $\beta 2$, $\beta 3$, and β_4 are not equal to Zero or at least one of them is not equal to Zero

1.4 Theoretical framework

This study was based on the budget theory by Henry C Adams (1985) which explains the social motivation behind governement budgeting. “Budget” and “Budgeting” are concepts traceable to the bible days, precisely the days of Joseph in Egypt. It was reported that nothing was given out of the treasure without a written order. History has it that Joseph budgeted and stored grains which lasted the Egyptians throughout the seven years of famine. Budgets were first introduced in the 1920s as a tool to manage costs and cashflows in large industrial organizations (Bartle , 2001). The emergence of scientific management philosophy however laid emphasis on detailed information as a basis for taking decisions thus leading to tremendous development of management accounting and budgeting techniques (Bartle, 2008). At early stage of development, budgeting was concerned with preparing and presenting credible information to legitimize accountability and to permit correct performance evaluation and consequently, rewards (Hindereth, 2002), However, over the years, the function and focus of budgeting has shifted considerably as business organization became more complex and their environment become dynamic.

Bartle (2008) indicates that budgets today provide a focus for the organization, aid in the coordination of activities and facilitates control. Through budgeting, at both management level and operation level looks at the future and lays down what has to be achieved. Control checks whether the plans are being realized and put into effect corrective measures, where deviation or short-fall is occurring (Bartle, 2001). Bartle emphasized that without effective controls, an enterprise was at the mercy of internal and external forces who can disrupt its efficiency, and be unaware; such enterprise will not be able to combat such forces. When a budgeting and control system is in use, budgets are established which set out in financial terms, the responsibility of managers in relation to the requirement of the overall policy of the company. Continuous comparison is made between the actual and budgeted results, which are intended to either secure, thorough action of managers, the objectives of policy or to even provide a basis for policy revision.

The theoretical framework gave a rationale for development of budget concept, and highlights the development of the budget concept from a tool of directing actions within an organization to a more complex managerial tool that managers would use to provide focus for organizations, set objectives and undertake performance evaluations. This framework provides a basic perspective through which the researcher viewed budgetary controls as tool for influencing organizations financial performance.

1.5 Budget control process in Kenya

According to Kirira N (2002) the government budgetary process is a deliberate and systematic attempt to allocate public resources to various ministries and departments in order to finance activities and programs within their specific mandates. The Principal law on public finance specifies procedures for realising money from consolidated fund for accounts of operating ministries. The minister of finance has an obligation under the constitution to provide parliament with drafts estimates of revenues and expenditure for approval before start of financial year.

According to GOK (2008), the national budgetary framework is composed of five level and actors. The cabinet which formulates national policies and objectives followed by planning and budgetary steering committee which consists of permanent secretaries and coordinates policies and objectives. Macroeconomic working group which makes economic forecasts and determines the resources available and sector working groups working as coordinating hubs for group of ministries whose function overlap. The MTEF secretariat and lastly line ministries and departments.

There are eight sector working groups which include; agriculture and rural development, physical infrastructure, human resource development, trade industry and tourism, public administration, public safety laws and order, national security and information technology .A typical SWG consist of a chairman, a secretary (Both from MOF) and members drawn from line ministries or department that have programs and activities in the sector. The figure below indicated actors national budgetary framework.

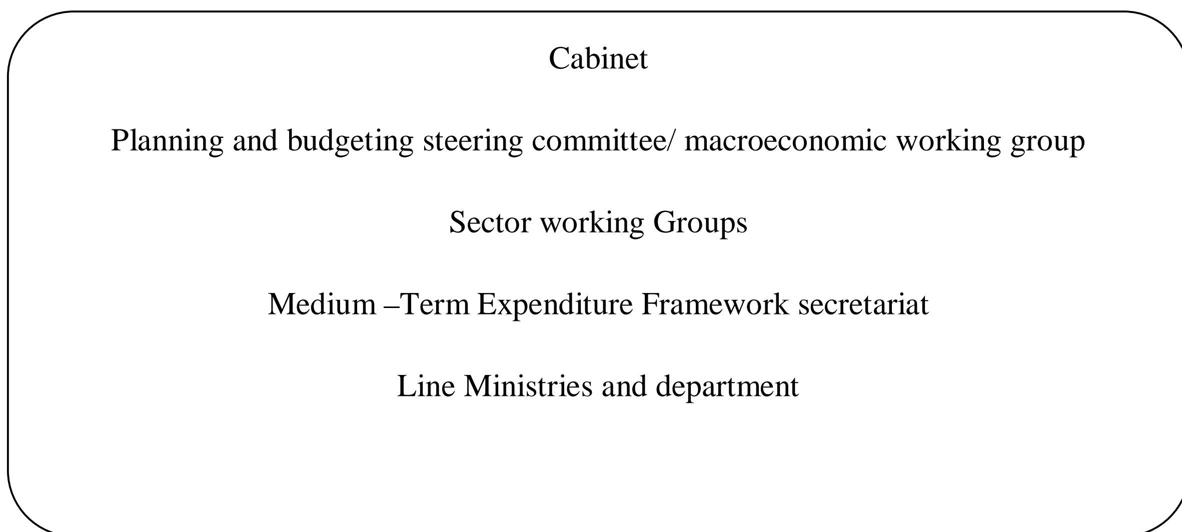


Figure: 2.1 Actors in national budgetary framework; Source MOF (2002)

According to KIPPRA (2004) , the budget process in Kenya passes through three major phases (i.e. stages): which include; budget planning and preparation, budget presentation and approval by the parliament and budget execution. In the first stage, budget planning and preparation is done by the Ministry of Planning and National Development alongside other players. The medium term expenditure framework (MTEF), the latest budgetary system in Kenya, links policy making with planning and implementation of budgeted projects in a three-year rolling framework. The actual budget preparation begins with a Treasury circular which defines the broad parameters of the budget and sets expenditure ceilings to be adhered to. This, *inter alia*, spells out the budget finalization calendar, which includes public hearings as one of the activities, and proposed estimates by government departments and state corporations. At this stage, citizens have an opportunity to generate and contribute issues of interest in the budget. For state corporations, the budget preparation is coordinated by budget officer and facilitated by finance department which is later submitted to line ministries. The proposals from the districts are then consolidated with those of the line ministries and thereafter sector negotiations for allocation of resources commence. The sector hearings are presided over by Treasury to give guidance to the participants. These sector hearings lead to bidding for resources, which are then allocated according to expenditure items in the budget.

In the second stage, the Minister for Finance presents the Budget Speech to Parliament, usually accompanied by the Appropriations Bill, the Finance Bill, the Fiscal Strategy Paper, the Statistical Annex to the budget, and the Financial Statement. The Statistical Annex indicates, among other things, the government's indebtedness to various lending institutions, both domestic and external, while the Financial Statement gives a summary of proposed revenue and expenditure measures. The budget is presented as a motion to Parliament, debated and approved, sometimes with amendments. Upon approval and the passing of the Finance and Appropriations Bills, the government is effectively authorized to raise revenue through taxes and to spend them in accordance with the approved estimates.

The final stage (stage 3) of budget process includes execution which involves implementation, supervision and audit, follows parliamentary approval. This entails the final disbursement of funds to various implementing departments and ministries. Budgetary resources are disbursed to line ministries and departments through exchequer issues. The Permanent Secretaries are then allowed to grant Authority to Incur Expenditure (AIE) to various district departmental heads to implement the government programmes at the district level.

1.6 Features of budgetary controls in public orgranizations

Budgeting is a set of procedures by which governments ration resources among claimants and control the amount each claimant spends (Kiringai, 2002). Within this context, the budget can be used for three purposes: as an instrument of economic policy; as a tool for economic management; and as an instrument for accountability. The budget is an allocation mechanism that attempts to maximize the contribution of public expenditure to national welfare (Surajkumar, 2005). This can be achieved by ensuring that the budget process successfully allocates scarce resources so that the marginal unit of expenditure achieves the same marginal benefit in each category of expenditure.

In determining resource allocations, the budget should reflect the development agenda of a country through which it influences the attainment of national growth and investment targets (Needles, 2011). The task of budget preparation is often seen as an accounting activity that concentrates on the annual recurrent budget while planning is seen as a medium-term activity. In this approach, the annual budget ensures control over aggregate expenditure and generates detailed financial statements on resource utilization but is not concerned with broad strategic development over the medium-term (Needles, 2011). (Preetabh, 2010)

The budget format and classification depends on the system adopted in each country (Nafula, 2004). The *IMF Manual of Government Financial Statistics* describes both the economic and functional categories of expenditure: *Economic classification;* distinguishes between two broad categories: recurrent expenditure (including wages and salaries, other goods and services, interest payments, subsidies and transfers), and capital expenditure and net lending. This classification reflects the inherent difference between creation of capital assets and ongoing activities especially as projects give rise to additional recurrent expenditure (both to service and maintain the asset) once they are completed.

1.7 Factors affecting financial performance

Financial performance describes a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It is also a general measure of a firms overall financial health over a given period of time and thus can be used to compare firms across the same industries or sectors in aggregation. The importance of financial stability according to Anderson (2011) ranges from enabling an orgarnization to have sufficienct resource for quality service delivery, maximising the potential of service delivery , enhancing the ability to pay staff, vendors and creditors on time and maintainance of good credit risk . This makes financial peformance an important area of concern that has attracted the attention of researchers, orgarnizational managers, government and the public at large .

In an attemmpt to address the critical issues affecting financial performance , various authors have had documentation on factors affecting financial performance . A study carried out by Skandalis (2008) examined the effect of export activity, location, size and index for management competence on firms financial performance. Another study by Skandalis, (2010) examined the effects of foreign direct investment and openess in developing country's on firms financial performance.The study focussed on the extent to which firms in developing country's engage or merge foreign investors in their company operations and how this affected orgarnizations financial performance . Ashok (2009) examined the effects of farm's operator and household characteristics along with farm type and regional location of the farm and their effect on financial performance of new and beginning farmer and ranchers. Studies related to factors affecting financial performance by public orgarnizations were undertaken by (Aiken, 2008). Aiken looked at the performance factors motivation, privitization of public orgarnizations, in which he established that public orgarmizations lacked efficiency in development of management systems that could facilitate effective service delivery .

This was because profit making was not mainly their primary goal and therefore financial peformance was undertaken for the sake of accountability and not for the benefits associated with the measurement. While financial performance is an important tool in measuring an orgarnizations overall performance, it is evident that studies covered have not been exhaustive enough in addressing the factors affecting financial performance. One of the factors given little emphasis on the extent to which it affects financial performance is budgetary control which forms the main focus for this study. Huselid (2005) did a comprehensive evaluation of the links between systems of high performance work practicces and firms financial performance. Results based on a national sample analysis indicated that these practices had economically and statistically significant impact on both immediate employee outcomes (turnover and productivity) and short and long forms of measures of corporate financial performance. Webster (2001) notes that important management fuctions such as communication, determination of corporate goals and objectives, resource allocation, appraising of performance functions and financial performance have been found to have positive relations with budgetary controls in place.

1.8 Benefits of budgetary controls

According to Scarlett, (2008), budgetary controls refer to the principles, procedures and practices of achieving given objectives through budgets. The budgetary control system helps in fixing the goals for the organization as a whole and concerted efforts made for its achievements. It enables economies in the enterprise. Preetabh,(2010), highlighted the benefits of budgetary control as profit maximization; a budgetary control aims at maximization of profits or an organization through, proper planning and co-ordination of different functions, proper control over various capital and revenue expenditures and putting resources into best use. Coordination; achieved through working of different departments and sectors. Waren,(2011) noted that within an orgranization , differenbt departments have a bearing on one another, this therefore makes cordination of variours excecutive and subordinates necessary in achieving of budgetary targets. Other budgeraty benefits as indicated by preetabh (2010) include ; Specific time aims; the plans, policies and goals are decided by the top management. All efforts are put together to reach the common goal of the organization. Every department is given a target to be achieved. The efforts are directed towards achieving come specific aims. If there is no definite aim then the efforts will be wasted in pursuing different aims. As a tool for measuring performance, budgetary controls provide comparisons between the budget targets and actual targets and deviation determined; performance of each department is reported to the top management which enables introduction of management by exception

Margah (2005) assert that bugdgetary controls are important tools for a county's economy This is because it allows planning for expenditure thus facilitating systematic spending . Finances are put into optimum use , extending the benefits to industry and national economy .

This reduces wastage of national resources . A budgetary control could help in determination of orgranizational weakenesses. According to Merika, (2008), the deviations in budgeted and actula performance will anable the determination of weak spots. This anables an orgranization to cincentrate on those aspects where performance is less than stipulated . The management moreover takes a corrective action measures whenever there is a discripancy in perfomance. By fixing targets for the employees, they are made conscious of their responsibility. Everybody knows what he is expected to do and he continues with his work uninterrupted.

1.9 Human factors in budgetary controls

Human factors within budgetary controls may revolve around the the degree to which orgarnizations top management accepts the budget program as a vital part of company's activities. It can also be viewed in the context within with orgarnizatinal management uses budgeted data .

According to Perrin, (2012), if a budgetary control program is to be successful, it must have complete acceptance and support of the persons who occupy key management positions . If lower or middle level management personnel sense that top management is lukewardm about budgetary controls, or if they sense that the top managemet simply tolerate budget as a necessary evil, then their own attitude will reflect similar lack of enthusian. Perrin further notes that budget is hardwork and if top management is not enthusiastic and commited to budget program, then it is unlikely that anyone in the orgarnization waseither .Egan (2007) commented that in the adminstration of a budgetary control program, it is particulary important that the top management does not use budget as a club to pressure employees or as way to blame someone if something goes wrong . He further asserted that using budgets in such negative ways will breed hostility, tension , and mistrust rather than greater cooperation and productivity. Reid (2002) critically evaluated the effect of employee participation is budget participate in target setting in an effort to increase probability of organizations goals being achieved .In so doing he considered some theories of motivation such as Maslovs, equity and expectancy theories. He concluded that participation of employees did not have overall effect on perfect budgeting system. *This contradicts the opinion of prior studies examined and thus creates a need to clarify through this study the relationship between human factors in budgetary control systems and financial performance*.

2.3.4 Budgetary control process and financial performance of state corporations

According to Ashok (2009) financial performance is subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term (financial performance) measure's firm's general financial health over a given period of time and can be used to compare similar firms. Different methods used to measure financial performance as indicated by Needles, (2011) include; Profitability – return on investment (ROI), earnings before interest and tax (EBIT), gross profit margins. Growth - market share growth, Sales Growth. Efficiency – return on sales (ROS), return on equity (ROE). Among the indicators of an effective budget is the process undertaken before realizing the overal budgetary control system to be used in an orgarnization. Ghosh (2005) outlines four steps that is undertaken during development of a budgetary control system. This include; Setting up plans and budgets for each functional area, like production, sales, purchase, personnel etc as indicated in the orgarnizational chart, measuring and recording actual performance and measuring the deviations or variance, comparing the actual performance with planned performance and measuring deviations and indentifying the person / function responsible , taking corrective action and ensuring that deviation do not arise in future. According to Ghosh (2005) the comparison of actual performance with plans may indicate the need to change policies. It is however unclear the extent to which orgarnizations undertake policy changes promted as a corrective as indicated by a budgetary control process. Waren (2011) presented the purpose of budgetary control as planning, cordination, responsibility and performance evaluation.Of particular relevance to this study is performance evaluation in relation to financial performance .

According to Ghosh, (2005) a budget presents a commitment by manager the superior. It therefore presents a benchmark against actual performance which is an excellent starting point to performance appraisal .

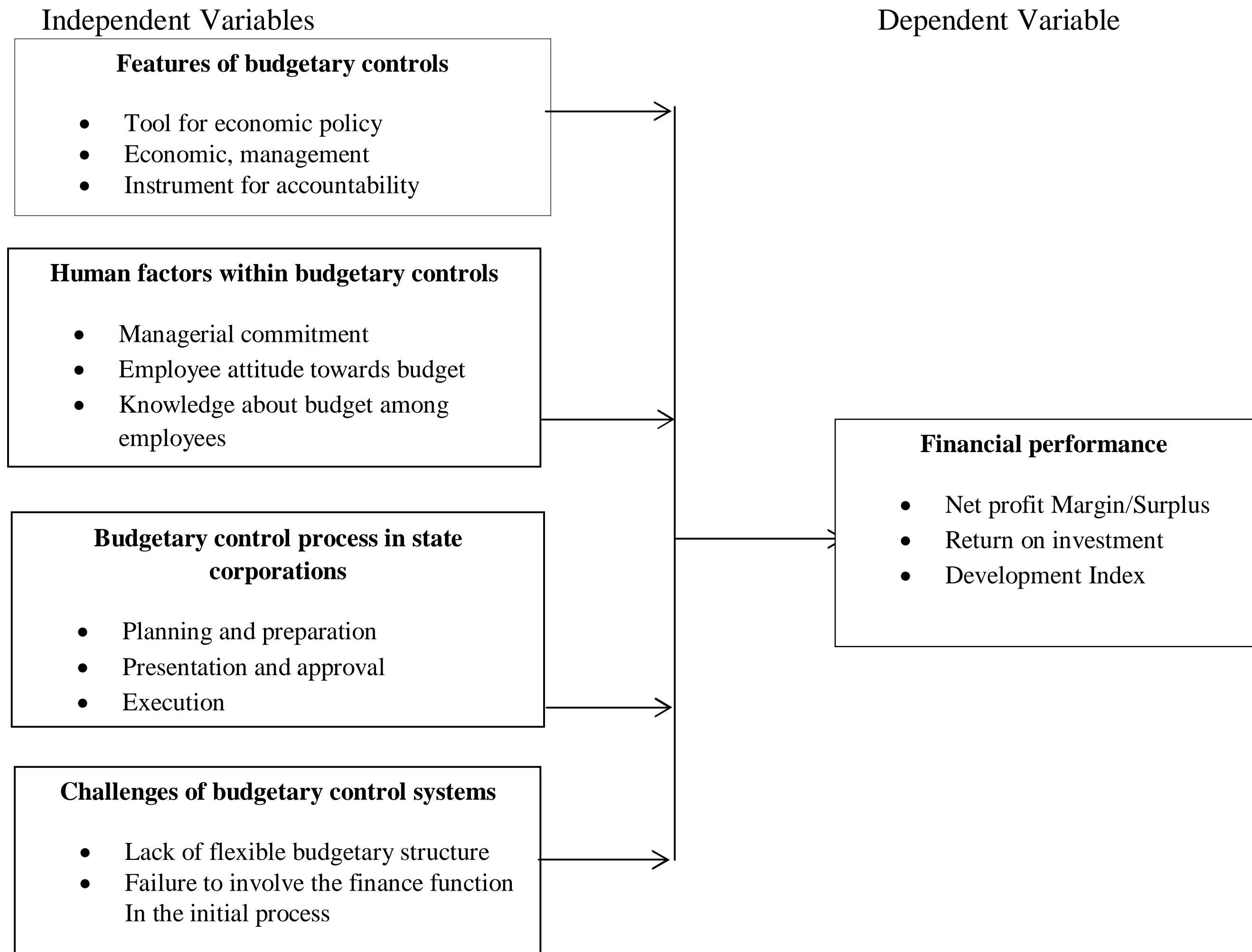
2.3.6 Challenges affecting budgetary control in state corporations

Existing literature has evidently revealed that budgets controls have myriad of challenges that can at times be a hindrance towards achieving the overall effects of budgetary control. According to Margah (2005) many of the increasing problems experienced by orgarnizations attempting to manage their budgetary control procedures have been laid at the door of the budget , presenting a fixed (Preset and unchanging target). In a world of constant change and uncertaininty, Margah, notes that a budget can become outdated during the budget year or even before it begins thus rendering little or no value to its intented purpose. Present day economic environment demands that organization adapt new practices. Given the new competitive realities, there is need for management to embrace flexible and adaptable budgetary planning and control system which has the ability to quickly respond to environmental changes and complexities.

A good budgetary planning and control system must involve not only an analysis of capital allocation requests, but also an analysis of all the capital needed to generate information such as market research, prior implementing budgeted activities. Neely (2001) carried out a study on weakenesses of budgetary controls. The study was primariry based on review of emperical literature from similar studies. Neely's finding mantained twelve cited weaknesses of budgetary control systems which poses a challenges in the use of the systems. These weaknesses included ; restraining of responsiveness and acting as barriers to change, budgdet are rarely strategically focused and often contradictory , they add little value especially given the time required to prepare them, they concentrate on cost reduction and not value addition, they strengthen vertical command and control, they do not reflect emerging network structure that orgarnizations are adopting, they encourage gaming and perverse behaviours, they reinforce departmental barries rather than ecourage knowledge sharing , and make people feel undervalued. Prendergust (2002) claimed that budgeting for planning and control purposes have a number of problems. First a lot of focussing is involved in the budgeting process, the uncertainities in business environment may provide a challenge in bringing out reliable and accurate predications and could bring meaningful effect to an orgraniation.

A study on challenges facing budgetary control systems in developed country's by OECD, (2007) showed that budgets fail due to reasons such as bugdets used as pressure tool , central decision making process, lack of job security and managers' lack of training. Nafula (2004) noted that public insitutions in Kenya are faced with problems related to efficiency in financial transfers from districts to the facility and this affects the execution of the budget goals. Nafula, did not however indicate the overall effect of intefered bubdget excecution process on financial performance . According to McMillan (2001) most often, capital budgeting and expense budgeting are distinct processes. For, instance, organizations that do practice capital budgeting make assumptions about future cash flows that are dependent on certain advertising and sales promotion outlays. However, these outlays are typically covered by the expense budget. Boquist (2008) noted that even in organizations in which the determination of the expense request is tied at the outset of capital request, the people approving the two requests do not necessarily try to ensure consistency between the two budgets

2.4 Conceptual framework



In this study the researcher interelates budgetary control that an orgranization put's in place with financial performance.The financial peformance of an orgranization in this study was defined as the subjective measure of how well a firm can use assets from its primary mode of business and generate revenue (Powers,2010). The measures of financial performance according to Venanci, (2012) include company's total earnings or profit , share value and growth index. Similary, Needles (2011) highlights non financial and financial measures of financial performance . In his classification , return on investment, net income as a percentage of sales as well as cost of poor quality as a percentage of sales is grouped as financial measures of an orgarnization's financial performance . Non finanancial measures of financial performance according to his classification include number of times an activity occurs and the time taken to perform a task. For the purpose of this study , financial performnance was examined through financial measures which will include ; net profit margin/surplus , return on investment and the development index.

2.1 Research design

The researcher used a descriptive survey design to examine the effect of budgetary control systems on financial performance of state corporations. A descriptive survey was suitable in this study owing the fact that several public organizations was sampled.

According to Kothari (2004) a descriptive study is concerned with finding what, where and how of a phenomenon. Descriptive surveys are used to develop a snapshot of a particular phenomenon of interest since they usually involve large samples which are characteristic of this study.

2.2 Target population

The target population for this study was state corporations in Kenya. According to Ndumbai, (2010), there are one hundred and thirty eight (138) state corporations in Kenya. The corporations were grouped into three categories based on performance rating of various government agencies, categorised as excellent, good and fair on their performance (Ndumbai, 2010)

2.3 Sampling of state corporations

The researcher used stratified sampling method to select the state corporations to participate in the study.This is because there was a need to represent all the three categories of state corporations mentioned above. The method enabled the researcher to improve the accuracy /efficiency of estimation and focus on highly performing, moderately performing as well as less performing subgroups of state corporations. The corporations will thus be grouped into excellent, good and fair performing. A sampling of 10% was then selected from each strata as per Babbie (2005), and Kothari (2004) recommendations 10 % for sample size. After determination of the required sample size for each category, systematic random sampling was used to select the specific state corporations to participate in the study. This was done by determining the sampling interval i.e. the Kth element in each of the three categories. This was done using the formula

K = N /n where n is the sample and N is the population size: For excellently performing category of state corporations K = 63/6= 10: Thus in the randomised list of excellent performing state corporation, a corporation to participate in the study was picked after an interval of 10 corporations

For those categorised as good in their performance, K= 70/7 = 10: A corporation was picked after an interval of 10 corporations until 7 of corporations have been picked. One corporation was picked in the category of fair performing corporation which are only 4 in the population. This generated a total of 14 state corporations for the study.

2.4 Sampling of the respondents and data collection

After the organizations to participate in the study were identified, purposive sampling was used to select the employees in the finance department as well as those in management positions to participate in the study. The use of purposive sampling enabled the researcher to gather information from respondents with sufficient understanding on budgetary control systems due to the role they play in developing, monitoring and ensuring the implementation of budgetary control systems in an organization. Each corporation provided a corporate services manager, a finance manager as well as budget officer to respond to research instrument. The researcher used both secondary and primary data to accomplish the research objectives. Primary data was collected through questionnaires administered to corporate managers and finance officers in the sampled state corporations. With the help of a research assistant, the researcher issued the questionnaire to the targeted respondents to fill. He also closely monitored the process and clarified any issues that arose during the answering of the questionnaire.

2.6 Data Analysis techniques

Quantitative and qualitative techniques were used to undertake data analysis. Qualitative data analysis involved explanation of information obtained from the empirical literature as well as financial reports of state corporations examined. Quantitative analysis involved use of numeric measures in establishing the scores of responses provided.

This entailed generation of descriptive statistics after data collection, estimation of population parameters from the statistics, and making of inferences based on the statistical findings, with help of Statistical Package for Social Sciences (SPSS).

3.0 Research Findings and Discussions

3.1.Response rate

The response rate for the study was 83.3%. This implied reliability of the results in terms of representing the study phenomenon. According to Mugenda (2003) response rate above 50% is adequate enough to accomplish study objectives. This study achieved a response rate above 50% hence adequate enough to establish the relationship between budgetary control and financial performance of state corporations.

3.2 Relationship between budgetary controls and financial performance

The study establishments on the relationship between budgetary control and financial performance was based on various parameters which included ; features of budgetary controls in relation to financial performance, human factors within budgetary controls and financial performance, budgetary control process and financial performance, as well as challenges of budgetary control process in relation to financial performance**.** In each of the parameters examined, respondents were asked to indicate their agreement on various assertions related to the parameter in question. The results have been discussed in the following subtopics.

3.2.1 Features of budgetary controls in relation to financial performance

Budget control has as set of defined feature of which when met are likely to have financial implications for a company. The feature of a budgetary control according to Surajkumar, (2005) is its ability to be used as an instrument of economic policy, a tool for economic management and an instrument of accountability. This study examination the features were reflected in organizations financial performance was presented in table 4.3 below.

Table 4.3 Budgetary control features and financial performance

Majority of the respondents were in agreement that the feature of budgetary control is having effect on financial performance of state corporations. Among the budgetary control feature examined in this study included; ability of budgetary control to lead into cost effective procurement which 77.8% majority agreed that it led to surplus revenue for organizations. 77.6% majority however agreed that surplus revenue was not assured through increased budgetary controls. “Fitness of budgetary control to organizations cost saves cost” this was an assertion that 68.9% majority of respondents agreed with. This could imply that budgetary controls should not only have general feature, but rather features that are organizational specific in order to meet financial objectives of the organization.

		Frequency	Mean	Std Deviation	Percentage
Budgetary control has led to cost effective procurement, thus surplus revenue	Strongly agree	5	2	0	10.0%
	Agree	25	3	1	77.8%
	Neutral	5	2	0	12.2%
Surplus revenue is not assured through increased budgetary controls	Strongly agree	5	3	0	12.1%
	Agree	25	4	1	77.6%
	Neutral	5	2	1	10.3%
Fitness of budgetary control to organization's situation saves cost	Strongly agree	5	2	0	14.8%
	Agree	25	2	0	68.9%
	Neutral	5	2	0	16.4%
Accurate budget prediction through budgetary control does not increased net profit margin	Strongly agree	5	3	0	13.5%
	Agree	25	3	1	68.5%
	Neutral	5	4	0	18.0%
Budget controls provide cash expenditure tracking and reduces operational costs	Strongly agree	5	1	0	9.2%
	Agree	25	2	1	70.8%
	Neutral	5	3	1	20.0%
Budgetary control provide an organization's with avenues to invest in income generating ventures	Strongly agree	5	2	0	17.2%
	Agree	25	2	1	68.8%
	Neutral	5	2	0	14.1%
Budgetary controls do not necessary increased employee productivity through internal motivation	Strongly agree	5	3	1	12.0%
	Agree	25	3	1	75.9%
	Neutral	5	3	1	12.0%
As management tools budgets facilitate prediction of financial milestones by the company	Strongly agree	5	2	0	11.5%
	Agree	25	3	1	75.9%
	Neutral	5	2	0	12.6%

Accurate budget predication act as a tool for measuring expected financial results of an organization against the achieved. 68.5% of the respondents were however in agreement that it did not necessarily increase the profit margin of organizations examined. This was an indication that it can have either negative or positive implication on financial performance of an organization. An organization operational cost is important in determining its financial performance. One of the budget feature examined in this study is the ability of the budgetary controls to provide cash expenditure tracking and reduce operational cost. Majority (70%) were in agreement that operation costs for their organizations were reached through budgetary controls which in turn could have a positive implication on financial performance. Financial performance is subject to returns on investments. Budgetary controls have as a tool for economic efficiency was found to provide an organization's with avenues to invest in income generating ventures as indicated by 68% of the respondents.

While budget are supposed to be tool for management and gauging of employees achievements verses the set targets , it was found from majority (75.9%) of respondents that it did not necessarily increase internal motivation among employees , an aspect that could positively or negatively affect employees performance. Budgetary control was however found to be a financial tool that facilitated prediction of financial milestones for organizations. This could imply that organizations could use budgetary controls to plan towards financial growth.

3.2.2 Human factors within budgetary control and financial performance

Budgetary controls need the inputs of the management and employees in order to accomplish intended results. The study finding on human factors within budgetary controls and financial performance was presented on table 4.4 below

Table 4.4 Human factors within budgetary control and financial performance

Human factors with budgetary controls		Frequency	Mean	Std Deviation	Percentage %
Managerial commitment to budgetary controls has not increased profitability of our organization	Strongly agree	5	4	0	17.4%
	Agree	14	3	1	37.4%
	Neutral	12	4	1	38.3%
	Disagree	4	2	0	7.0%
Complete acceptance of budget controls by management has not led to profits	Strongly agree	5	5	0	18.9%
	Agree	14	5	1	49.6%
	Neutral	12	3	0	25.2%
	Disagree	4	2	0	6.3%
Use of budgetary control to pressure employees has led to mismanagement of funds	Strongly agree	5	4	1	13.0%
	Agree	14	4	1	43.5%
	Neutral	12	4	1	31.9%
	Disagree	4	4	0	11.6%
Meaningful involvement of employees has not ensured increased productivity	Strongly agree	5	5	0	17.7%
	Agree	14	4	1	36.9%
	Neutral	12	4	1	34.0%
	Disagree	4	4	0	11.3%
Use of budgetary control to achieve organizational goals has led to increased profitability	Strongly agree	5	3	1	16.9%
	Agree	14	2	1	31.2%
	Neutral	12	3	0	41.6%
	Disagree	4	2	0	10.4%
Management values employees in budgetary controls thus increased revenue	Strongly agree	5	2	1	17.6%
	Agree	14	1	1	29.4%
	Neutral	12	2	0	29.4%
	Disagree	4	4	0	23.5%
Profitability has been affected by use of budgets to blame employees	Strongly agree	5	3	1	13.1%
	Agree	14	4	1	40.8%
	Neutral	12	4	1	33.8%
	Disagree	4	4	0	12.3%
Profitability in our organization is affected by degree of top managements preoccupation by technical aspects of the budget	Strongly agree	5	3	1	11.5%
	Agree	14	3	1	38.9%
	Neutral	12	4	1	38.9%
	Disagree	4	3	0	10.6%
Favourable cost variance is due insight and sensitivity by the administration	Strongly agree	5	2	1	12.5%
	Agree	14	3	1	41.7%
	Neutral	12	3	1	37.5%
	Disagree	4	2	0	8.3%

The findings revealed that majority (38%) of respondents were neutral on the assertion that managerial commitment to budgetary controls had not increased profitability of their organization.

This could mean that there was probability that management played a role in enhancing profitability of state corporations through budgetary controls. Though management of organization can accept the budget, it is not guaranteed that complete acceptance would lead to profits and thus consequent implication on financial performance. This was backed up by majority (49.6%) of the respondents who agreed with the assertion that complete budget acceptance among the management led to profits. Ashok (2009) noted that budget as management tools can be used as performance measures among employees. He further noted budgets can also be used by managers as a fault finding tools which may have negative implications on intended budget purpose. The study finding with regard to this concurred with Ashok's observation in the sense that 43.5% majority of the respondents agreed with the assertion that use of budgets to pressure employees has led to mismanagement of funds a situation that could lead to negative financial performance. Majority of the respondents further indicated that meaningful involvement of employees had not led to increased productivity which is an important attribute of financial performance.

Majority of respondents were not sure that using of budgetary controls to achieve organizational goals had led to increased profitability. This would imply that budgetary controls may or may not necessarily be attributed to financial performance of State Corporation. Just like any other kind of organizational policies, it is imperative for organization to consider positive involvement of employees and acknowledge their valuable contribution (Waren, (2011).The study finding on effect of human factors on budgetary controls indicated mixed opinion amongst employees on the assertion that management valued employees in budgetary controls and thus increased revenue. It was also agreeable by 40% majority of the respondents that profitability among state corporations had been affected by use of budgets to blame employees.

Ghosh (2005) notes that at times management of organizations may be focus too much on technical budgetary aspects which can affects the organizations profitability. There were equal majority of respondents who agreed and were not sure about this assertion. They could imply the importance of both the technical part of the budget as well as its ability to facilitate financial growth in an organization. It was also agreeable amongst majority of respondents that favourable variance in budget was due to insight and sensitivity of the management

3.3 Regression analysis on the relationship between budgetary controls and financial performance

The regression analysis was conducted to find, how budgetary control affected financial performance. The respondent's overall mean score on financial performance was considered the dependent variable and budgetary controls the independent variables. Thus mean aggregate scores for respondents' opinion on features of budgetary controls, human factors within budgetary controls, the process of budgetary control and challenges facing budgetary controls were regressed on the overall score for financial performance. The beta coefficients provided the relative importance various budgetary control aspects. The highest beta coefficient value of budgetary control aspect was expected to have highest influence on financial performance, while the second highest beta coefficient stands second in terms of relative significance and so on. The overall model was also statistically significant, where (R2 = .4, p<.001), the adjusted R Square value 0.450, which shows that this model has accounted for 45.0% of the variance in the dependent variable. The Regression results are shown in tables below

Table 4.7 Summary of regression model

<table>
<tr><th colspan="2">Model</th><th colspan="2">R</th><th colspan="2">R Square</th><th colspan="2">Adjusted R Square</th><th>Std. Error of the Estimate</th><th>Change Statistics</th></tr>
<tr><td colspan="2">R Square Change</td><td colspan="2">F Change</td><td colspan="2">df1</td><td colspan="2">df2</td><td colspan="2">Sig. F Change</td></tr>
<tr><td>1</td><td>.737</td><td>.405</td><td>.450</td><td>.48973</td><td>.405</td><td>48.255</td><td>5</td><td>339</td><td>.000</td></tr>
</table>

a. Predictors: (Constant), features of budgetary control, Human factors within budgetary control, process of budgetary control, challenges facing budgetary control

b. Dependent Variable: financial performance of State corporations

Table 4:8 Regression Coefficients

Model		Unstandardized Coefficients	Standardized Coefficients	t		Sig.
		B	Std. Error	Beta		
1	(Constant)	.430	.281	2.021	.050	
	Features of budgetary control	0.205	0.55	0.780	3.372	0.001
	Human factors within budgetary control	0.483	0.59	0.350	6.102	0.000
	The process of budgetary control	0.120	0.51	0.119	2.434	0.025
	Challenges facing budgetary control	0.460	0.55	0.109	2.087	0.040

Y (Financial performance) =0.430+0.205 (Features of budgetary control) +0.483 (Human factors within budgetary control) + 0.120 (The process of budgetary control) +0.460 (Challenges facing budgetary control) + €

On general aspects within budgetary controls were found to have positive influence on financial performance of state corporations. Human factors within budgetary control had the highest beta coefficient of 0.483. Other factors with high influence on financial performance included challenges faced in budgetary controls which reflected a beta coefficient of 0.460, features of budgetary control with a beta coefficient of 0.205 and the process of budgetary controls with a beta coefficient of 0.120.

3.4 Overall trend in net profit / surplus for the last 3 years

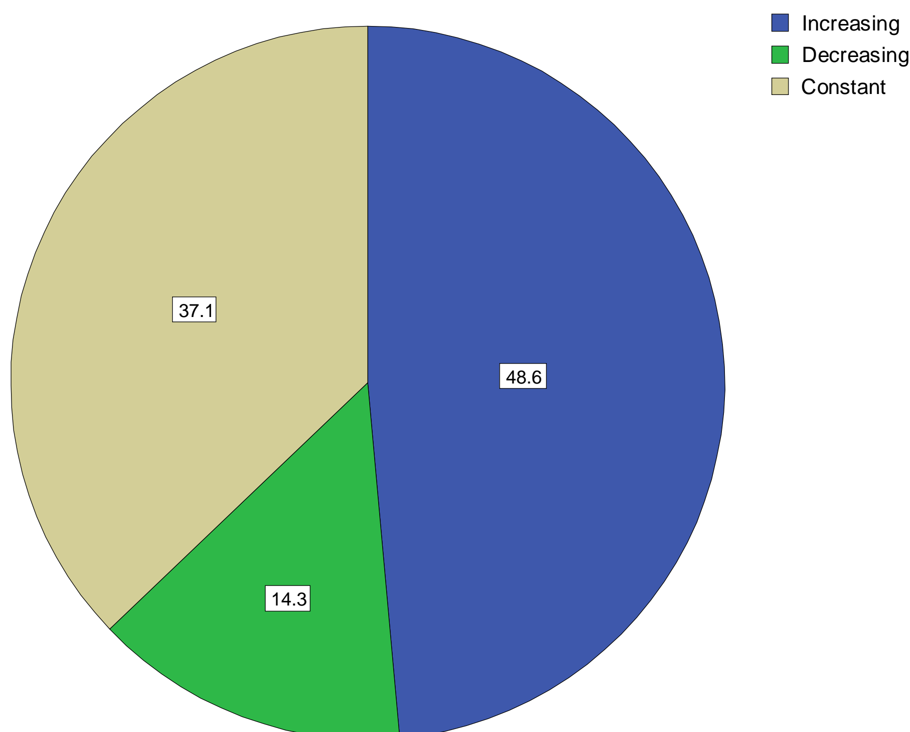


Figure 4.5: Trends net profit / surplus for the last 3 years

Respondents were asked to indicate their overall rating on the trend of financial performance in their organizations. The results indicated that 48.6% majority of the respondents said it was increasing, 14.3% said it was decreasing while 37.1% said it was constant. The 40% attributed this to budgetary controls while 60% trend was not attributed to budgetary controls.

Summary of Findings,Conclusion and Recommendations

5.1 Summary of findings

5.1.1 Background information on the respondents

The study sampled 42 respondents selected purposively from different state state corporations. The response rate for the study was 83.3%. The study findings indicated that 25.71% of the respondents were from corporate services, 48.57 % were indicated that finance managers while 27.715 were budget officers. The period of work for the respondents ranged from one to over 15 years of service. Majority (37.14%) of the respondents had worked in their respective state corporations for a period of 1-5 years.

5.1.2 Features of budgetary control and financial performance

Majority of the respondents were in agreement that the features of budgetary control had effect on financial performance of state corporations. (Y (Financial performance) =0.430+0.205 (Features of budgetary control) +0.483 (Human factors within budgetary control) + 0.120 (The process of budgetary control) +0.460 (Challenges facing budgetary control) + €).

Beta coefficient for Features of budgetary control was 0.205 in the regression results, reflecting a positive relationship. Among the budgetary control feature examined in this study included; ability of budgetary control to lead into cost effective procurement which 77.8% majority agreed that it led to surplus revenue for organizations. 77.6% majority however agreed that surplus revenue was not assured through increased budgetary controls. "Fitness of budgetary control to organizations cost saves cost" this was an assertion that 68.9% majority of respondents agreed with. This could imply that budgetary controls should not only have general feature, but rather features that are organizational specific in order to meet financial objectives of the organization. 68.5% of the respondents were in agreement that it did not necessarily increase the profit margin of organizations examined.

Majority (70%) were in agreement that operation costs for their organizations were reached through budgetary controls which in turn could have a positive implication on financial performance. Financial performance is subject to returns on investments. Budgetary controls as a tool for economic efficiency was found to provide an organization's with avenues to invest in income generating ventures as indicated by 68% of the respondents. While budgets are supposed to be tools for management and gauging of employees achievements verses the set targets, it was found from majority (75.9%) of respondents that it did not necessarily increase internal motivation among employees , an aspect that could positively or negatively affect employees performance.

5.1.3 Human factors within budgetary control and financial performance

The findings revealed that majority (38%) of respondents were neutral on the assertion that managerial commitment to budgetary controls had not increased profitability of their organization. Though management of organization can accept the budget, it is not a guaranteed that complete acceptance would lead to profits and thus consequent implication on financial performance .This was backed up by majority ((49.6%) of the respondents who agreed with the assertion that complete budget acceptance among the management led to profits .

The study finding with regard to this concurred with Ashok's observation in the sense that 43.5% majority of the respondents agreed with the assertion that use of budgets to pressure employees has led to mismanagement of funds a situation that could lead to negative financial performance.

Majority of the respondents further indicated that meaningful involvement of employees had not led to increased productivity which is an important attribute of financial performance. Majority of respondents were not sure that using of budgetary controls to achieve organizational goals had led to increased profitability. The study finding on effect of human factors on budgetary controls indicated mixed opinion amongst employees on the assertion that management valued employees in budgetary controls and thus increased revenue. It was also agreeable by 40% majority of the respondents that profitability among state corporations had been affected by use of budgets to blame employees. Ghosh (2005) notes that at times management of organizations may be focus too much on technical budgetary aspects which can affects the organizations profitability .There were equal majority of respondents who agreed and were not sure about this assertion .

5.1.4 The budgetary control process and financial performance

Majority (46.2%) of respondents agreed with the assertion that financial performance was based on budget goals in the planning stage. It was also agreeable from majority of respondents that involving all players in budget planning had connection with favourable cost variances. Respondents were not sure of the relationship financial standing of the corporation and financial policy in the budget process. This was evidence by 42.4% majority of respondents who were neutral on the assertion that link between financial policy in the budget process was determined by financial standing of the corporation. There could be indication that budgetary process did affect financial goals of the company. This was agreeable by 46% of the respondents who indicated that budget approval did not consider financial goals of the companies they worked for.46% majority of the respondents agreed with the assertion that budget allocation was based on sector priorities and not necessarily financial needs of the organization.

Budgetary process in Kenya normally passed through the parliament for members to approve of disapproves of it. This could mean that budgetary controls may at times be exposed to procedures made to address political interests and not necessary out of good faith. Majority (38%) of the respondents agreed with this by indicating that politicising of budget approval had led to unfavourable variances which could have implications on the organizations financial performance.

It was noted that the budgetary control process lacked tools for monitoring disbursed funds. 39.4% majority of respondent agreed with the assertion that lack of monitoring tool for disbursed fund has affected of our corporation. It was however agreed by 45.8% of the respondents that budgets allocated in state corporations acted as bench mark towards financial performance. Budgetary process is supposed to ensure that organization is allocated funds within which they could undertake their investment programs. 50% majority of respondents agreed with the assertion that fixed allocation of funds for all projects had improved the organizations financial performance. It was agreeable that there was a delink between budgetary control process and resource allocation which adversely affected profitability of state corporations studied.

5.1.5 Challenges of budgetary control and financial performance

Among the challenges indentified in the study was failure of budget process to focus on organizational long term goals. Majority (41.5%) of the respondents said this had led to undefined financial goals which could lead to negative financial performance. Lack of well functioning accountability framework was found to affect financial performance as revealed by 43.2% majority of respondents. Managerial commitment towards budgetary controls was found to increase operational costs and consequently the affected the organizations financial performance. The effectiveness of budgetary process was found to be derailed by lack of teamwork between the management and finance function, thus implicating on the organizations financial performance. 42.5% majority of respondents agreed with the assertion that financial performance was largely influenced by changes within the organization and was highly restricted to budgetary controls.

5.4 Policy Recommendations

There is a need to increase the level of sensitization among management and employees of state corporations on the importance of budgetary controls in enhancing financial performance. The process of budgetary control should not only consider sector needs in the planning stage but also parameters within implementing organizations in order to facilitate sound financial standing. It is important not to over subject the process of budgetary control to political scrutiny as this may divert the core purposes of a budget. Budgets should not only be used as tool for management and indicators of management, they should also be viewed as practical tools within which organizations should used to enhance their financial goals.

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