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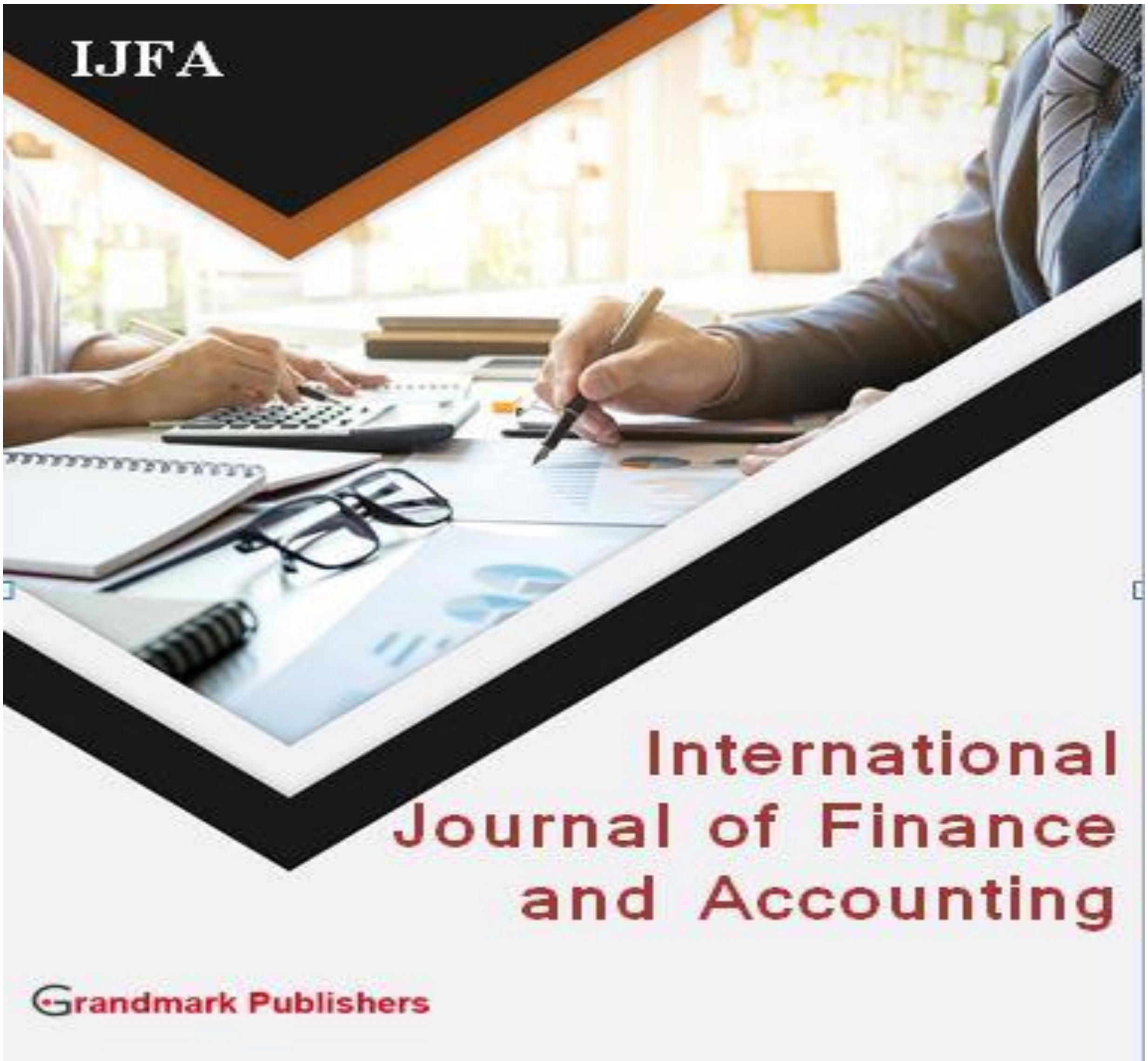

BUDGET AND BUDGETARY CONTROL SYSTEMS AS A TOOL FOR DECISION MAKING IN AN ORGANIZATION: A CASE STUDY OF KENYA PUBLIC UNIVERSITIES

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BUDGET AND BUDGETARY CONTROL SYSTEMS AS A TOOL FOR DECISION MAKING IN AN ORGANIZATION: A CASE STUDY OF KENYA PUBLIC UNIVERSITIES

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1.1 Background of the study

In economic principle, there is the general assumption that human wants are numerous but the resources to satisfy them are inadequate and there is every tendency to waste or under-utilize the inadequate resources by human factor concerned in the production of goods and services. It is imperative for organizations to produce at a minimum cost so as to continue their production cycles and make sufficient revenues for stakeholders (Amaka Nkiru Unamma, 2017).

Mbabazize and Twesige (2014) defines budget as “a financial plan summarizing the financial experience of the past, stating the current plan and projecting it over a specified period of time in future”. Hence, a budget is the blueprint of financial administration through which different operations in the field of public finance are linked. In public sector accounting, budgets refers to financial proposals, which are placed before the legislative assemblies periodically for approval and allow governments spend money for the benefit of the citizenry. Thus, it entails the entire financial operations of the government, which may form the basis of future fiscal planning for the economy.

According to Sidik (2012), budgetary control system in a multinational institution like any other business is inevitable and largely influences performance and decision making at all functions of the organization. It is an important tool used in monitoring the performance of the organization, which is done through variance analysis i.e. assessing and devising possible reasons that have caused actual results to be different from what was budgeted and taking necessary corrective actions to prevent or minimize future reoccurrence.

The scope of the budget will determine the level of operations to be carried out and proper budgetary control will aid in decision making as it tracks the level of performance of every activity and then identifying underperformed activities that may require revision or possible elimination (Mohamed, Evans and Tirimba, 2015).

In budgetary control, 4 techniques are used namely: variance analysis, responsibility accounting, adjustment of funds and zero based budgeting. Variance analysis compares actual accounting figures to determine whether the variances are favourable or unfavourable. Responsibility accounting on the other hand creates cost center, profit center and investment center which are just like departments of any organization after which all employees work on the basis of their centers, each with specific targeted performance. For the adjustment of funds technique, top management takes the decision to adjust fund from one project to other project. In the Zero based budgeting (ZBB) technique, every next year budget is made on nil bases. It can only be possible, if your estimated income will be equal to the estimated expenses.

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Studies have been done in relation to budgetary control globally: Carolyn, et al. (2007) examined the association between effects of budgetary control on performance using a sample of large US cities Financial Bonds and found that effective level of budgetary control is significantly and positively related to bond rating. Epstein and McFarlan (2011) carried out a study in Denmark on measuring efficiency and effectiveness of a nonprofit's performance, it was found that budgetary control was one of the important tools in achieving efficiency of in nonprofit making organizations in order to keep in line with the objectives of the organization, every function within the organization must meet its stated budget and thus ultimately making it possible for the objectives of the organization to be achieved. Budgetary control is therefore important as it makes this possible through coordinating and monitoring of the various functions (Abdullahi, Abubakar, Kuwata and Muhammad, 2015).

Factors responsible for variances can however be controllable or uncontrollable; management must keep close eyes on those that can be controlled and capitalize on them to minimize future variances. It is traditional for most organizations to establish a budget at the beginning of each period that guide towards meeting the objectives of the organization within the specified predetermined estimate that depends on the management of the organization (Bashuna, 2013).

Traditional budgeting has been criticized for a long time now for its inadequacy as a means of management control. We could note from the argument of Isaac, Lawal and Okoli (2015), who contend that the rapid changes in today's business environment renders a rigid approach to budgetary control obsolete. It is no longer helpful, in his opinion, to compare actual results to that forecasted anything up to 15 months previously.

Gachithi (2010) also focused on the factors that influence budget implementation in public institutions in Kenya, a case of University of Nairobi. He concluded that there is inefficiency in the budget preparation procedures and that the budget process faces a lot of challenges. He concluded that budgets are strong planning tool for the future.

1.2 Problem Statement

Since independence, planning systems have been in existence but little attention has been given to budgetary control as a tool for decision making and financial performance (Kamau et al, 2017).

Generally, budget control is used as a financial performance measure in government institutions but particularly it is not the only determinant of decision making as other factors also account to the overall achievement of its goals (Adongo and Jagongo, 2013).

Preparation of a budget is just one aspect of budgeting and implementation of the budget and is equally important to decision making (Olaye and Oladipupo, 2014). The issue is does Public universities implement the budgetary control system to their expectation?

Previous studies have shown that over 60% of business enterprises claim that they have tried using performance management service lines to carry out worldwide review of budgeting and planning as a tool for decision making. The focus was on 15 public universitiess in the USA and Europe that had adjusted their budgeting practice. Researchers also reviewed more than 100

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academic books on the subject. The results exhibited widespread discontent with the budgeting process (Bourne et al., 2005). This view was, however refuted by Kimunguyi, Memba and Njeru (2015) and Segun and Olamide (2009) who argued that budgets assist organizations in planning, control and evaluation hence satisfied with traditional budgeting.

This seminar paper therefore attempts to recollect this gap. To achieve this, the study will examine budgetary control systems used at in public universities, the effect of budgetary control on employee behavior and the relationship between budgetary control and public universities performance.

The public universities are a multinational institutions of higher learning that are involved in many types of businesses core being education and research. This makes their budgeting system complex and extremely difficult to control. Thus, the need to come up with the most cost-effective ways of distributing limited financial and non-financial resources is crucial to these institutions of higher learning. In most large organizations, overcoming this challenge could be an exercise in futility without adequate budgeting controls in place (Afonina, 2015).

From the foregoing background information, it’s evident that, the need for accountability, and efficiency of service delivery has been faced by budget and budgetary control challenges. However, there is scanty systematically documented information where the relationship between budget and budgetary control system as a tool for decision making 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 operational efficiency, but a gap remain on the influence of the budgetary controls on the managerial performance of Public Universities.

1.3.1 General objectives

The purpose of the study is to establish how the budget and budgetary control systems influences decision making in the Kenyan Public Universities.

1.3.2 Specific objectives

i. To determine financial management practices used in the Kenyan Public Universities.
ii. To examine the internal control practices used the Kenya Public Universities.
iii. To investigate the effect of budgetary control on managers’ behavior in the Kenya Public Universities.

LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Budgetary Control Theory

According to this theory, a good budgetary control system must be able to address the efficiency and effectiveness of the organization’s expenditure. A good budget is determined by the level of income of the organization (Robinson, 2009). Sawhill and Williamson (2001) argue that budgets can be used an indicator of the performance of the ruling government. It is a statement of whether they are competent in administering the organization and the national resources. It is therefore essential for the organization to understand its budgeting system and give priority to

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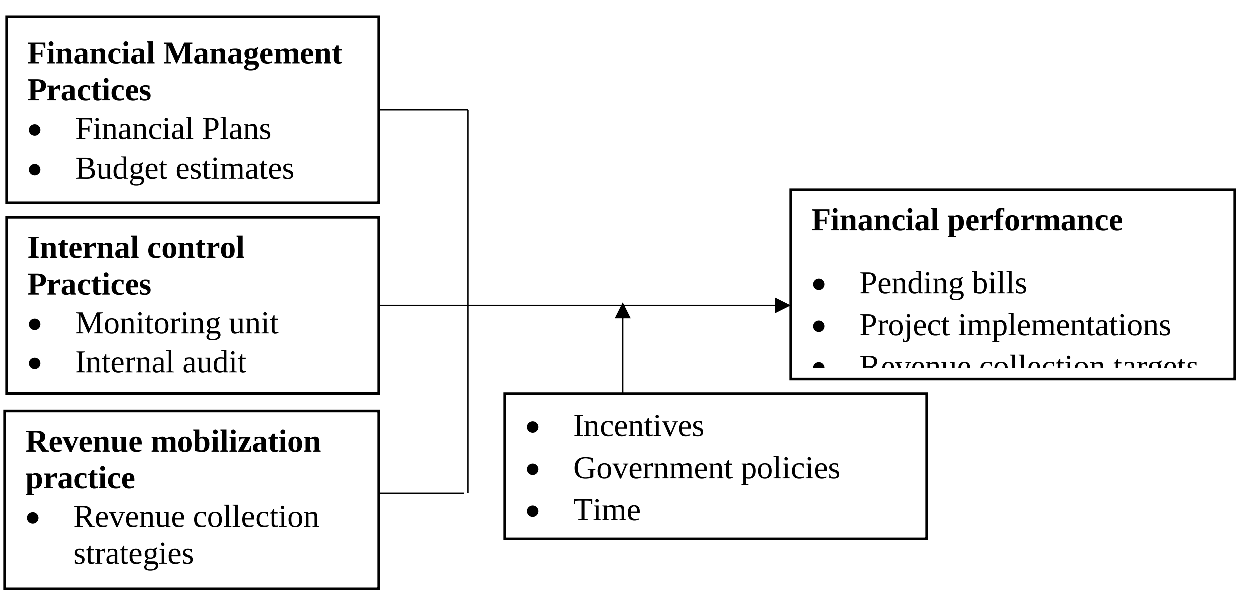
urgent matters that require attention to its control tools. In order to find out the relationship between the budgeting system and the organizational performance, it is important for the public universities to determine the patterns of the expenditure of the organization and its performance (Phyrr, 1970).

2.1.2 Resource Dependency Theory

Whilst, the budgetary control theory addresses the efficiency and effectiveness of the organization's expenditure, resource dependency theory concentrates on the role of managers in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contend that resource dependency theory focuses on the role that managers play in providing or securing essential resources to an organization through their linkages to the external environment. Indeed, Johnson et al, (1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the organization's executives that may otherwise be more costly for the organization to secure.

It has been argued that the provision of resources enhances organizational functioning, firm's performance and its survival. According to Hillman, Canella and Paetzold (2000) directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy.

The conceptual Framework



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Independent Variable **Intervening Variables** **Dependent Variable**

DISCUSSIONS

3.1 Relationship Between Budgetary Control and Financial Performance

According to Adongo and Jagongo, (2013) on effects of budgetary control on financial performance of state corporations in Kenya, their study established a positive relationship between budgetary control and the three measures of firm performance used in the study namely: profit before tax, profit after tax and earnings per share. The positive relationship between the independent and dependent variables in the study may be due to higher profits because of improved sales. Their study concurs with Pimpong and Laryea (2016) study on the relationship between budgeting and non-bank financial institutions performance in Ghana.

Generally, financial performance of a firm is measured using financial ratios, benchmarking and measuring performance against set budgets or a mix of the said methodologies. Most studies investigating the correlation between budgeting and corporate performance use secondary data derived from audited accounts of the firms under study. Financial performance analysis entails determining the financial and operating characteristics of a business enterprise from its audited financial statements. The goal of such an exercise is to determine management's efficiency and performance abilities. The analyst attempts to establish the firm's profitability, liquidity and other indicators that the business is a going concern (Nuhu, 2014).

The ability to analyze a firm's financial position is crucial in improving its competitive edge in the market place. Critical analysis of the firms' financial performance can be useful in identifying opportunities necessary to improve performance at the department or organizational level in general (Ganga, Kalaiselvan and Suriya, 2015).

Kenya is a developing country which must develop her educational industry to realize her dreams of becoming a developed country by 2030 as envisioned in her vision 2030 strategic plan.
Recent trends in the performance and level of activity by higher educations in Kenya indicate a growing interest in the education and the potential for growth. Thus, there is an urgent need by the policy makers to reposition the education sector for enhanced performance for the country to realize her vision 2030 dreams.

Generally, most researchers have identified a positive correlation between budget and budgetary control systems and financial performance. However, in most of their papers, profitability was used as the only measure of institutional performance. A firm's performance can also be measured by other indicators like the level of pending bills, the project implementation status and employee behavior

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3.2 Various Budgetary Control Types in Kenyan

According to Amida Daboh Nafisatu, (2013) on the effect of budget and budgetary control on firms' performance: a case study of the east African Portland cement company limited; the study found a positive relationship between budget control and profit before tax. However, there was a negative correlation between budgetary control systems and profit after tax and earnings per share. This study is in agreement with Kimani (2014) study on the effectiveness of budgetary control on performance of non-governmental organizations in Kenya. However, the study is in disagreement with the study on the relationship between budgetary control and financial performance of Kigali Serena hotel in Rwanda (Harelimana, 2017) and effect of budgetary control on financial performance of state corporations in Kenya (Adongo and Jagongo, 2013). Both studies exhibited a significant positive correlation between budgetary control and firm performance. Kenyan Public Universities needs to incorporate other budgetary controls other than the ones discussed in the literature review to improve its managerial decision making.

Due to the ever-changing business environment in the institution of higher learning, it is necessary for the Kenyan Public Universities to develop and implement budgets that are in sync with its major objectives as outlined in their strategic plans. A culture of inclusivity should be adopted by the institutions to meet its objectives. Thus, all departments should be involved in the budgeting process with the view to discouraging any resentment that may lead to delayed achievement of set targets (Hernández-Medina, 2010).

Budgeting is now touted as the pillar to economic management. It is important to also note that despite having elaborate budgeting and budgetary controls in place, an institution may still fail to meet its set targets. This means that there should be workable and realistic rules within which such budgets should be formulated and implemented. This fact has compelled firms and governments alike to come up with budget reform agendas aimed at coming up with a broader perspective of management of public and private expenditure. In Kenya, such efforts date back to the 1970s although results are still not satisfactory enough as expected (Isaboke and Kwasira, 2016).

3.3 Effect of Budgetary Control on Managers' Behavior

The various attributes of employee behavior for instance, employee working relationships, realization of budget, management style, money factor, organizational structure and individual needs are responsible for the improved performance. This is in agreement with a study on the impact of tight budgetary controls on the behavior of managers in the public sector in Sweden. The study revealed that behavioral factors such as organizational commitment were negatively correlated with tight budgetary controls whereas stress was positively correlated with tight budgetary controls. However, the behavioral variables of satisfaction and motivation no significant results were found (Hemsing and Baker, 2013). Since time immemorial, budgets have been used in private and public organizations to set targets and to align and control managers' behavior. Whether an organization is private or public, budgets are established to fulfill certain requirements. When applied in the private sector, budgeting aims to assist firms make profit in the most cost-effective way. In public service however, budget achievements are measured in terms of services provided by a public entity (Onduso, 2013). Public Universities are a state

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corporation, one can deduce that public entities face many challenges in the way their budgetary control mechanisms have been affected by government and political interference over the past few years. In Europe, the Financial Crisis of 2006-2008 coupled with the current Euro-crisis have had a negative impact on the economic and financial situation in most European countries. These countries have swiftly adjusted their budgetary and financial policies in line with the austerity measures aimed at combating their respective budget deficits. To deal with budget deficit problem, new policies aimed at cutting public budget became handy (Terazi and Senel, 2011).

Budgetary control is one of the commonly applied mechanisms of assessing managers performance and to communicate organizational objectives, strategy, planning processes and how management intends to meet set targets while at the same time, closely monitoring expenditure. Budgetary control is also used as a tool of cultivating managers' supportive behavior aimed at achieving organization's objectives. However, the level of management participation and support is dependent on the budgeting approach adopted by the organization (Okpanachi and Mohammed, 2013).

3.5 Recommendations

3.5.1 Recommendations for Improvement

3.5.1.1 Effect of Budgetary Controls on financial management practices

There is a need to increase the level of sensitization among management and employees of financial management practices used in the Kenyan Public Universities on the importance of budgetary controls in enhancing financial performance. The budgetary control process should consider both institutional needs and parameters within the universities during planning to achieve better results. Budgets should be used both as indicators of management's performance as well as tools used by the institution to enhance its financial goals.

More research should focus on other indicators of financial performance other than profitability.

3.5.1.2 Effect of Budgetary Control on Managers Behavior

In most studies on the effect of budgetary control on managers' behavior, if budgetary control increases, employee characteristics such as managerial stress increases (Terazi and Senel, 2011).

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