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Effects of Budgeting Process on Financial Performance of County Government of Kwale in Kenya

Fredrick Ogilo
Lecturer, School of Business University of Nairobi, Kenya
Samira Swaleh
Student, MBA, University of Nairobi, Kenya

Abstract:
This study sought to assess the effects of budgeting process on financial performance of County Government of Kwale in Kenya. Descriptive research design was adopted for the study. The relationship between the budgeting process and financial performance was tested using correlation and Chi-square. The findings indicated that a significant majority of the respondents agreed that budgeting process has an effect to improved financial performance at the county. However, the opinion on whether county legislations contributed towards improved financial performance seemed to be equally divided. Chi-square and Cramer's tests indicated significant and strong associations between the various variables of the study. Further, the results of Pearson's Correlation at 5% level of significance indicated significant correlation between financial performance and budgeting process. Therefore, the study concluded that there was a significant moderate positive relationship between financial performance and budgeting process. The study recommends that the County Government of Kwale should put in place sound cash flow measures in order to sustain its operations, develop realistic budget projections, link budget programs and budget activities to set goals and targets, comply with budget timelines

Keywords: Budgeting process, financial performance, county government

1. Introduction

Budgeting process is an effective and valuable technique of management accounting that contributes significantly to organizational growth and development if properly understood and implemented (Suberu, 2010). The significance of budgeting process which relates to the organizational goals being identified, responsibilities for achieving these goals allocated, and consequently executed (Drake &Fabozzi, 2010). It enables prudent use of available resources, enriches decision making, and acts as a point of reference in measuring organizational performance. In spite of the likely benefits accruing from budgeting, public sector institutions in Kenya have continued to perform dismally in their budgeting process (Wanyoike, 2015). The scenario is not unique to Kenya as almost 85% of the governments all over the world do fail to provide adequate information for the public to hold them accountable.Budget is a planning tool used by management to allocate limited resources to function of the organization. Budgeting process is essential to planning, coordinating and controlling the financial performance of an organization. Budgeting involves generation of future plans, execution of those plans and controlling the activities to ensure that they align to those plans (Thomas, 2000).

According to Davidson (2009) budgetary control entails preparing of budget, recording actual performance, ascertaining of variance, evaluation of financial performance and suitable corrective action to be taken so that budgeted financial performance will be achieved. Isaboke and Kwasira (2016) stated that a budgeting process that is good is one which incorporates a perspective, establish possible links to organizational goals, budget decisions are focused on results and outcome and effectively promotes communication with the stakeholders. Budgeting is seen as a strategic process and not mere balancing of revenues every financial year.

Financial performance is used as a measure of the overall financial capability of an institution over a given period of time or the degree to which the financial objectives of an institution are accomplished (Fidelis, 2017). According to Marwan and Moeljadi (2017) financial performance of County Government is measured by the extent to which county expend funds availed by national Government in accordance with the county Government approved budget estimates, the ratio of actual own source revenue collected to the expected amount to be collected as in the budgets and the ratio of capital expenditure to recurrent expenditure.

Financial performance of County Government is said to be good if the management is independent or less dependent on central government in the use of sources of local income. It is effective in achieving the realization of targets that have been planned; meaning that the use of budget is based on targets. It is efficient in activities and budget, meaning spending is only intended on the main programs or priorities of development directly and is coupled with the increase in the sources of the income. Finally local revenue increases from year to year (Marwan and Moeljadi, 2017). A range of stability in finance is when it can enable an organization to have sufficient resources for delivering quality service, maximized potential of delivering services, ability to pay off staff is enhanced, creditors and vendors in good time and

ensuring all debts a in good stand (Anderson, 2011). This explains how stability of county government is being able to have cash flow which enables to fund service delivery, able to pay salaries and have no debt with creditors.

Budgets, with effective control and accountability mechanism, can support performance management better by having integration of known outcomes which have frequent reforecasting of the budgets and are linked to the analysis of financial performance trends" (MelekEker, 2007). According to Adongo (2013) a properly formulated and well implemented budget has ability to promote socio-economic well-being of people, development of finance projects and public administration support. A good budgeting process is the only way to achieve this.

1.1. Research Objective

The objective of this study was todetermine the effect of budgeting process on financial performance of County Government of Kwale in Kenya.

2. Methods

Descriptive design was adopted in this study. The target population included all the 13 departments in County Government of Kwale in Kenya. Structured questionnaires were used to collect data from the County Executive Committee MembersandChief Officers.Data was analysed using mean and standard deviation, and the significance and strength of association between sub-variables of independent variables and sub-variables of dependent variable was tested using Chi-square and Cramer's tests respectively. The association between the dependent variable and the independent variables in the study was tested using Pearson Correlation coefficient at 5% level of significance so as to determine the relationship between the study variables.

3. Results and Discussion

Chi-square and Cramer's V tests were performed to determine the significance and strength of association, between the sub-variables of attainment of revenue targets and the sub-variables of financial performance. Table 1 indicates that all the associations were significant and moderate except for the sub-variable on operating costs.

	Development Index	Compliance with Set Budget	Attainment of Revenue Targets
Own Source Revenue Collection	X=13.127	X=9.493	X=14.568
	p=0.011	p=0.05	p=0.006
	V=0.711	V=0.604	V=0.749
	df=4	df=4	df=4
Operating Costs	X=6.025	X=7.649	X=8.714
	p=0.197	p=0.105	p=0.069
	V=0.481	V=0.542	V=0.579
	df=4	df=4	df=4
Capital Investment	X=13.729	X=11.031	X=10.611
	p=0.008	p=0.026	p=0.031
	V=0.727	V=0.651	V=0.639
	df=4	df=4	df=4
Budget projections	X=10.162	X=11.392	X=9.479
	p=0.038	p=0.022	p=0.05
	V=0.625	V=0.662	V=0.604
	df=4	df=4	df=4

Table 1: Association between Attainments of Revenue
Targets and Financial Performance

Chi-square and Cramer's V tests to determine the significance and strength of association respectively between the sub-variables of program based budgeting and the sub-variables of financial performance was done and is shown in Table 2. It was found out that all the associations were significant and moderate except for the sub-variable on linkingprogram activities with the long term goals.

	Development Index	Compliance with Set Budget	Attainment of Revenue Targets
Linking program activities with the long term goals	X=7.538	X=8.451	X=8.192
	p=0.11	p=0.076	p=0.085
	V=0.538	V=0.57	V=0.561
	df=4	df=4	df=4
Identification of operational goals of specific program and activity	X=13.573	X=14.513	X=11.519
	p=0.009	p=0.006	p=0.021
	V=0.723	V=0.747	V=0.666
	df=4	df=4	df=4
Separation of costs and revenues for each program	X=11.309	X=13.947	X=9.641
	p=0.023	p=0.007	p=0.047
	V=0.66	V=0.732	V=0.609
	df=4	df=4	df=4
Measurement of outputs and performance of activities	X=14.834	X=15.782	X=12.172
	p=0.005	p=0.003	p=0.016
	V=0.755	V=0.779	V=0.684
	df=4	df=4	df=4

Table 2: Association between Programs Based Budgeting and Financial Performance

The Chi-square and Cramer's V test to determine the significance and strength of association between the sub-variables of budgetary control and the sub-variables of financial performance is as is shown on table 3. The analysis found out that all the associations were significant and moderate.

	Development Index	Compliance with Set Budget	Attainment of Revenue Targets
Budgeting Committee	X=13.625	X=14.183	X=13.924
	p=0.009	p=0.007	p=0.008
	V=0.724	V=0.739	V=0.732
	df=4	df=4	df=4
Public participation	X=13.291	X=12.608	X=9.519
	p=0.01	p=0.013	p=0.049
	V=0.715	V=0.696	V=0.605
	df=4	df=4	df=4
Budgetary timelines	X=9.731	X=12.315	X=9.478
	p=0.045	p=0.015	p=0.05
	V=0.612	V=0.688	V=0.604
	df=4	df=4	df=4
Planning and implementation			
	X=11.249	X=10.507	X=10.003
	p=0.024	p=0.033	p=0.04
	V=0.658	V=0.636	V=0.62
	df=4	df=4	df=4
Monitoring and Evaluation			
	X=12.917	X=14.462	X=11.692
	p=0.012	p=0.006	p=0.02
	V=0.705	V=0.746	V=0.671
	df=4	df=4	df=4

Table 3: Association between Budgetary Controland Financial Performance

The Chi-square and Cramer's V test to determine the significance and strength of association respectively between the sub-variables of county regulations and the sub-variables of financial performance. Table 4 indicates that all the associations were significant and moderate except for the sub-variable on disbursement of funds.

		Development Index	Compliance with Set Budget	Attainment of Revenue Targets
County assembly policies		X^2 = 10.629	X^2 = 11.372	X^2 = 9.591
		p = 0.031	p= 0.023	p = 0.048
		V=0.639	V=0.661	V=0.607
		df=4	df=4	df=4
County appropriation bills				
		X=12.031	X=11.134	X=10.527
		p=0.017	p=0.025	p=0.032
		V=0.68	V=0.654	V=0.636
		df=4	df=4	df=4
Budget legislations and budget plans				
		11.365	11.917	10.834
		0.023	0.018	0.028
		0.661	0.677	0.646
		df=4	df=4	df=4
County agencies compliance with set budget levels		X=9.573	9.864	9.499
		p=0.048	p=0.043	p=0.05
		V=0.607	V=0.616	V=0.604
		df=4	df=4	df=4
County government service missions		X=10.307	X=9.979	X=9.567
		p=0.036	p=0.041	p=0.048
		V=0.63	V=0.62	V=0.607
		df=4	df=4	df=4
		X=3.184	X=2.972	X=6.019
		p=0.528	p=0.563	p=0.198
		V=0.35	V=0.338	V=0.481
		df=4	df=4	df=4

Table 4: Association between County Regulations and Financial Performance

Bivariate correlation analysis at 5% level of significance was performed in order to determine the nature of association between the variables of the study. The results as shown in Table 5 indicate that program based budgeting had a moderately high positive degree of correlation with financial performance with a correlation coefficient of 0.718, followed by attainment of revenue targets at 0.696, budgetary control at 0.640 and county legislations at 0.617. All the correlation coefficients were significant with $p < 0.05$.

Correlations						
		Attainment of Revenue Targets	Program Based Budgeting	Budgetary Control	County Regulations	Financial Performance
Attainment of Revenue Targets	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	13				
Proram Based Budgeting	Pearson Correlation	.967**	1			
	Sig. (2-tailed)	.000				
	N	13	13			
Budgetary Control	Pearson Correlation	.966**	.936**	1		
	Sig. (2-tailed)	.000	.000			
	N	13	13	13		
County Regulations	Pearson Correlation	.985**	.939**	.944**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	13	13	13	13	
Financial Performance	Pearson Correlation	.696**	.718**	.640*	.617*	1
	Sig. (2-tailed)	.008	.006	.018	.025	
	N	13	13	13	13	13

Table 5: Bivariate Correlation Results
**. Correlation Is Significant at the 0.01 Level (2-Tailed)
*. Correlation Is Significant at the 0.05 Level (2-Tailed)

4. Discussion of Findings

Chi-square and Cramer's V tests indicated significantly moderate associations between the sub-variables of attainment of revenue targets and the sub-variables of financial performance except for the sub-variable on operating costs. Pearson's correlation indicated that the attainment of revenue targets and financial performance exhibited a moderate positive degree of correlation.

Chi-square and Cramer's V tests also indicated significantly moderate associations between the sub-variables of program based budgeting and the sub-variables of financial performance except for the sub-variable on linking program activities with the long term goals. Pearson's correlation indicated that the program based budgeting and financial performance exhibited a moderate positive degree of correlation. Similarly, Chi-square and Cramer's tests indicated significantly moderate associations between the sub-variables of county regulations and the sub-variables of financial performance, except for the sub-variable on disbursement of funds. Pearson's correlation indicated that the variables exhibited a moderate positive degree of correlation.

In comparison to previous studies, the findings of this study are similar to findings in several other studies. A study by Qi (2010) on the impact of the budgeting process on performance of SMEs in China established that formal budgeting process positively affects a firm's performance. Another study on the relationship between budgeting and performance of remittance companies in Somalia by Mohammed and Ali (2013) concluded that there existed a statistically significant positive relationship between budgeting and firm performance. The study established that "the correlation between budgeting and firm performance was 0.514". Findings by Isaboke (2013) on effects of budgeting process on financial performance indicated that financial capacity was important in determining the financial performance.

4.1. Conclusion

The study concludes that the County Government of Kwale experienced improved financial performance over the four years under consideration, 2014/2015 to 2017/2018. This improvement was attributed to effective budgeting process at the county. According to the findings, a significant majority of the respondents attributed attainment of revenue targets; program based budgeting and budgetary control as contributing to the improvement in financial performance at the county. However, the respondents were divided on whether county regulations contributed to the improvement in financial performance at the county.

The study also concludes that there is a significant association between financial performance and program based budgeting, attainment of revenue targets, budgetary control and county legislations at the County Government of Kwale. The correlation between financial performance and the four independent variables was positive and moderate. Therefore, an improvement in attainment of revenue targets, program based budgeting, budgetary control and implementation of county legislations would enhance financial performance at the county.

4.2. Recommendations

The County Government of Kwale should put in place sound cash flow measures in order to sustain its operations, develop realistic budget projections, link budget programs and budget activities to set goals and targets, comply with budget timelines as per the Public Finance Management Act 2012 and conduct regular checks and assessments to ensure efficient and effective programs and projects execution. The national treasury should disburse funds to county governments in accordance with the prepared schedule, in consultation with intergovernmental budget and economic councils, and in accordance with approved published gazette. The study further recommended that county assembly come up with policies to assist in monitoring budget spending, ensure budget legislation and budget plans are well executed to avoid financial performance challenges, and controlling budgets and ensure that county appropriation bills passed in a financial year determines performance.

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