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Budgetary Control And Financial Performance In Public Institutions Of Higher Learning In Western Kenya

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ABSTRACT: *The objective of the study is to establish effect of budgetary control on financial performance of public institutions of higher learning. This study was conducted in institutions of higher learning in Vihiga, Kakamega, Bungoma, and Busia Counties. Finance Officers, Accountants, Bursars and principals were the respondents. Descriptive survey design was used in the study. The target population was 109. The questionnaire return rate was 91.7 %.Data was analyzed and presented using regression analysis. The study attained a Cronbach's Alpha of coefficient was 0.863 for all items, which was way above the recommended 0.7 in social sciences. the study established that budgetary control had a statistically significant effect on financial performance in public institutions of higher learning. This study will be significant to public institutions of higher learning in providing a basis for policy, and in showing direction for management of these institutions, management in providing explanation to the government for the current financial scenario, researchers and academicians. Public institutions of higher learning management may use the findings of the study in designing proper budgetary policies and examining the financial performance. Academicians will also find the study useful in adding to the existing literature on budgetary control and financial performance.*
Keywords: *Budget, control, Financial, Performance, Income, Variance*

I INTRODUCTION

1.1 Background of the study

The need for better performance in public institutions of higher learning requires proper financial standing in order to run operations. Budgetary control as a proven management tool helps organization management and improves performance of a public institution of higher learning. In the absence of budgetary control too many managers spend all of their time dealing with daily demands. The budgeting process provides a means of allocating resources to those parts of the organization where they can be used most effectively (Garrison &Norren, 2000)[1].

There is need to find out how budgeting and budgetary control has assisted public institutions of higher learning in planning and controlling their activities for better performance. Most of the public institutions of higher learning show evidence of financial challenges. It is not clear whether the challenge is due to inadequate funding or poor financial management. This research seeks to find out whether budgetary control affects financial performance in public institutions of higher learning. Research has been done on the effect of budgetary control on financial performance of state corporations in Kenya (Oduor, 2012)[2], but there are differences in regulations and policies in the operations. So, there still remains a gap to be researched on the effect of budgetary control as a tool on financial performance in public institutions of higher learning in western Kenya. Jiambalvo (2004)[3] in his research, observed that a budget is a basic and powerful tool in management and assists as a tool for planning and controlling the use of scarce financial resources in the accomplishment of institutional goals. . According to Ronald, Michael& Frank (2008)[4], public institutions of higher learning resources are limited, and budgets provide one means to allocate resources among competing uses.

1.2 Statement of the problem

Most public institutions of higher learning have not effectively applied budgetary control techniques in financial performance (Nelson & Miller, 1981)[5]. Most of them have failed to recognize the power of budgets and budgetary control over performance outcomes. According to Hingorani and Ramanathan (2007)[6] the basic requirement for the success of budgeting is the absolute support and enthusiasm provided by top management. If this is lacking at any time, the whole system will collapse. Budgeting should be followed up by effective control action; this is often lacking in many organizations, which defeats the very purpose of budgeting. There has been attempts to establish the contribution of budgetary control on financial performance in state corporations in Kenya (Oduor, 2012)[2], but there has been limited study that has attempted to establish the effect of budgetary control on financial performance in public institutions of higher learning in western Kenya. The study gave a positive relationship between budgetary control and financial performance although it was very wide in scope. There are differences in regulations, culture and operations. The study seeks to investigate the effect of budgetary control on financial performance in public institutions of higher learning in western Kenya.

1.3 Significance of the paper.
This paper will be significant to public institutions of higher learning in providing a basis for policy, and in showing direction for management of these institutions, management in providing explanation to the government for the current financial scenario, researchers and academicians. Public institutions of higher learning management may use the findings of the study in designing proper budgetary policies and examining the financial performance. Academicians will also find the study useful in adding to the existing literature on budgetary control and financial performance.

1.4 Objective of the Research paper.
The main objective of the study is to investigate the effect of budgetary control on financial performance in public institutions of higher learning in Western Kenya.
1.5 Hypothesis
Ho: Budgetary control measures have no effect on financial performance in public institutions of higher learning.

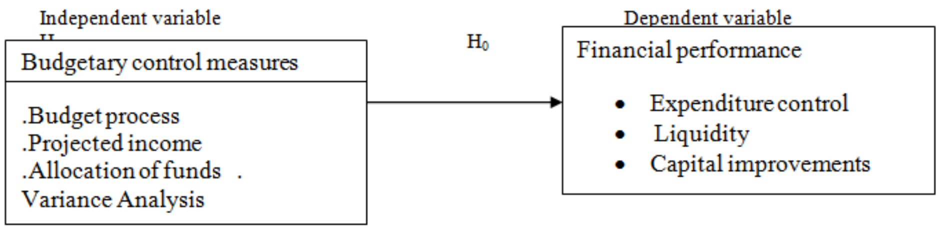

Figure 1: Conceptual framework

II. LITERATURE REVIEW

Budgetary control refers to how well managers utilize budgets for better financial performance in a given accounting period. It is a process for managers to set financial and performance goals with budgets, compare the actual results, and adjust performance, as it is needed. Budgetary control elements that have majorly affected financial performance of institutions of higher learning consist of budget process and projected income sources. The budget process is where all the heads of departments are involved in setting up the budget by forming a budget committee (Drury 2008)[7]. The budget process provides a means of allocating resources to those parts of the organization where they can be used most effectively. According to Anthony and Kaplan (2012)[8], budgeting process describes the acquisition, production, selling during the budget period. Budget development and implementation should follow the following principle; provide adequate guidance, so that all management levels are working on the same assumptions, targeted objectives and agenda, encourage participation in the budgeting process at each level within the institution, structure the climate of budget preparation to eliminate anxiety and defensiveness, structure the preparation of the budget so that there is a reasonably high probability of successful attainment of objectives(Adolph and Milton, 1980)[9].Most public institutions of higher learning in Kenya project their income resources from the monthly remittance from the ministry of higher education, students' fees, bursaries, loans for students from Higher Education Loans Board (HELB). Students also get bursaries from their constituencies. The European Universities Diversifying Income Streams (EUDIS) project (Estermann 2011)[10] noted that universities need to increase and diversify additional sources of funding.

III. RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the research design, the target population, sample size, sampling procedure, data collection methods, validity and reliability of instruments, data analysis and presentation.

3.2 Research design
This study utilized descriptive survey design to collect data from the respondents who were identified in the research study. This is the process of collecting data in order to test hypotheses or to answer questions concerning the current status of the subjects in the study. The study described and established the association among key variables namely budgetary control, financial performance. The study described the budgetary control and how it affects the performance of public institutions of higher learning in western Kenya.

3.3 Population of the study
Population is the entire set of relevant units of analysis, or data, which is of interest to the study. It includes five public universities, four teachers colleges, ten technical institutions (counties statistical data), seven hundred and seventy eight high schools in western Kenya (K.N.E.C, 2014). These institutions receive part of their income from the government.

3.4 Sampling techniques and sample size
Sampling is the process of selecting a number of institutions for study in such a way that the institutions selected represent the large group from which they are selected. Stratified sampling was used to collect data. The sample size will include five public universities, ten technical institutions, four teachers colleges, and ninety high schools.

3.5 Data Collection procedures
The researcher collected primary data from the Finance Officers, Accountants, Bursars and principals working in various public institutions of higher learning using questionnaires. Primary data was used in this case because the respondents could evaluate the study variables. The respondents were Finance Officers, Accountants, Bursars and principals since they participate in preparing budgets and have knowledge in budgeting. The questionnaire was measured on the five point likert-type scale. The research instrument was conveyed to the respondents.

3.6 Data collection instruments
In order to achieve the mentioned objectives, a data collection instrument was used; in this case a questionnaire was used to collect the data from the respondents. The questionnaire was designed based on the five point likert-type scale. The questions were designed to generate data to address specific target research questions and to help achieve the objectives of the study. Closed –ended questions were used in order to save time and to motivate respondents to reply to the question posed therein.

3.7 Validity and reliability of the instruments
An extensive review of relevant existing conceptual framework on budgetary control and financial performance produced the measures for each variable. These measures were used to construct the questionnaires. Therefore, the measurement scales used in the questionnaire are deemed to have face construct validity because they reflect the key components as described in budgetary control and financial performance and since they are validated measures previously applied in related studies. Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability in research is influenced by random error. As random error increases, reliability decreases. The researcher used Cronbach Alpha of coefficient to assess the degree of reliability.

IV. DATA ANALYSIS

Data was analyzed using spssprogramme. Descriptive and regression analysis was used The data on financial performance was be taken as dependent variable to be regressed against budgetary control as independent variable Descriptive statistics of effect of budgetary control on financial performance of public institutions of higher learning in western Kenya. .

Questions on budgetary control	Mean	Standard deviation
The public institution of higher learning makes use of budget process to control expenditures	3.7366	0.21581
There is use of various controls as: internal audit,	3.9455	0.19965
external audit,	3.6634	0.12935
Budgetary control and variance,	3.6733	0.19439
review of performance	3.5871	0.19166
Budget process is one of the major planning and control tool used by the public institution of higher learning.	3.7366	0.11102
The institution has identified various non-state funding and internal financing in boosting the income.	3.3564	0.11532
The institution receives donations from various financial institutions outside Kenya.	2.4522	0.13017
The institution is able to collect fees timely through budgetary control measures	3.4832	0.40613
The government makes enough allocation of funds to the institution to meet its obligation	3.1673	0.37319
Budgetary targets have helped control use of funds and thus reduce amount wastage.	3.1386	0.63293
Variance analysis has assisted in monitoring the performance of various sub-units in use of funds and revenue collections.	3.8178	0.17237
Variance analysis has assisted in discovering the vote heads that need more funds and those that need less to be able to balance use of funds.	3.9733	0.22262
Overall Mean And Standard Deviation	3.51042	0.2380

Source: Research data 2015

The public institution of higher learning makes use of budget process to control expenditures had the mean of 3.7366 with standard deviation of 0.21581, there is use of various controls as: internal audit, had the mean of 3.9455 with standard deviation of 0.19965, external audit had the mean of 3.6634 and standard deviation of 0.12935, budgetary control and variance had the mean of 3.6733 with standard deviation of 0.19439, review of performance had the mean of 3.5871 with standard deviation of 0.19166, budget process is one of the major planning and control tool used by the public institution of higher learning had the mean of 3.7366 with standard deviation of 0.11102, the institution has identified various non-state funding and internal financing in boosting the income had the mean of 3.3564 with standard deviation of 0.11532, the institution receives donations from various financial institutions outside Kenya had the mean of 2.4522 with standard deviation of 0.13017, the institution is able to collect fees timely through budgetary control measures had the mean of 3.4832 with standard deviation of 0.40613, the government makes enough allocation of funds to the institution to meet its obligation had the mean of 3.1763 with standard deviation of 0.37319, budgetary targets have helped control use of funds and thus reduce amount wastage had the mean of 3.8178 with standard deviation of 0.63293.
Variance analysis has assisted in monitoring the performance of various sub-units in use of funds and revenue collections had the mean of 3.8178 with standard deviation of 0.17237 while the last question variance analysis has assisted in discovering the vote heads that need more funds and those that need less to be able to balance use of funds had the mean of 3.9733 with standard deviation of 0.22262.

The overall mean of the questions on budgetary control was 3.51042 while the overall standard deviation was 0.2380. The respondents are in agreement with the fact that budgetary control had an effect on the financial performance of public institutions of high learning. In addition given that the standard deviation was between 0 and 1 further confirms that the respondent's views can be trusted.

4.1 Regression results

The data on financial performance was taken as dependent variable to be regressed against budgetary control as independent variable.
Let FP be financial performance;
BC be budgetary control; then
FP= α +βbc + €
Where α is y-intercept; β is regression coefficient (beta) and € is error term

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817[a]	.668	.664	.40525

Predictors: (Constant), Budgetary control
The value of R square is 0.668 this implies 66.8% of variance in performance is explained by variance in Budgetary control

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.692	1	32.692	199.06	.000[b]
	Residual	16.259	99	.164		
	Total	48.950	100			
Dependent Variable: Financial performance						
Predictors: (Constant), Budgetary control From the anova table it shows that the regression model is applicable. The model is significant at 99% confidence level.						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.421	.218		1.930	.057
	Budgetary control	.823	.058	0.817	14.11	.000
a. Dependent Variable: Financial performance the						

The regression equation then becomes
$Y_{performance}$ = 0.421 + 0.823 BC, this means that when budgetary control is zero performance will be 0.421 units, and if performance increases by one unit then budgetary objectives will increase by 0.823 in the same direction.

II CONCLUSION

The study established that budgetary control had an effect on financial performance of public institutions of higher learning in western Kenya. The study established that budgetary control had a statistically significant positive effect on financial performance in public institutions of higher learning. The findings of this research are in line with the findings of Jiambalvo (2004)3 who observed that a budget is a basic and important weapon in management and serves as a tool for planning and controlling the use of scarce financial resources in the accomplishment of institutional objectives. Thus budgetary control can be used as a tool to improve the financial performance of an organization. According to Ronald, Michael & Frank (2008)4, public institution of higher learning resources are limited, and budgets provide one means to allocate resources among competing uses. Without proper allocation of funds various objectives may not be fulfilled.

5.1 Recommendation

Institutions of higher learning should stress on the issue of budgetary control because it has a statistically significant positive influence on financial performance of institutions of higher learning.

5.2 Suggestions for Further Research

1. The study was done in kakamega, Bungoma, Vihiga and Busia Counties. Future research is encouraged to cover other counties in Kenya.
2. Secondly, the study only established the effect of budgetary control on financial performance of the public institutions of higher learning in western Kenya. Further research is encouraged to establish the effect on budgetary control on performance (both financial and non-financial of these organizations).
3. The study was only carried out in institutions of higher learning in western Kenya. Future research is encouraged to cover other organizations like the tertiary colleges.

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