EFFECT OF BUDGETING PROCESS ON BUDGET PERFORMANCE OF STATE CORPORATIONS IN KENYA: A CASE OF KENYATTA NATIONAL HOSPITAL

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ABSTRACT

Budgeting is a crucial exercise without which a firm or business cannot achieve much. Almost every enterprise, regardless of size, complexity or sector, relies heavily on budgets and budgetary systems to achieve strategic goals since it involves the establishment of predetermined goals, the reporting of actual performance results and evaluation of performance in terms of the predetermined goals. Since independence, Kenya has introduced a number of reforms to the budgetary process with an aim of maximizing benefits accruable from spending through budget reforms in the public sector. These reforms are necessitated by perceived unsatisfactory performance when compared with the expectations of the budget provisions. In spite of these attempts to reform budgetary process in Kenya, it remains unsatisfactory instrument of achieving public policy objectives. This is because budgets are not clearly linked to the planning process and approved policies. The mismatch between expenditures and revenues are unending which leads to mini-budgets, supplementary budgetary estimates and reallocations of budget lines resulting to poor budget performance in State Corporations in Kenya. This study assessed the effect of budgetary process on budget performance in public sector using state corporations in Kenya as a focus. The budgetary process of state Corporation is assessed using variables such as budgetary participation, budgeting sophistication, Budget feedback and Budgetary Controls. The budgetary performance of State Corporations in Kenya is examined by use of budget compliance, value for Money and Budget goal achievement. A descriptive research design was employed by the study. The target population of this study was 450 employees of Kenyatta National Hospital who are involved in budget making. The study uses a formula to come up with a sample size of 72 of this study. A questionnaire, whose content validity was checked through an expertise opinion and reliability through test pre-test methods, was used to gather information. The study used descriptive statistics to analyse the quantitative data and content analysis for the qualitative data. The relationship between budgeting process and budget performance was analyzed using correlation and regression analysis. The study established that budgetary perticipation has an effect on budget performance of State Corporations in Kenya. Regarding budgeting sophistication, the study found that it indeed has a significant effect on performance of State Corporations in Kenya. The study concluded that budgetary participation had the greatest effect on the budget performance of State Corporations of Kenya, followed by budgetary control, then budget feedback while budgeting sophistication had the least effect on the budget performance of State Corporations of Kenya. Therefore the study recommends that staff proposals should be taken into consideration since budget participation is measured from the following factors; the ability for the subordinates to influence the design of the budget, extent the superior manager contacts the subordinates. The study therefore recommends that there should be clear communications channels in all corporations. The study recommends that to add weight to this study, another study should be done to investigate the factors affecting performance in state corporations of Kenya.

Key Words: *budgeting process, budget performance, state corporations, Kenya, Kenyatta National Hospital*

INTRODUCTION

Budgeting is a crucial exercise without which a firm or business cannot achieve much (Babalola, 2008). Almost every enterprise, regardless of size, complexity or sector, relies heavily on budgets and budgetary systems to achieve strategic goals (Suberu, 2010). Study of Babalola (2008) shows that both public and private budget is a pivotal means of translating the overall aim and objectives of an organization into detailed packages of actions and determine the sources and uses of funds in order to allow performance evaluation of the people who are entrusted with the resources.

The primary goal of the government is the provision of the essential goods and Services to the citizenry which are normally provided through Ministries, County Governments, State Corporations, Independent Commissions and authorities (Maritim, 2013). For a government to deliver, it has become a routine at all levels to prepare and approve into law a summary of a plan of the revenues and expenditures which are made in advance of government financial year concerning a document called budget. Government is held accountable by the citizenry on allocation, custody and use of state resources through budget. These functions should be performed in accordance with established rule, policies and practices contained in the Government financial regulations (Aliu & Abdukadir, 2009). A well formulated and properly implemented budget has capacity to promote socio-economic well- being of the people, finance development projects and support public service administration (a). This cannot be achieved without a good budgeting process (Adongo, 2013).

Budgeting is one of the most successful and useful management accounting techniques that can reap handsome rewards if properly understood and implemented (Suberu, 2010).It facilitates effective utilization of available funds, improve decision making, and provide a bench mark to measure organization performance, The success and importance of budgeting relates to the identification of organizational goals, allocation of responsibilities for achieving these goals, and consequently its execution (Drake & Fabozzi, 2010). In spite of the potential benefits accrued from budgeting, there is skepticism on budget performance of State Corporations in Kenya (Wanyoike, 2015). This is not peculiar in Kenya alone as 85% of the government all over the world fail to provide adequate information for the public to hold them accountable (The Guadian, 2009).

Global Perspective of Budgeting Process

The United States of America (USA) budget process is a tedious and complex practice. It involves the participation of both the executive and legislative. The budget process starts almost one and half years prior to the beginning of the fiscal year when the Office of Management and Budget (OMB) issues a letter to departments in April, known as planning guidance. The budget comprises of estimates on spending, revenue, information on the performance of the economy and legislative and policy recommendations (Congressional Research Service, 2012).

In June-February, Office of Management and Budget conducts an internal review exercise focused on management and programmatic priorities in each department, ensures budget estimates are prepared and reviewed. The President's budget is first discussed in the spring prior to its potential release by federal agencies, who work in accordance with the Office of Management and Budget within the executive branch. Each agency then submits their request to Office of Management and Budget in late summer. These requests are then reviewed by Office of Management and Budget and staff within the White House. The President's budget documentation should be finalized by December and publication usually occurs in January. The final president's budget is submitted to Congress on /or before first Tuesday of February in accordance with Budget and Accounting Act of 1921 (Washburn, 2011).

Upon the eventual release in early February, the President's budget provides Congress with an analysis of the President's major budget proposals and historical trends and program information. The congressional budget process begins by focused on establishing a concurrent budget resolution. In both the House and the Senate the Budget Committee is responsible for marking-up and reporting the budget resolution, and once passed it will have the same rules for floor consideration. The final adoption of the budget resolution is completed by April 15 in accordance with The Congressional Budget and Impoundment Control Act of 1974 (Folscher, 2007).

Congress occasionally uses reconciliation legislation to bring existing revenue and spending policies into conformity with the budget resolution. Reconciliation legislation is used to change budget authority or spending outlays of existing law. However, in recent years Congress has changed the reconciliation process to solely focus on deficit reduction (Congressional Research Service, 2012).

In United State of America, the budgeting process is failing to meet its most basic obligations despite the popularity of fixing the budget process (Blondal and Dirk, 2003). Ensuring a disciplined budget process that best allocates the federal government's resources is a matter of national security and economic health has been a challenge (Washburn, 2011). While several reasons have been adduced for the late submission and poor performance of the federal budget, the budgeting process has been adjudged to be the culprit (Babalola, 2008).

Regional Perspective of Budgeting Process

In Nigeria, budgetary process is on annual basis and has become a standard practice backed by legal provisions such as constitution and financial regulations in various states. The Budget Process begins on January 1st and ends December 31st.The Budget Office meets early in the fiscal year to assess and determine trends in revenue performance and macroeconomic indicators and the implication of such trends for the next three fiscal years. Following this determination with respect to revenue, the Medium-Term Expenditure Framework (MTEF) is developed outlining key areas of expenditure (statutory transfers, debt service and Ministries, Departments and Agencies(MDAs)' Expenditure) as well as the projected fiscal balance (Suleiman, 2015).

The MTEF is further developed into a formal Medium-Term Expenditure Framework Report, which includes, the Fiscal Strategy Paper and MDAs expenditure ceilings. This formal MTEF/Fiscal Strategy Paper is required, under the Fiscal Responsibility Act, to be presented by the Minister of Finance first to the Federal Executive Council and then to the National Assembly for consideration and approval (The Guardian 2009).

Once the MTEF, Fiscal Strategy Paper and MDAs' expenditure ceilings have been approved by the Federal Executive Council, the Budget Office, under the supervision of the Minister of Finance, issues a "Call Circular". The Call Circular instructs the MDAs to allocate their allotted capital expenditure ceilings across their existing and new projects, programmes and other initiatives. MDAs are also required to submit estimates of their recurrent expenditure requirements for personnel costs and overhead. The Budget Office evaluates and consolidates the submissions of the various MDAs and prepares the draft budget. The draft budget is presented by the Minister of Finance to the President for approval. The approved budget, together with supporting documents, is formally presented by the President to the National Assembly for consideration and appropriation, typically at a joint session of the Senate and the House of Representatives. This process takes place in August (Suleiman, 2015).

The budget is considered separately by the House and Senate of the National Assembly in accordance with the legislative practice and procedures. The two houses harmonize their drafts and the recommendations of the various committees are considered and collated with the oversight of the MDAs. The harmonized budget is approved separately by each chamber of the National Assembly, after which it is presented as the Developing Country Studies. Once the final draft is approved and appropriation bill assented to law by the president, the implementation of the budget is carried out by the various Ministries, Department, and Agencies (MDAs) of the federal government of Nigeria. This is followed by monitoring and evaluation of budget by various government institutions (The Guardian, 2009).

The Nigerian budget process like any other country across the globe is characterized by some challenges. One of the challenges with the budget process is the weak reporting culture of the Ministries , Departments and Agencies(MDAs). Their reports do not adequately reflect projects that are ongoing as various stages of implementation are not stated. MDAs Non adherence to proper monitoring and evaluation techniques on their projects and the large number of MDA projects makes it difficult to individually visit each project. Lastly, another challenge with the Federal Government budget is the unplanned size of the recurrent expenditure. Particularly, increases in the wage bill and in allocation to certain MDAs have resulted in bloated budget. This has made the budget skewed towards the recurrent spending while capital expenditure remained inadequate (Suleiman, 2015).

In Nigeria, budget process often poses a challenge. This is because the budget needs to be reviewed at different stages with the possibilities of delays, like the drafting stage, legislative approval stage, implementation stage, and monitoring and evaluation stage. In spite of the potential benefits accrued from budgeting process in Nigeria, there is a general skepticism on budget performance. Budget process tends to contribute to rather than mitigate the Nigeria government budget problem (Capretta, 2014).

Budgeting Process in Kenya

The budget preparation process for the following financial year starts not later than 30th August of the current financial year with the issuance of the annual budget circular by the Cabinet Secretary of The National Treasury. The County Governments, Ministries, State Corporations, Commissions, Authorities and Government Agencies are required to prepare budget estimates in compliance with the instructions, guidelines and prescribed formats contained in the circular that support program-based budgeting and must be supported by the National Government or entity strategic plan (PFM Act Regulations, 2015).

From September 1 to February 15, The National Treasury and the County Treasuries should conduct sector hearings where they should involve the public and other stakeholders in the preparation of the National Budget Policy Statement and the County Fiscal Strategy Paper respectively. By September 30, The National Treasury and the County Treasuries should produce their respective Budget Review and Outlook Papers by this date. The 30th September is the deadline for the national assembly and the county assembly to consider and approve the Finance Bill for the current financial year with or without amendments (Wanyoike, 2015).

The National Budget Review and Outlook Paper should be tabled at the National Assembly for discussion on October 21. Consequently, the County Budget review and Outlook Paper should be tabled at the County Assemblies. Before January 1, the Commission for Revenue Allocation (CRA) should submit its recommendations on the division of revenue between the national and the county governments to the National Treasury by this date (PFM Act Regulations, 2015).

The National Treasury submits four crucial documents to parliament by February 15 namely National Budget Policy Statement (BPS), medium-term Debt Management Strategy paper, The Division of Revenue Bill (DoRB) and the County Allocation of Revenue Bill (CARB). By February 28, The Budget Policy Statement (BPS) is approved by parliament. The County Treasury also tables its County Fiscal Strategy Paper (CFSP) before the County Assembly by this date. The Cabinet Secretary for Finance should submit the statement on the Debt Management Strategy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council, publish, and publicize the statement (Adongo, 2013).

The National Treasury submits the national budget proposal (or estimates) before Parliament by April 30. The Judiciary and the Parliamentary Service Commission also submit their own independent budgets (separation of powers) before parliament. The County Treasury should also submit the county budget proposal (or estimates) to the County Assembly on this date. Each county assembly clerk shall prepare and submit to the county assembly the budget estimates for the county assembly and a copy shall be submitted to the County Executive Committee member for finance (Adongo, 2013).

The Cabinet Secretary for Finance and the County Executive Member for Finance should publicize the national and county budget estimates 'as soon as practicable' after they table them before the national and county assembly respectively. The national assembly and the county assembly shall consider the national and the county government budget estimates respectively with a view to approving them, with or without amendments, in time for the Appropriation Bill and any other laws required to implement the budget (except the Finance Bill) to be passed by the 30th June in each year (PFM Act, 2012).

Not later than twenty-one days after the national and the county assembly have approved the budget estimates, the National and the County Treasury shall consolidate the estimates, publish, and publicize them respectively. Upon approval of the budget estimates by the National Assembly and the County Assembly, the Cabinet Secretary for Finance and the County Executive Member for Finance shall prepare and submit an Appropriation Bill of the approved estimates to the National Assembly and the County Assembly respectively (Wanyoike, 2015).

A study by Adongo (2013) shows that since independence Kenya has introduced a number of reforms to the budgetary process with an aim of maximizing benefits accruable from spending through budget reforms in the public sector. These reforms are necessitated by perceived unsatisfactory performance when compared with the expectations of the budget provisions. In spite of these attempts to reform budgetary process in Kenya, it remains unsatisfactory instrument of achieving public policy objectives. This is because budgets are not clearly linked to the planning process and approved policies. The mismatch between expenditures and revenues are unending which leads to mini-budgets, reallocations of budget lines and supplementary budgetary estimates (Wanyoike, 2015). This was the motivation to conduct a research to assess the effect of budgeting process on budget Performance of State Corporations in Kenya.

STATEMENT OF THE PROBLEM

Despite the existence of a budget calendar with a widely consultative, elaborate and highly participatory budgeting process exercise carried out by State Corporations in Kenya every fiscal year, with the aim of having minimal budget/actual variances, there is consensus that the State Corporations budgets performance is still poor in Kenya (Adongo, 2013), This is especially in terms of products, service delivery and efficiency (Maritim, 2013). Budget variances consistently continue to exist during implementation. This is because budgets are not clearly linked to the planning process and approved policies. The mismatch between expenditures and revenues are unending which leads to mini-budgets, supplementary budgetary estimates and reallocations of budget lines (Wanyoike, 2015).

In 2013 /2014 financial year, Capital Market Authority (CMA) adjusted its original budget upward by 21.7%; Energy Regulation Commission (ERC) budget performance was negative 11% even after revising its budget upward by 15% while Public Procurement Oversight Authority (PPOA) budget performance was negative 14% despite having a supplementary budget equivalent to 10% of its original budget (State Corporations Portal, 2014). In 2015, Kenyatta National Hospital Cost sharing budget underperformed by 18%, clinical cost by

24.5% and repair and maintenance cost by 81.8% (KNH Annual Report and Financial Statements, 2015).

The above if not checked will affect overall long-term performance of State Corporations resulting to substandard service delivery to citizens. Thus the motivation of this study is to understand what is missing in the budgeting process that causes significant consistent budget performance variations during budget implementation yet organizations invest time and money to go through an elaborate budgeting process every fiscal year (Maritim, 2013).

Empirical studies done in Kenya on budgeting process has been limited. Kihara, (2013) sought to find out the factors affecting the implementation of strategic performance measurement system of parastatals in Kenya focusing on one aspect of strategic performance, while Gachithi (2010) concentrated on factors influencing budget implementation in public institutions in Kenya giving an overview of institution and the budget process it adopts. Another study by Njagi and Malel (2012) aimed at examining the relationship between time management strategies and job performance in organizations focusing on parastatals while Martim (2013) examined the effect of budgeting process on budget variances. It is evident from the above studies that budgeting process and budget performance has received a relatively low attention. Thus, the study sought to fill this gap by establishing the effect of budgeting process on budget performance of state corporations in Kenya in order to identify inadequacies in the budgeting process.

GENERAL OBJECTIVE

The study sought to determine the effect of budgeting process on budget Performance of State Corporations in Kenya

SPECIFIC OBJECTIVES

1. To establish the effect of budgetary participation on budget performance of State Corporations in Kenya.
2. To examine the effect of budget feedback on budget performance of State Corporations in Kenya.
3. To investigate the effect of budgeting sophistication on budget performance of State Corporations in Kenya.
4. To assess effect of budgetary control on budget performance of State Corporations in Kenya.

THEORETICAL REVIEW

A theory is any conceptualization, used in interpretation of empirical phenomenon. According to Sapru (2008), theories can be classified according to their scope, function, structure and level. Theories relevant to the study are discussed in this section. The theories illustrate the relationships of the variables in the study with the main objective are theory of Budgeting, Agency theory, theory of Accounting and theory of Control.

The Theory of Budgeting

Shields and Young (1993) posit that budget acts as a detector of variances between organizational objectives and performance and vital part to the umbrella concept of an effective budgetary performance. Budgets project future financial performance which enables evaluating the financial viability of a chosen strategy. In most organizations this process is formalized by preparing annual budgets and monitoring performance against budgets (Silva & Jayamaha, 2012).

Budgets reflect the financial implication of business plans, identifying the amount, quantity and timing of resource needed (Shields and Young, 1993).They form benchmarks for by comparing actual results with budgeted plans and to take corrective actions if necessary (Sharma, 2012).Budgets do influence the behavior and decisions of employees by translating business objectives, and providing a yardstick against which to assess performance. Hancock (2009) even considered such operational planning as the backbone of management. A budget allows a goal and a standard of performance to be established with subsequent comparison of actual results with the created standard. It requires those involved to be forward looking rather than looking back (Hope & Fraser, 2013). Budgets make goals explicit, code learning, facilitate control and contract with external parties (Selznick, 2008). Fisher exemplified this by "linking compensation to performance measures against the budget", thereby making goals explicit, communicating goals and thereby coding learning and clarifying performance measures for individual employees of an organization (Goldstein, 2005).

Agency Theory

The Principal-Agent (Agency) theory supports development of budgeting. The classic agency theory concept was developed by Berle and Means in 1932.The theory explains why conflicts exist between principals (shareholders/owners) and their agents (managers) leading to agency costs. It aims at reducing information asymmetry so that both the principal and agent read from the same script through the threat of sanctions and the possibility of incentives. Agency theory is developed around the concept of contractual relationships between two groups with conflicting objectives, i.e. principles and agents. The objective in agency theory is to structure the contractual relationship between these groups so that agents take actions to maximize the welfare of principals. This is based on standard principal-agent models involving supervision (Khalil & lawaree, 2006).

The National Treasury has control of line ministries and state corporations and is supposed to represent the public interest. State corporations are seen as agents of the National Treasury (principal) because they are required to produce a certain level of public output including the quality of this output in exchange for their budget appropriation. An emerging representative of the public interests in the budget making process has been embodied through civic groups' and the legislature's involvement in the budget making process in most developing countries This trend has been associated with three important international developments i.e. democratization, devolution and public expenditure management reforms. The pair 'expenditure program-budget appropriation' can be interpreted as the two components of the contract between the National Treasury and state corporations (Kirimi, 2012).

The objective of The National Treasury is to induce the state corporations into implementing their expenditure programs, while they pursue their own objectives. That relationship entails both hidden actions (e.g. the productive ‘’effort ‘‘of the civil servants, possible perquisite consumption, or corruption) and hidden information (e.g. the exogenous productivity of that particular sector of the economy), with the agents having the informational advantage over the principal (Dirk-Jan, 2007).

Theory of Accounting

Kaplan and Norton (1996) assert that the accounting theory is aimed towards provision of a coherent set of logical principles that form the general frame of reference for the evaluation and development of sound accounting practices and policy development. Norreklit and Mitchell (2010) exemplifies that the purpose in developing a theory of accounting is to establish Standard for judging the acceptability of accounting methods. Horvath (2009) argues that the accounting methods that fail to meet the standard should be rejected. Accounting theory helps in explaining and guiding management actions in identifying and locating information necessary to be used in budget preparation.

The money measurement concept in accounting has contributed to a greater extent in providing yardstick for quantifying, conversion and translating various inputs in relation to materials, and machines required in the preparation of budget (Horvath et. al., 2009). The accounting theory has an important normative role in the evaluation of budget and control procedures to be adopted. It has assisted in making predictions of the likely outcome of budget action in a given set of circumstance and effect of any change in circumstances. Qi (2010) argues that accounting theory view a firm as a separate entity in which its activities are distinct from its owners. This principle serves as an impetus to the general philosophy of budget itself as a tool for effective management (Qi, 2010).

Budget as a tool for standard setting and performance measurement utilize several accounting concept to a greater extent. Accounting theory has developed models in which standard can be set. Management accounting theory also provides several yardsticks to be used for control. That is variance analysis. Since budget is an instrument of plan. It provides a framework of given feed back to the management on the implementation of budget. When implementing the accounting theory historical data is instrumental since this data serve as an input for making forecast. The cost accounting theory developed by Wedgwood in early 20th century which stress on cost identification, allocation and revenue maximization has provide a basic insight and blue print in budget and control in organization. The matching concept in accounting also plays a role as reference issue in budget analysis (Flamholtz, 2012).

Theory of Control

Adequate control is very essential to every organization be it individual or government owned all over the world. This is because if there is no adequate control of resources in the organization, it will be practically impossible to monitor budgets. The theory of control specifies the obligations of government/ industries in providing social and basic amenities to the citizens. It indicates that government owned industries is a basic principle of control on those scarce resources they are meant to manage (Robinson, 2009).

Shields and Young (2009) contend that government industries ought to provide both resources and employment to the citizens for meeting the laid down objectives. This implies that the government, board members and staff have joint responsibility to ensure proper accounting practices and timely budgetary implementation and appropriations by building effective management controls and directions. As per this theory, state corporations are expected to live to its responsibility of establishing standards, adequate controlling mechanism and acceptable accounting practices. Government enterprises need not to have unethical persons acting outside controls as ineffective control system in every organization can negatively affect organizational profitability and sustainability as well as companies resources and performance.

EMPIRICAL REVIEW

Gacheru (2012) did a study on effect of the budgeting process on budget variance of non-governmental organizations in Kenya. The main objective of the study was to determine the relationship between budgeting process and budget variance in NGOs in Kenya. The primary data was collected using questionnaire and data analyses were done using descriptive methods. The population of this study comprised of 6,075 NGOs in Kenya over the last five years 2007-2011. Convenient sampling was used to select 20 NGOs for this study. The researcher used a questionnaire to collect primary data and the data was analyzed by descriptive data analysis using SPSS version 17.

The research found that a unit change in budget preparation will lead to a 0.722% change in budget variance; a unit change in budgetary control will lead to a 0.661% change in budget variance; a unit change in budget implementation will lead to a 0.682% change in budget variance. The study concluded that budget preparation, budgetary control and budget implementation significantly influence budget variance. The study recommends that NGOs should maintain a good budgeting process as the process contributes a lot to their budget variance. This will help them to monitor revenue and expense levels. It also ensures that the cash outflows (payments) and inflows (receipts) remain at adequate levels.

The research findings show that budget preparation, budgetary control and budget implementation significantly influence budget variance. The study recommends that NGOs should maintain a good budgeting process as the process contributes a lot to their budget variance. This will help them monitor revenue and expenditure levels. It also ensures that cash outflows and inflows remain at sufficient levels. This study recommended further study should be carried out to establish the challenges facing budgeting processes among the NGOs in Kenya as it is evident that the budgeting process is a major factor that affect budget variance. Likewise a study should also be carried out to establish the effect of budgeting process on budget variance in public sector and state corporations in Kenya.

A study conducted by Gachithi (2010) focused on the factors that influence budget implementation in public institutions in Kenya, a case study of University of Nairobi. The study aimed at investigating the factors affecting budget Implementation and to determine the extent to which these challenges affect budget implementation in the University of Nairobi. To achieve objective of these study a descriptive study was done. The researcher used both primary and secondary method of collecting data. A structured questionnaire with both open and closed end questions was used to collect primarily data. The respondents constituted Eight (8) Administrators, six (6) Bursars from the colleges of the university, eight (8) senior representative members of the budget Committee from Finance, Eleven (11) staff in finance and administration involved in budget preparation. The secondary data sources were used to supplement the data received from questionnaire. A descriptive analysis was used. The data was presented using statistical measures pie charts, bar graphs, frequency tables and graphical presentations.

The study established that University of Nairobi does not have efficient budget preparation procedures. Other challenges included insufficient funds allocated to department, institutional weakness which hindered effective budget implementation and the methods used to allocate funds to user department were unsatisfactory. The study recommends that for University of Nairobi to curb challenges in budget implementation there is need for effective procedures and guidelines in the allocation of funds and operational implementation policies.

Alau, Salam and Abdikadir (2009) did a study on effect of budgeting process on budget performance in public sector using Kwara state in Nigeria. The objective of the study was to assess the effects of budgeting process on budget performance in public sector. The population of study was Kwara state government covering 33 ministries and departments. Purposive sampling technique was used to select 150 respondents to whom questionnaires were administered. Prior to the administration of research instrument reliability and validity was tested. Data was collected from primary and secondary data source using structured questionnaire administered to accounting officers and budget officers. Data was analyzed using Kraskal Willis estimations.

The study found that the existing budget process was significantly effective to attain better budget performance although the compliance level was wanting. The study recommended that there is need to improve awareness among stakeholders on budget implementation through seminars and workshops. The state should also improve the level of compliance of due process on budget formulation and implementation by ensuring strict adherence with relevant laws and guidelines of budget process. The study recommended that the existing budget process and controls should be improved upon the existing legal framework of relevant laws so as to foster the budget achievement and improve budget control.

Qi (2010) conducted a research on the impact of the budgeting process on performance of SMEs in China. The intention was to gaining a deeper understanding about how budgeting affect performance of small and medium-sized enterprises (SMEs). The purpose of this study was to describe and explore the relationship between budgeting and performance. The study further examined whether the established relationship between budgeting and performance is confirmed by the actual budgetary practice of Chinese SMEs. The researcher used quantitative research design. In this study, performance was measured using financial, managerial, and budgetary and job satisfaction.

The study found that more formal budgeting planning promotes higher growth of sales revenues in SMEs; clear and difficult budget goals improve budgetary performance of SMEs; a higher level of budgetary sophistication results in a lower profit growth of SMEs; more formal budgetary control leads to a higher growth of profit in SMEs; greater budgetary participation leads to better managerial performance and State-owned enterprises achieve better non-financial performance than small firms.

The researcher concluded that formal budgeting process positively affects Chinese SMEs' performance. It further concluded that both budget goal clarity and difficulty positively affect budgetary performance while other performance is insignificant. In other words, a very clear budget goal will not result in a better job satisfaction among Chinese SMEs' employees, and a higher level of budget goal difficulty will lead to a higher level of job involvement of employees and better budgetary performance leads to higher job satisfaction and job involvement. The researcher recommends further research test whether budgetary participation has significant impacts on budgetary performance and whether non-financial performance leads to improvement of the financial performance of SMEs. Further research can be undertaken to test whether budgetary participation also significantly impacts budgetary performance, job satisfaction, and job involvement. In addition, there is no attempt in this study to address whether non-financial performance will finally lead to improvement of the financial performance of SMEs.

RESEARCH METHODOLOGY

Research Design

Research design is an outline of research study which indicates what the researcher will do from writing the objectives and its operational implications to the final analysis of data. A research design is the arrangement of conditions for data collection and analysis of data in a manner that aim to combine relevance to research purpose with economy in research procedure (Kothari, 2004). This study employed descriptive research design. Descriptive research is conducted to describe the present situation, what people currently believe and what people are doing at the moment (Collins, Onwuegbuzie and Jiao, 2007). The major purpose of descriptive research design is description of the state of affairs as it exists at present (Kothari, 2004). The choice of the research design was because of the need to describe the present situation regarding performance of State Corporations in Kenya.

Target Population

Population is the total collection of elements about which we make some inference (Cooper & Schindler 2003). The target study population includes all officers involved in budget making in Kenyatta National Hospital. According to the KNH Human Resource Management report (2015), KNH has 4500 employees at all cadres while those involved in budget making are 450 employees (KNH HRM Report 2015).

Sampling Techniques

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample will be selected (Cooper & Schindler, 2007). The study used a formula to come up with a sample of 72 respondents in the study. The study used random sampling to select the sample of 72 respondents. The study mainly focused on the respondents in clinical and finance and administration.

Fostgate (2005) recommends that a formula can be used to draw a sample. The choice of the formula depends on the margin of error and the proportion chosen. One famous formula is the Fisher (1983) formula given below

$$n=Z^2*p*(1-p)/d^2$$

Where:

n = Sample size
Z = Normal distribution Z value score, (1.96)
p = Proportion of units in the sample size possessing the variables under study, where for this study it is set at 75% (0.75)
d = Precision level desired or the significance level which is 0.1 for the study

The substituted values in determining the sample size for a large population is as follows.

$$n= ((1.96) ^2 (0.75) (0.25))/ (0.1) ^2 =72$$

The sample size for the study is 72 respondents. The sample of budget officers are drawn from clinical and non-clinical (finance and administration areas).

Data Collection Instruments and Procedure

Data collection is the precise and systematic gathering of information relevant to the research problems, using methods such as interviews, participant observations, focus group discussion, narratives and case histories (Burns & Grove, 2010). Cooper and Schindler (2007) state that the questionnaire is conveniently used because it is cheaper and quicker to administer. The study used quantitative primary data gathered by use of structured questions through research assistants. The research assistants were trained on how and to whom to administer the questionnaires to the respondents. Drop and pick method was used for data collection. The researcher made follow ups to ensure objectivity.

Data Analysis and Presentation

According to Saunders, Lewis and Thornbill (2009), data analysis is the processing of data to make meaningful information after quantitative data is collected through questionnaires. It was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keying into Statistical Package for Social Sciences (SPSS) computer software for analysis. SPSS version 24 was used to produce frequencies, descriptive and inferential statistics which were used to derive conclusions and generalizations regarding the population. The data was presented using statistical measures bar graphs, frequency tables and graphical presentations. Correlation and regression analysis were performed on the data the questionnaire .A multiple linear regression model was used to test the significance of the effect of budgeting process on budget performance of State Corporations of Kenya.

The multiple linear regression model, was as laid below.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y = Budget Performance of State Corporations in Kenya

X1 = Budgetary Participation

X2= Budget Feedback

X3 = Budgeting Sophistication

X4 = Budgetary Control

e=Error term and α= constant

β=coefficient of independent variables

RESEARCH RESULTS

Budget Participation

The study established that budgetary perticipation has a strong, positive and significant effect on budget performance of State Corporations in Kenya. From the results the respondents agreed that their superior seek their requests, opinions, and/or suggestions when the budget is being prepared. Again the effect was evidenced by the fact that KNH Staff are involved in budget follow-ups. However it was evidenced that KNH Staff proposals for budget alteration are fairly taken seriously.

Budget Sophistication

Regarding budgeting sophistication, the study sought to determine the effect budgeting sophistication on budget performance of State Corporations in Kenya and found that it indeed has an effect on performance of State Corporations in Kenya. The effect was evidenced by the fact that KNH staffs were assisted by a technical /expert person when preparing their department/Section budget. However the study found that KNH does not software to generate actual data for the previous period to enable budget preparation and that KNH uses financial models in budget process.

Budget Feedback

Concerning the budget feedback, the study sought to determine the effect of budget feedback on performance of State Corporations in Kenya. The study revealed that budget reports are prepared on monthly basis and that employees are informed of their unit's budget adjustments and changes as a feedback mechanism. It was also found that there are clear communication channels about budget performance and that budget goals are clear and well understood by staff.

Budgetary Control

In relation to budgetary control, the study found that it has an effect on budget performance of State Corporations in Kenya. The effect may be caused by the fact that the KNH budget contain performance indicators for assessing whether there has been progress towards meeting budget goals that differences between budget and actual results are analyzed periodically and actions taken and that the organization's budget performance evaluation reports are prepared frequently and shared with staff.

INFERENTIAL STATISTICS

Inferential statistics were conducted to establish the relationship between the dependent and independent variables. These include the Multicollinearity Test, Pearson's correlation analysis and the regression analysis.

Multicollinearity Test

Problem may arise when two or more predictor variables are correlated. Heteroscedasticity means that previous error terms are influencing other error terms and this violates the statistical assumption that the error terms have a constant variance. Collins, Onwuegbuzie and Jiao (2007) argue that the prediction is not affected, but interpretation of, and conclusions based on, the size of the regression coefficients, their standard errors, or the associated z-tests, may be misleading because of the potentially confounding effects of multi collinearity. In the presence of multi collinearity, Burns and Grove (2010) demonstrate that the coefficient estimates may change erratically in response to small changes in the model or the data. However, the decision to finally drop an item also depends on a second step, where the variance inflation factor (VIF) is applied. The VIF detects multicollinearity by measuring the degree to which the variance has been inflated. A VIF greater than10 is thought to signal harmful multi collinearity as suggested by Somekh and Lewin (2015).

Table 1: Summary of Collinearity Statistics

Model	**Collinearity Statistics**	
	Tolerance	**VIF**
Budgetary Participation	0.924	2.728
Budget Feedback	0.786	1.423
Budgeting Sophistication	0.634	1.352
Budgetary Control	0.780	3.427

The Variance inflation factor (VIF) was checked in all the analysis which is not a cause of concern according to Somekh and Lewin (2015) who indicated that a VIF greater than 10 is a cause of concern. The basic assumption is that the error terms for different observations are uncorrelated (lack of autocorrelation).

Pearson's Correlation Analysis

Pearson correlation analysis was conducted using SPSS in order to establish if a relationship existed between budgeting process and budget Performance of State Corporations. Correlation analysis measures the degree of a relationship between two variables and expresses the extent of this relationship by means of correlation. Measures of correlation indicate both the strength and direction of the relationship between variables. The statistic calculated is the Pearson correlation coefficients (r) and varies between -1 and +1. The nearer the value of r is to zero, the weaker the relationship, and the closer to unity (- or +), the stronger the relationship. The sign of the Pearson correlation coefficient indicates the direction of the relationship, and its absolute value indicates the strength, with larger absolute values indicating stronger relationships. In this study, correlation coefficients represent the nature of the relationship between variables whereby a coefficient of 0.5 represents a strong relationship, a coefficient of between 0.3 and 0.5 represents a moderate relationship while a coefficient of below 0.3 represents a weak relationship (Collins, Onwuegbuzie and Jiao, 2007).

Table 2: Correlation Matrix

		Budget performance	**Budgetary participation**	**Budget feedback**	**Budgeting sophistication**	**Budgetary control**
Budget performance of State Corporations	Pearson Correlation	1				
	Sig. (2-tailed)	.				
Budgetary participation	Pearson Correlation	0.881	1			
	Sig. (2-tailed)	0.009	.			
Budget feedback	Pearson Correlation	0.789	0.523	1		
	Sig. (2-tailed)	0.017	0.016	.		
Budgeting sophistication	Pearson Correlation	0.692	0.743	0.597	1	
	Sig. (2-tailed)	0.031	0.012	0.028	.	
Budgetary control	Pearson Correlation	0.797	0.533	0.72	0.531	1
	Sig. (2-tailed)	0.011	.009	0.002	0.014	.

The data presented before on budgetary participation, budget feedback, budgeting sophistication and budgetary control were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table 4.14 indicates the correlation matrix between the aspects of budgeting process (budgetary participation, budget feedback, budgeting sophistication and budgetary control) and budget performance of State Corporations in Kenya. According to the table, there is a positive relationship between budget performance of State Corporations in Kenya and budgetary participation, budget feedback, budgeting sophistication and budgetary control of magnitude 0.881, 0.789, 0.692 and 0.797 respectively. The positive relationship indicates that there is a correlation between the factors and the budget performance of State Corporations in Kenya. This infers that budgetary participation had the greatest effect on the budget performance of State Corporations of Kenya, followed by budgetary control, then budget feedback while budgeting sophistication had the least effect on the budget performance of State Corporations of Kenya. This concur Drake (2010) who claims that budget participation is measured from the following factors; the ability for the subordinates to influence the design of the budget, extent the superior manager contacts the subordinates, how easy it is for the subordinates to propose alterations in the budget process and to what degree the subordinates participate in the budget's follow-up phase. This also agree with Hoque (2005) who further said that participative budgeting process ensures that estimates are more accurate and reliable, leading to greater acceptance from organization members and better performance.

Regression Analysis

Regression analysis shows how dependent variable is influenced with independent variables. The study sought to determine the effect of budgeting process on budget performance of State Corporations of Kenya.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.860	0.740	0.718	0.147

Table 4.15 is a model fit which establish how fit the model equation fits the data. The R^2 was used to establish the predictive power of the study model and it was found to be 0.740 implying that 74% of the variations on budget performance of State Corporations of Kenya is explained by budgetary participation, budget feedback, budgeting sophistication and budgetary control leaving 26% unexplained. Therefore, further studies should be done to establish the other factors (26%) affecting budget performance of State Corporations of Kenya.

Table 4: ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	3.143	4	0.786	34.163	0.000
1	Residual	1.104	48	0.023		
	Total	4.247	52			

The probability value of 0.000 indicates that the regression relationship was highly significant in predicting how budgetary participation, budget feedback, budgeting sophistication and budgetary control affect budget performance of State Corporations of Kenya. The F calculated at 5 percent level of significance was 34.163 since F calculated is greater than the F critical (value = 2.5252), this shows that the overall model was significant.

Table 5: Coefficients of Determination

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.862	0.143		6.028	0.000
Budgetary Participation	0.852	0.296	0.678	2.878	0.005
Budget Feedback	0.763	0.273	0.634	2.795	0.007
Budgeting Sophistication	0.673	0.248	0.786	2.714	0.008
Budgetary Control	0.771	0.259	0.498	2.977	0.004

The established model for the study was:

$$Y = 0.862 + 0.852\ X_1 + 0.763\ X_2 + 0.673\ X_3 + 0.771\ X_4$$

The regression equation above has established that taking all factors into account (budgetary participation, budget feedback, budgeting sophistication and budgetary control) constant at zero, budget performance of State Corporations in Kenya was 0.862. The findings presented also show that taking all other independent variables at zero, a unit increase in budgetary participation would lead to a 0.852 increases on budget performance of State Corporations of Kenya. The relationship was also significant with p-value 0.005 <0.05. This corresponds to Hoque (2005) who opined that participative budgeting process ensures that estimates are more accurate and reliable, leading to greater acceptance from organization members and better performance.

The study also found that a unit increase in budget feedback would lead to a 0.763 increase on budget performance of State Corporations of Kenya. The relationship was also significant with p-value 0.007 <0.05. This is in line with Henderson (2009) who claims that reports should be timely to facilitate adjustments to off-target operations and when employees of an organization are not aware about the results of their efforts, they have no indication of success or failure and no incentive for higher performance.

Further the study found that a unit increase in the scores of budgeting sophistication would lead to a 0.673 increase on budget performance of State Corporations of Kenya. The relationship was also significant with p-value 0.008<0.05. This concurs Merchant (1981) who intimated that the adoption of more sophisticated budgeting, including greater use of computer, technical staff, and financial modeling, enhances the correct-ability of budgetary plan, and in turn, results in higher performance.

Further, the findings shows that a unit increases in the budgetary control would lead to a 0.771 increase on budget performance of State Corporations of Kenya. The relationship was also significant with p-value 0.004 <0.05. This corresponds to Adongo (2013) who argue that to determine the salient features of budgetary controls in state corporations, to establish the human factors within budgetary controls, establish the process of budgetary control in public organizations and determine the challenges affecting budgetary control, observed that there are factors affecting financial performance which thus reveal that there are gaps that remain on the influence of budgetary control on financial performance of public institutions.

Overall, budgetary participation had the greatest effect on the budget performance of State Corporations of Kenya, followed by budgetary control, then budget feedback while budgeting sophistication had the least effect on the budget performance of State Corporations of Kenya. All the variables were significant ($p<0.05$).

CONCLUSIONS

Budget Participation

From the findings, the study concludes that budgetary perticipation has a positive and significant effect on budget performance of State Corporations in Kenya. From the results it was deduced that their KNH superior seek their requests, opinions, and/or suggestions when the budget is being prepared. Again it was deduced that that KNH Staff are involved in budget follow-ups. However the study concludes that KNH Staff proposals for budget alteration are fairly taken seriously.

Budget Sophistication

In relation budgeting sophistication, the concludes that budgeting sophistication has a strong, positive and significant effect on budget performance of State Corporations in Kenya.The effect was deduced to have been caused by the fact that KNH staffs were assisted by a technical /expert person when preparing their department/Section budget. However the study concludes that KNH does not software to generate actual data for the previous period to enable budget preparation and that KNH uses financial models in budget process.

Budget Feedback

Concerning budget feedback, the study concludes that budget feedback has a positive effect on budget performance of State Corporations in Kenya. The study deduced that at KNH, budget reports are prepared on monthly basis and that employees are informed of their unit's budget adjustments and changes as a feedback mechanism brought in the effect. It was also concluded that there are clear communication channels about budget performance and that budget goals are clear and well understood by staff.

Budgetary Control

Further in relation to budgetary control, the study concluded that the budgetary control has a positive effect on budget performance of State Corporations in Kenya. The effect was deduced to have been caused by the fact that the KNH budget contain performance indicators for assessing whether there has been progress towards meeting budget goals that differences between budget and actual results are analyzed periodically and actions taken and that the organization's budget performance evaluation reports are prepared frequently and shared with staff.

The study finally concludes that budgetary participation had the most significant effect on the budget performance of State Corporations of Kenya, followed by budgetary control, then budget feedback while budgeting sophistication had the least effect on the budget performance of State Corporations of Kenya. All the variables were conclude to be significant since.

RECOMMENDATIONS

Budget Participation

In regard to budgetary perticipation, the study found that KNH Staff proposals for budget alteration are not always taken seriously. Therefore the study recommends that staff proposals should always be taken into consideration since budget participation is measured from the following factors; the ability for the subordinates to influence the design of the budget, extent the superior manager contacts the subordinates, how easy it is for the subordinates to propose alterations in the budget process and to what degree the subordinates participate in the budget’s follow-up phase. This will help to improve the budgetary performance of State Corporations in Kenya.

Budget Sophistication

The study additionally found that in relation to budgeting sophistication, KNH does not always use financial models in budget process. The study therefore recommends that financial models in state corporations in Kenya financial models should always be developed since they indicate that institutions that engage in more sophisticated net present value capital budgeting techniques, have a consistent increase of performance. The study also recommends that the staff should also be assisted by a technical /expert person when preparing their department/section budget to help ease the sophistication issues.

Budget Feedback

Regarding budget feedback, the study found that clear communication channels about budget performance is vital in the performance of state corporations in Kenya. The study therefore recommends that there should be clear communications channels in all corporations and the budget goals should be clear and well understood by all staffs since vertical information-sharing involves both upward communication of information from subordinate to superior and downward communication from superior to subordinate. Also increased task uncertainty causes increased information needs from subordinates, which in turn, increases their desire to participate and helps them to better understand their tasks and set difficult but attainable budget goals.

Budgetary Control

The study finally found that in regard to budgetary control, differences between budget and actual results are analyzed periodically and actions taken. The study therefore recommends that this should be enforced at KNH since they determine the salient features of budgetary controls in state corporations.

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