International Journal of Professional Practice (IJPP) Vol.12 Issue No. 3, 2024

Effect of Budget Planning on the Financial Performance of Public Universities in the Mount Kenya Region, Kenya

Lilian Kawira Kaithia[1], Abel Moguche[1], Nancy Rintari[1]*

[1]*Kenya Methodist University P.O. Box 45240 – 00100, Nairobi, Kenya*

**Correspondence email: lilian.kawirakaithia@gmail.com*

Abstract

Public universities perform a vital role in providing higher education and contributing to the country's socioeconomic development. Notably, public higher education establishments in the Mount Kenya region, have successfully implemented budgetary control approaches to improve financial performance. That notwithstanding, most of them are ignorant of how budgets and budgetary control affect performance outcomes. The purpose of this study was to establish the effect of budget planning on the financial performance of public universities located in the Mount Kenya region, Kenya. The design used in the investigation was descriptive. The target population was 7 universities located in Mount Kenya Region. The respondents, enlisted using census method included 284 heads of departments in both academic and administration divisions of the universities included. Structured questionnaires were used to collect data for this study. Using the drop and pick method, the researcher issued and collected filled in questionnaires after 2 weeks. The data were analyzed using descriptive techniques like frequencies, percentage and mean, while the inferential statistics included correlations. The study conducted a pre-test study in Laikipia University, where 28 respondents were recruited using simple random method. Data was presented using tables and explanations. The findings indicated a noteworthy and optimistic correlation between budgetary planning and financial performance of public universities ($r=0.817$, $p=0.000$). The study concluded that most universities had budgets that guided them in a financial year. However, the main concern was declined revenue consistency to adequately fund the budget. The study recommended that budgetary control strategies such as incremental and activity-based budgets be introduced in public institutions. Further, public universities need to focus more on creating budgetary control through appropriate planning, monitoring, and budget implementation, as well as allowing employee engagement in the budget process in order to strengthen the budgetary control process.

Keywords: *Budget planning, Financial Performance, Public universities, Mount Kenya Region, Kenya*

IJPP 12(3); 88-100

1.0 Introduction

Public universities perform a vital role in the provision of higher education and the subsequent socioeconomic development of a country. Globally, despite government investment in public universities in New England, their performance continues declining over the years (Maksy & Rodriguez, 2018). The government of New Zealand put a lot of resources in the universities but the universities' management were always full of corruption scandals leading to poor performance. Enhancement of budget control practices have been suggested as the solution to the poor financial performance in the universities (Anziano, 2020).

Regionally, Alemu (2019) states that for less developed continents such as Africa, higher education is a catalyst for social and economic advancement and one of the tactics of enhancing the financial performance of the public universities is through budgetary control measures. Despite this, universities in Africa have continued to be the most disadvantaged, yet they are highly funded (Alemu, 2019).

In Nigeria Universities have continued to experience declining performance. Strikes for a variety of causes have become commonplace due to the governments' and the academia's increasingly callous approach to policy making. The rate at which disputes in the budget are reported in Nigerian universities has influenced the standards as well as the performance of the institutions. Although university education is seen to influence the Nigerian economy, university institutions are seen to be effortless in minimizing the disputes (Shimawua, 2020).

Locally, Kenya has several public institutions of higher learning that have experienced significant growth in recent years (Maina & Kabare, 2019). The number of the public institutions of higher learning has increased so as to match the rising demand for higher education in the country. The Commission for University Education (CUE) is the regulatory body responsible for overseeing the establishment, accreditation, and quality assurance of universities in Kenya (Mwatsefu, 2020). CUE ensures adherence to academic standards, approves new programs, and conducts periodic audits to maintain quality in higher education.

According to the National Treasury (2012), the public finance act ensured that it is a statutory requirement for each public university to prepare a capital and a recurrent budget for a particular financial year to enhance management of its performance. Performance is an organization's capacity to carry out its goals (Handayani et al., 2023). When the planned objectives are accomplished through consistent budgetary control, the chosen resources and activities involved in the management process within a certain time frame are successfully implemented (Shimawua, 2020). The budgetary control is able to give a comparison of the actual and the budget targets in a university as well as the deviations in the budget. The discrepancies amongst budgeted and actual performance would make it possible to identify weak points. This makes it possible for an organization to concentrate on the areas where performance falls short of expectations (Oktari et al., 2020).

Budgeting has an optimistic and noteworthy result on the financial success, especially when accompanied by effective practices such as monitoring and evaluation, stakeholder involvement, and realistic target setting (Oktari et al., 2020). According to Otieno (2019), few higher education establishments in Kenya have successfully implemented budgetary control approaches to improve financial performance. Most of them are ignorant of how budgets and budgetary control affect performance outcomes.

Statement of the Problem

Institutional managers use budgetary control to match financial performance objectives with budgets, compare budgets with the actual outcomes, and implement essential modifications. Attaining robust financial performance is a fundamental goal for any prosperous learning institution (Maina, 2019). Nonetheless, public universities in Kenya persist in encountering obstacles in their financial performances. These impediments encompass operating with negative working capital, a surplus of outstanding fees, unregulated capital expenditure, and occurrences of fraudulent activities. According to a survey conducted by the Webometrics in January 2020, Kenyan universities continue to be ranked low internationally, based on their performance across all the core objectives; namely, teaching, research, knowledge transfer and international outlook (Kithinji et al., 2022).

The current scenario in Kenya's public institutions of higher learning portrays a picture of deprived financial performance. In Kenya, nearly every year, workers in some public institutions of higher learning stop working for some time as a consequence of salary disagreements amongst the staff unions, the universities' managements and the government. Financial problems such as struggles with liquidity, delays in the financial reports, fraud and misuse of resources have majorly been experienced in most public institutions in Kenya (Kithinji et al., 2022).

"The study found that although universities in the Mount Kenya Region had budgets, there is declined revenue consistency to adequately fund the budget; thereby rendering the budget ineffective"

Attaining robust financial performance is a fundamental goal for any prosperous organization (Olaniyan & Efuntade, 2020). Nonetheless, public universities in Kenya persist in encountering obstacles in their financial performances. These impediments encompass operating with negative working capital, a surplus of outstanding fees, unregulated capital expenditure, and occurrences of fraudulent activities. According to a survey conducted by the Webometrics in January 2024, Kenyan universities continue to be ranked low internationally based on their performance across all the core objectives which include teaching, research, knowledge transfer and international outlook.

Purpose of the Study

To establish the effect of budget planning on the financial performance of public universities located in the Mount Kenya region, Kenya.

Research Hypothesis

H01: There is no statistically significant relationship between budget planning and the financial performance of public universities in the Mount Kenya region, Kenya.

Theoretical Review

The theory of budgeting was projected by (Hirst, 1987). As per this theory, budgets are viewed as the essential component of a successful regulator procedure and, subsequently, as a significant part of the general notion of a successful monetary control. Budgets predict future financial results, enabling one to evaluate the feasibility of a certain course of action. Most businesses solemnize this procedure by generating yearly funds and pursuing success against them. A budget is thus nothing more than a gathering of tactics and plans.

The financial implications of commercial tactics are reflected in budgets, which specify the quantity, quality, and effectiveness of resources required. In order to provide predictions of the far future returns, as well as the expenditures in the short-term, goals are set (Sharma, 2012). By interpreting corporate objectives and serving as a standard against which to measure performance, budgets can further affect how people behave and make decisions. According to Hancock (2009), operational planning is the foundation of management.

The theory therefore links budget control practices; that is budget planning and budget monitoring, to performance of organizations (dependent variable). By linking recompense to success measures in contrast to the budget, the theory provides an example of how to make goals plain, communicate goals, code learning, and define performance indicators for specific individuals of an organization.

Empirical Review

Romenska et al. (2020) examined budget planning in Ukraine, as the country’s budget procedure evolved. Their study discloses the characteristics and benefits of medium-term budget planning based on the results. Budget planning is crucial because Ukraine's budget process needs to be improved in order to increase probability, alleviate the budget over the medium term, and address significant issues with effective and high-quality utilization.

Nasri et al. (2022) investigated the execution of collaborative development and budget success data for special provision endowment in budget development in the Rokan Hilir regency's regional development planning agency. Success is an administration technique for raising the standard of responsibility and decision-making. It is crucial to understand how budget development influences success and performance in the ministry of defense, so as to establish a responsible government. To determine how the elements being evaluated would affect the outcome, a quantitative methodology is used in their study. The investigation outcomes show that there is a noteworthy impact of the development of budgets and success of firms. The study focused on budget planning, leaving out budget participation, implementation of budget and monitoring of budget. The study focused on agency of Rokan Hilir regency and not public universities in Kenya.

Ezekiel and Obafemi (2022) conducted research on the impact of budget and financial control in a number of Nigerian administration parastatals. Their findings indicated that budget implementation, financial control and budget monitoring and evaluation had a negligible positive impact on financial control. The investigation came to the general conclusion that financial control would enhance success of the parastatal. This investigation was also done in Nigeria, while the present study seeks to examine the influence of budget control in Kenyan public universities.

Thambura et al.'s (2023) study on monitoring and assessment used frequencies, percentages, averages, and composite means in the analysis of data on performance livelihood programmes of Caritas Meru. According to the report, Caritas Meru uses M&E data gathering practices successfully. The findings show a positive relationship between the performance of livelihood programmes and monitoring and evaluation data gathering. According to the study's findings, M&E information assembly measures had an extensive impression on how well Caritas Meru's livelihood programme performed. The study suggested using M&E data gathering best practices efficiently to produce precise and dependable data to sustenance project success. For the purpose of generalizing the findings, the study suggested further research on projects in other industries using a similar methodology.

Using Kajiado County as a case study, Ndegwa (2020) examined the impact of monitoring and evaluation processes on the execution of water, sanitation, and hygiene projects in Kenya. The results demonstrated a significant positive association between M&E leadership and project implementation. This suggests that the level of project implementation efficiency will rise if firms employ good leadership. The results also demonstrate a favorable relationship between project implementation and funding for the M&E process. According to the report, participation of stakeholders and implementation go hand in hand. This suggests that increasing stakeholder participation in the UNICEF WASH project in Kajiado, Kenya, can greatly enhance project execution. The study's conclusions showed that the monitoring and evaluation process has an impact on how projects are carried out. The study was done in Kajiado County while the present study is carried out in Mount Kenya region, Kenya.

2.0 Materials and Methods

This study uses descriptive research design. The target population was 7 universities located in the Mount Kenya Region. Respondents included the 284 heads of departments in both academic and administration divisions of the selected universities. Since the target population was small, all the 284 respondents were used in the study. Collection of data for this investigation was conducted through implementation of structured questionnaires. Using the drop and pick method, the researcher issued and collected filled in questionnaires after 2 weeks. The data were analyzed using descriptive techniques like frequencies, percentage and mean, while inferential statistics included correlations. A pre-test study was conducted in Laikipia University, where 28 respondents were included using simple random method. Data was presented using tables and explanations. Strict research ethics and adherence to anonymity and privacy of the respondents through sequential numbers on the questionnaires as an alternative of obscuring their identity was observed.

3.0 Results and Discussion

Response rate

A total of 284 questionnaires were administered to Heads of Department in Academic Divisions and Heads of Department in Administration Divisions in every university in the region. Table 1 displays the findings of the response rate.

Table 1

Response Rate

Population	Sampled Population	Returned	Unreturned
Heads of Departments	284	209 (73.59%)	75(26.41%)

A total of two hundred and nine (209) questionnaires were completed and returned, resulting to a response rate of 73.59% as shown in Table 1. That response rate was sufficient for the study. This supports findings by Booker (2021) who observes that return rates of fifty percent are suitable for analysis and publication, sixty percent are respectable, and 70% are excellent. Therefore, 73.59% response rate for this study was deemed good.

Reliability Results

The Cronbach's Alpha coefficient of reliability was used to conduct the pilot study. Table 2 displays the findings.

Table 2

Reliability Analysis

Variable	Cronbach's Alpha	Number of items	Comment
Budgetary planning	0.834	28	Reliable
Financial Performance	0.895	28	Reliable

The budgetary planning process demonstrated a strong internal steadiness with an alpha index of 0.834 and a financial performance alpha value of Cronbach's 0.895, indicating reliability.

Results of Budgetary Planning

Several issues relating to the budget planning were presented in the questionnaire to determine the level of budget planning in the public universities. The rating of the statements was done using a five Likert scale. Table 3 displays the findings.

Table 3

Descriptive for Budgetary Planning

Statement	Mean	Std. Dev
Prior to budget periods, each department at the university creates a budget plan	3.69	1.14
The University has strategies for both its short- and long-term finances	3.54	1.29
The University's finances include both ongoing and development programmes	3.86	1.25
The priorities of many departments are taken into account when designing the university budget	3.60	1.26

Results in Table 3 indicate that most responders concurred that every university department creates financial plans ahead of time (average was 3.69, std. dev =1.14). This suggests that most universities are in a position to prepare budget plans. The finding implies that the university management had allowed departments to have budgets and strategies that would guide their progress in both the short- and the long-term goals. The findings agreed with Kiiru et al. (2018) who found that there is a statistically noteworthy association amongst budgeting and financial success. The respondents indicated that universities have both short-term and long-term budget goals. According to the data, the average was 3.54, and standard deviation was1.29. This suggests that public universities are able to make both a brief and lengthy period budgets. These findings agreed with Saputro et al. (2022) whose investigation showed that each phase of budgeting was important in success of an organization.

Further, results indicated that each department of the universities included both the recurrent and the development budget plans (mean=3.86, deviation was1.25). This finding confirms that public universities have incorporated the necessary plans for the budgets. These outcomes concurred with Foster (2018) who was of the opinion that better preparation and development could aid managers in enhancing the financial steadiness of their small enterprises, thus lowering failure rates and job losses.

In addition, the results indicated that the priorities of many departments were taken into account when designing the universities' budgets (average was 3.60, deviation was1.26). This indicates that public universities are able to plan their budgets in order of priorities. The finding concurred with Sulistiyo and Pratiwi (2021) found that budget planning significantly affects how companies perform. The results further concurred with Foster (2018) who established that better preparation and development could aid managers in enhancing the financial steadiness of their small enterprises, thus lowering failure rates and job losses. They supported Mbuthia and Omagwa (2019) who noted that budgeting

planning significantly and favorably affects financial performance

Results of Financial Performance

Several statements relating to the financial performance were addressed in the questionnaires to determine the level of financial performance in the public universities. The rating of the statements was done using a five Likert scale, as shown in Table 4 below.

Table 4

Descriptive for Financial Performance

Statement	Mean	Standard Deviation
The university revenue has been increasing	3.99	1.34
The university is able to meet all its expenses	2.81	1.33
The university has been able to pay all its bills in time	2.74	1.27
The liquidity level of the university has been increasing	2.86	1.41
Over the last five years, the campuses assets returns have increased.	3.78	1.23

Most of the respondents concurred with the statement that the university revenue had been increasing (mean 3.99, standard deviation 1.34). This implies that most public universities revenue had been increasing. Further results indicated that most of the respondents disagreed with the statement that universities were able to meet all their expenses; average of 2.81 and a standard deviation of 1.33. This indicates that most public universities were having poor financial performance.

In addition, most of the respondents disagreed with the assertion that the universities are able to pay all their bills in time by an average of 2.74, and a standard deviation of 1.27. This means that most public universities were in debt and were not able to pay their bills in time.

Results also indicated that most of respondents disagreed that liquidity level of the university had been increasing by an average of 2.86, and a standard deviation of 1.41. This implies that the liquidity level of most universities had been decreasing. Therefore, the liabilities were increasing faster than the current assets. In addition, results indicated that most of the respondents concurred with the statement that assets return had been increasing, average of 3.78, and standard deviation of 1.23. This means that the return on assets of most universities has been increasing.

Correlation Results

The investigation used Pearson Correlation to test the association between planning of budget, participation in budget, monitoring of budget, budgetary implementation, and financial success. Table 5 displays the findings.

Table 5

Correlation Results

		Financial performance	Budgetary Planning
Financial performance	Correlation	1	.817**
	Sig. (2-tailed)		0.000
	N	209	209
Budgetary Planning	Correlation	.817**	1
	Sig. (2-tailed)	0.000	
	N	209	209

The results in Table 5 indicates that a noteworthy link between budgetary planning and financial performance of public universities ($r=0.817$, $p=0.000$). Therefore, the study rejected the null hypothesis. This means that financial performance of public universities improved as budgetary planning improved. The findings concurred with Mbuthia and Omagwa (2019) who found that budgeting planning significantly and favorably affects financial performance. The findings also agreed with Saputro et al. (2022) who noted that each phase of budgeting was important in the success of an organization. The outcomes concurred with Foster's (2018) opinion that better preparation and development could aid managers in enhancing the financial steadiness of their small enterprises; thus, lowering failure rates and job losses.

Summary of the Findings

The respondents agreed that each university department created financial plans ahead of time. The respondents confirmed that universities had both short- and long-term budget strategies. Additionally, findings showed that every university department included both recurrent and development plans in its budgets. Further, the results indicated that at the planning-level university budgets take into account the priorities of various departments. Correlation outcomes established that budgetary planning had a positive correlation with the financial performance of public universities located in the Mount Kenya region, Kenya.

4.0 Conclusion

The study concluded that universities in the Mount Kenya Region had budgets that guided them. However, there is declined revenue consistency to adequately fund the budget; thereby rendering the budget ineffective, and occasioning supplementary budgets to sort of urgent bills because the institution's inability to meet all expenses at once. This affected the overall performance of universities in Mount Kenya Region.

5.0 Recommendations

Budgetary control strategies are required in public institutions since they greatly improve financial performance. This study recommends that public universities focus on creating budgetary control measures through appropriate planning, monitoring, budget implementation, as well as allowing employee engagement in the budget process, so as to strengthen the budgetary control process.

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