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Budgetary Controls and Financial Performance of Micro Finance Institutions (MFIs) in Kenya.

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Abstract

Micro financing institutions in Kenya showed a high growth rate since they were established in 1997 and legislation passed in 2006 with the micro finance Act which became active in 2008. The research sought to determine exactly how budget controls influence financial performance of micro finance organizations (MFIs) in Kenya. The objectives of the study were to establish the effect of budget planning on the performance of MFIs; to figure out the impact of budget control on the performance of MFIs in Kenya; to establish the impact of budget plan analysis on the economic efficiency of MFIs and to assess the impact of budget coverage on the financial performance of MFIs in Kenya. The research study was anchored on the Priority Based Budgeting Theory, Goal-setting theory as well as the Accountancy theory. The study adopted the descriptive research design. The target population was 713 employees of the 14 MFIs in Kenya. Purposive sampling was adopted to select a sample size of 70 top and mid-level managers. Data was obtained via structured questionnaires as well as an interview schedule. Descriptive and inferential statistics were used to analyze the data with the help of SPSS. The study used a multiple regression model to show the relationship between the study variables. The findings revealed an R squared of 0.872 which means that the independent variables contribute up to 87.2% of the changes in the dependent variable and adjusted R squared of 0.864 at 95% significance level, implying that the budgetary controls adopted in this study (Reporting, Planning, Evaluation, Coordination) jointly explained 87.2 percent of the variation in performance of the MFIs in Kenya. The study also found that budget planning as an aspect of budgetary control had a positive and significant effect on the performance of MFIs in Kenya (β =105, p=.016<.05), budget coordination as an aspect of budgetary control had a positive and significant effect on the performance of MFIs in Kenya (β =.162, p=.005<.05), budget evaluation as an aspect of budgetary control had a positive and significant effect on the performance of MFIs in Kenya (β =.240, p=.005<.05), and finally that budget reporting had a positive and significant effect on the performance of MFIs in Kenya (β =.398, p=.000<.05). The study concluded that budgetary control practices adopted had positive and significant effect on the performance of MFIs in Kenya. The study thus recommended that recommends that the microfinance institutions should consider enhancing the budgetary control measures such as budget planning, budget coordination, budget evaluation and budget reporting as ways of enhancing their performance.

Keywords: *Budgetary Controls, Financial Performance, Microfinance Institutions*

1.1 Background of the Study

Budgetary controls are a system of mechanisms that help organizations to monitor the flow of money and to control their income and expenses. It involves close monitoring of the incoming and outgoing cash in an organization so as to identify the differences from the initially allocated budget and to make corrections so that the planned and actual budget can be synchronized (Mohd Ali, 2021). Budgetary control is important because it allows organizations to operate within their means and enables them to plan for the future thus giving them a sense of direction and consequently increases firm performance (Nafisatu, 2018). Firms that apply budgetary control strategies often tend to enhance organization decision making, effectiveness as well as productivity.

Budgetary control is aimed at defining the objectives of the organization, outlining the plans to be followed to achieve the objectives, coordinating operations across different departments of the organization and operating these departments economically and as efficiently as possible. Budgetary control systems eliminate wastage hence increases profitability of the organization, centralizes the command and control system and offers a collective standard of doing things (Isaac, Lawal & Okoli, 2015).

The budgetary control process can be broken down into a few steps such as planning of the budget, coordination of different departments, monitoring and evaluation as well as reporting. First the budget for a period of time in the future is prepared then when the time comes the budget is compared to the actual performance at the time. Finally, correctional measures are undertaken to minimize the difference between the budget and the actual performance (Al Kaabi, Karim & Hossain, 2019).

Financial performance gauges how an organization uses the assets it has to generate revenues through its primary mode of business. Financial performance is also an indicator of the firm's general financial health and outlook over a given time frame. It shows how well a firm is utilizing the resources at its disposal to maximize the wealth and profitability of its shareholders (Wang & Sarkis, 2017). Financial performance is mostly evaluated by the use of financial ratios. These ratios include leverage ratios, profitability ratios, liquidity ratios, cash conversion cycle and others. These ratios are used to establish the liquidity, profitability and leverage levels of organizations and this can then help to steer these organizations to the right performance levels (Linares-Mustarós, Coenders & Vives-Mestres, 2018).

Microfinance was highlighted in Kenya's vision 2030 as a key tool to make all Kenyans have access to financial services by 2030. As such, the government has intensified campaigns for financial inclusion by creating funds in the national budget for the microfinance sector. Women and youth are the main targets and legislation developed to promote micro and small enterprises (Muithya & Muathe, 2020). The Association for Microfinance Institutions (AMFI) was established in 1999 to help in the capacity building of the Kenya Microfinance Industry. Since its inception, it has made the provision of financial services easier and more affordable to the population in rural and marginalized areas. This will result in the improvement of quality and widen the funding base of MFIs. It will also begin integrating micro finance institutions with the formal financial system thus enabling regulators to define standard procedures for the industry (Kathomi, Maina & Kariuki, 2017).

1.2 Statement of the Problem

Micro financing organizations in Kenya showed a high growth rate since they were initiated. Nonetheless, a substantial decline occurred in the year 2017 with total assets decreasing by 4.6 percent from Ksh. 72 billion in 2016 to Ksh. 69 billion in 2017. Profit levels have additionally declined from KSh. 549 million in 2015 to a loss of 731 Million at the end of 2017 (Kalekye, 2018). Some of the challenges that have led to this decline in performance include lack of efficient corporate structures, weak business models, reduced focus on deposits and over-reliance on borrowed funds, changes in debt pricing and uptake due to the cap on interest rates as well as poor budgetary control practices (Njeule, 2013).

Budgetary control measures help to mitigate some of the challenges faced by microfinance institutions. Budgets give direction to the institution because each department head becomes aware of what is expected of them in terms of what they can spend and the revenue they are expected to generate (Mwakaliku, 2019). Without budgets, institutions tend to spend more than they need to on redundant expenditure and do not have any point of reference regarding the revenues earned. This often leads to stagnation in terms of institutional performance. Microfinance institutions that do not use budgetary control measures often face high costs and wastage of resources (Abdi, 2018). Budgetary control also acts as a motivation to microfinance employees by fixing performance targets. Microfinance institutions that adopt budgetary control in their operations tend to have well laid out plans, without them microfinance institutions may experience a lack of uniformity in purpose and direction leading to reduced productivity and financial performance across the institution (Zani, 2020).

1.3 Objectives of the Study

i. To establish the influence of budget planning on financial performance of MFIs in Kenya.
ii. To determine the effect of budget coordination on financial performance of MFIs in Kenya.
iii. To establish the influence of budget evaluation on financial performance of MFIs in Kenya.
iv. To evaluate the influence of budget reporting on financial performance of MFIs in Kenya.

2.1 Theoretical Review

This research was based on Priority Based Budgeting Theory, Goal-setting Theory and Accounting Theory.

2.1.1 Priority Based Budgeting Theory

This theory was first developed by Chris Fabian in 2008. The theory follows a management accounting method that seeks to improve profitability by encouraging their managers to re-evaluate their activities and restructure their priorities. This theory aims to reduce the costs of an organization while channeling the organizational resources into high-priority areas of the organization (Sallam, 2017). This theory broadly reviews the operating budgets of organizations and ranking programs, or services based on the priorities of the community. In addition, this process of diagnosis helps organizations to link their funding decisions to priorities in the organization's strategic plan (Srithongrung, 2018).

In this study, the priority-based budgeting theory demonstrates the role of budget planning in financial performance of Microfinance Institutions. The budgetary planning involves setting of goals of the year, identifying activities and processes in the firm that need financing, allocation of resources including financial resources and evaluation of production processes based on results.

2.1.2 Goal-Setting Theory

It was first put forward by Locke and Latham (1990). The concept specifies that high (tough) objectives result in a greater performance than very easy objectives or pause abstract objectives (Locke & Latham, 2012). A budget plan is a method of setting objectives a company's objectives for a certain duration. Such goals have a favorable influence on the individual as well as collective efficiency of the team in addition to whole companies. Budgets need to be set in a manner in which encourage their personnel to attain them. Budgets that are easy to achieve budgets have actually not been seen to inspire staff sufficient (Shoaib & Kohli, 2017).

The goal-setting theory is beneficial since it outlines the course for the organization to follow, allows for feedback and planning as well as establishes commitment to the goals of an institution. However, critics of this theory argue that goal-setting may put a lot of pressure on employees. Similarly, focusing on a set goal may make an institution miss other opportunities that may arise In addition, if a firm sets out difficult goals or targets, performance levels may fall as a result of incompatibility of the actions and this may dampen employee satisfaction (Muizzuddin, Ghasarma, Putri & Adam, 2017). Moreover, difficult goals may result in risky or drastic attempts at accomplishing the goals within the stipulated time frame. By contrast, this theory can be beneficial to an organization by enhancing employee engagement and providing clear guidelines on how the set goals will be achieved. It also allows for constructive criticism from employees and this improves motivation levels within the organization (Locke & Latham, 2012).

As such, this theory is appropriate to the study since micro finance institutions through the budgetary control process will be setting targets for individuals, departments, and the entire institutions as a whole to achieve.

2.1.3 Accounting Theory

It was advanced by Luca Pacioli (1494) although elements of accounting can be traced as far back to the medieval civilizations of Egypt and Mesopotamia. Detailed government financial records were kept in the time of the Roman Empire. The accounting theory uses speculation, methodologies, and frameworks in the study of financial reporting. The theory act as a basis for financial reporting and how financial statements can be channeled through the right strategies (Schroeder, Clark & Cathey, 2019).

Accounting theory helps in decision making, eases the process of taxation, maintaining of business records and in the valuation of business. However, critics of the accounting theory argue that the theory may lead to manipulation of accounts and it may be used to create biased information (Semenyshena, Sysiuk, Shevchuk, Petruk & Benko, 2020). Furthermore, accounting information is presented in monetary terms and it may be difficult to assess rations and changes in patterns. Moreover, recording transactions when they occur may make it inaccurate if the value of the money changes. However, the accounting theory can also be beneficial to organizations since it makes it easier to make decisions and to make comparisons. In addition, the accounting theory helps in the valuation of the business and makes taxation easier (Bojarenko, 2017).

As such, Microfinance institutions use the accounting theory to assess their financial performance, to plan their operations relative to their revenues and expenditure. The accounting theory is therefore relevant to this study as accounting is crucial in the entire budget process (Mack & Goretzki, 2017).

2.2 Empirical Literature

It discusses previous research based on the research study. Empirical review is essential in developing research study gaps that formed the study.

2.2.1 Budgetary planning and financial performance

Kwarteng (2018) researched the result of budget planning on performance and resource allocation on Ghanaian firms. The study was conducted on the top executives and also budget plan owners of companies on the Ghana Stock Exchange. Information was evaluated utilizing the PLS-SEM approach of structural equation modeling (SEM). The research found that there is a positive connection between budgeting and performance. The research study offers a contextual gap since it was carried out on Ghanaian companies.

Chepkorir, Rugutt and Langat (2021) carried out a researched budget planning and performance of Kericho County government. The research made use of a correlation research study design and used a sample size from a target population of 3,848 workers drawn from 12 divisions. Secondary information was gathered from the Government documents and primary data was collected with questionnaires. The results established that there was a substantial and favorable connection in between budgetary planning and performance. The research presents a contextual gap given that the focus got on a local government as opposed to on microfinance institutions. Local governments' main focus is on public service delivery while microfinance institutions is to provide financial services.

Keng'ara and Makina (2020) assessed the effect of budget procedures as well as the performance of a company in relation to non-commercial marine firms, Kenya. The research study was based upon four concepts: Company theory, budget cycle, institutional as well as stewardship theories. Information was gotten through questionnaires and analyzed through multiple regression analysis. The results exposed as a positive relationship between financial planning and the performance of an organization. A conceptual gap exists since the research study considered business performance all at once as opposed to the financial aspect as will be the case in this research.

2.2.2 Budgetary Coordination and Financial Performance

Mdimu (2020) conducted a study to develop the impact of budget plan synchronization on the efficiency of institutional goal. Specifically, the research took a look at a number of purposes that include uncovering the effect of plans and procedures in function of budgetary control system and also efficiency of resolution frequently taken when there is difference as far budget plan performance is worried as well as to identifying factors impacting the duty of monetary control in an institution. The research found that several of the elements impacting the role of monetary were; dispute over sources allowance, bad coordination and control, lack of sub ordinate engagement in budget testimonial approvals as well as additionally lack of training to budget plan controllers. The research study located that spending plan synchronization is considerable in the preparation and also control of sources which subsequently influence the financial efficiency of the organization.

The research offers a contextual gap given that it focused on facilities in Mbeya, Tanzania instead of microfinance establishments in Kenya.

Huzaila-Majid and Singaravelloo (2017) examined the mismanagement of budgets in the Malaysian public sector. The study found that lack of budgetary coordination resulted in mismanagement and concluded that budgetary coordination positively influenced the performance of government establishments. This study presents a contextual gap because it was executed in Malaysia, not in Kenya. Libby and Lindsay (2019) sought to examine the effects of budget coordination on North American organizations. The study used data collected from a sample of top organization unit managers. The study found that budgetary coordination makes it more effective and as such influences the performance of the organization. A contextual gap exists since the study focuses on North American firms as opposed to micro finance institutions in Kenya.

2.2.3 Budgetary evaluation and financial performance

Kamau, Rotich and Anyango (2017) examined the effect of budget control procedure on budget efficiency in public industry making use of state companies in Kenya as a focus and used (KNH) as a study. The budgetary control process includes budgetary evaluation. The study found that budgetary evaluation had a positive influence on the financial performance of state corporations. The research study offers a contextual gap since it was performed on state companies and not microfinance institutions.

Hidayah and Azwardi (2019) studied the result of budgetary goal characteristics and budgetary evaluation on the commitment of an organization and financial performance of organizations in the Indonesian public sector. This research was carried out by spreading 190 pieces of questionnaires to echelon 2, 3 as well as 4 authorities in the local government organization of Lubuk Linggau regency as well as district. The information was assessed using SPSS) by carrying out double direct regression approach and also Modest Regression Analysis (MRA) with the outcome which showed that in a synchronized way, the variables of particular, budget plan objectives, budget adequacy, business dedication, and interior control had influenced regional government performance. The research study located that inner control did not modest the relationship in between organizational dedication and also the efficiency of Lubuk Linggau rule and also municipality. This presents a conceptual gap considering it studied the effect of budget evaluation on organizational commitment as a moderating variable on financial performance.

Gunawan, Yadiati, Suharman and Sofia (2020) undertook research to determine the impact of budgetary control on the performance of budgetary absorption. The study used a population survey on 548 city governments in Indonesia. Sampling was done leaving 231 samples in the study. Data was collected from 33 random samples and analyzed using PLS-Pm (Partial Least Square Path Modeling). The findings indicate that budget control has a positive impact on budgetary absorption. This study offers a contextual gap since it was performed on city governments instead of on microfinance establishments in Kenya.

Shi (2022) showed that there are a lot of problems experienced in the conventional budget performance models. They include high budget performance evaluation error and long evaluation time. The study proposed a budget performance evaluation model for manufacturing enterprises based on triangular fuzzy decisions. The study adopted the construction principle of the budget performance evaluation index system of manufacturing and processing enterprises. The budget performance evaluation index system of processing and manufacturing enterprise was created. The study adopted the triangular fuzzy number theory. A mixed evaluation information was combined with the multi-attribute decision making. The study used the multi-attribute decision-making matrix to determine the evaluation index weight. The study used evidential reasoning algorithm using scoring and precision functioning. Alternatives were sorted and the study concluded that budget evaluation in design and manufacturing enterprises helped to enhance performance of manufacturing and processing enterprises.

2.2.4 Budgetary reporting and financial performance

Kaisang (2020) researched the influence of administration audit methods on the performance of banks. The independent variables included budgetary reporting, evaluating performance and strategic analysis. The study was based on the contingency theory. The findings imply that budget reporting had a positive effect on the ROA of banks in Kenya. This presents a contextual gap since the focus of the study is banks compared to microfinance institutions.

Wangai and Mungai (2019) conducted a study to take a look at the results of economic management techniques on funding performance in microfinance establishments in Starehe constituency. The study used budget and financial reporting as an independent variable. In collecting the data, this research made use of questionnaires. The findings revealed that there is a positive relationship between budget reporting and loan performance of MFIs. A conceptual gap exists since the study used loan performance rather than financial performance of the MFIs.

Keng'ara and Makina (2020) went over just how government budgeting procedure are always lengthy and also elaborative. Such systems give a comprehensive framework on exactly how the procedure has been performed in the past and also what are the strategies are to be carried out in the present and following fiscal year. With regards to the government of Kenya, a spending plan is a device that is made use of to achieve both operational and also advancement activities both in the short term as well as the long-term in the pursuit of Kenya's Vision 2020. The research looked for to examine the effect of monetary processes in the performance of companies with a focus on non-commercial marine agencies. Particularly, the study looked for to figure out the effect of budgetary planning on business performance, to develop the result of budgetary control on company efficiency and also to figure out the effect of application, analysis and also reporting on organization efficiency. The research was anchored on 4 major concepts: Budget plan cycle theory, institutional theory, Agency theory and also stewardship theory. The research study adopted the detailed study layout and was performed in Kenya's Coastal Area of Mombasa. The research targeted department heads of Financing, Purchase, Audit, Surveillance as well as Examination also the Chief Executive Administration. The study sampled 70 respondents and also made use of sets of questions to gather data from the participants. The study utilized bathroom key as well as secondary information. Primary data was accumulated with the surveys while secondary information was accumulated form the archives of the respective organizations considering that the participants demographics were utilized. The research embraced material credibility. The collected information was analyzed using multiple regression evaluation to establish the relationship in between the variables under the research. Data was collected via the tables. From the results of the analysis, the research revealed that there was a significantly favorable relationship between monetary processes for extreme financial planning, control and also financial application as well as surveillance as well as assessment in addition to budgetary reporting on organizational efficiency. Relationship analysis revealed a positive coefficient in between monetary processes as well as business performance. The research study as a result recommended that organizations should embrace financial procedures in order to improve their efficiency.

2.2.5 Performance of MFIs

Shkodra (2019) sought to investigate the determinants of financial performance of microfinance institutions in Kosovo between 2007 and 2016. The data was collected form 12 microfinance institutions in Kosovo. The dependent variables of the study were used as proxies for microfinance institutions (MFIs) included Operational self-sufficient (OSS), Profit Margins and Return on Assets. Return on Assets and Profit Margins are used widely as indicators of analyzing financial performance as well as the profitability of Microfinance institutions. The findings of the study showed that high interest rates on loans was the most important factors on the performance of MFIs. The findings also showed that the age of MFIs determined the effect of financial performance of MFIs. Given the study was conducted in Kosovo, it presented a contextual gap. In addition, the study analysed the determinants of MFI performance and therefore constitutes a conceptual gap.

Meyer, (2019) examined the interaction between social outreach and the financial performance of microfinance. The study conducted multivariate regression models and used 1805 observations of MFIs between the years 2004 and 2013. The study established that institutions that had higher social engagement programmes, especially through outreach programs involving the poor earned higher yields on their portfolios. In addition, the study measured the outreach associated with higher expenses in operation. The return figures influenced both costs and yields and since both were similarly affected by depth in outreach, they led to a zero sum game in return measures. The findings of the study explained why existing studies assessing the interaction between social outreach and the different gauges of financial performance among microfinance institutions such as return on assets, return on equity, operating expenses and self-sufficiency) have led to consistent results.

Abdelkader and Mansouri (2018) conducted a study to provide an assessment on the efficiency of Arab Microfinance institutions (MFIs). The study focused on MFIs between the periods 2002 to 2012. The study defined microfinance as the provision of financial services to low –income and poor households and the sustainability of their microenterprises. The study presented the main features of microfinance in North Africa and the Middle East. Secondly, the study targeted 72 MFIs from ten countries in the region and developed a bootstrap-data envelopment analysis (bootstrap-DEA) framework to measure the efficiency of Arab MFIs. Finally, the study applied both parametric and non-parametric test to compare the performance of the MFIs and the factors that contribute to their efficiency. The efficiency scores of the Microfinance Institutions in the region displayed a high degree of variability both across time and in the respective countries. The study established that age and regulation was found to be significant indictors of MFI efficiency and performance. The study also showed that the ability of the Microfinance Institutors to combine social and financial performance as well as their solidity when facing crisis. Given the study was conducted in North Africa and the Middle East it presents a contextual gap. In Addition, the study focused on the efficiency of MFIs and therefore constitutes a conceptual gap.

Hossain, Galbreath, Hasan and Randøy (2020) investigated how competition affects the performance of microfinance institutions. The researcher compared the classical economy theory

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that highlighted how competition improves efficiency within an organization and benefits both the organization and its customers and its application in socially orientated industries like microfinance. The study used a cross-country dataset from 4576 microfinance institution operating in 59 countries over a period of 10 years between 2005 and 2014. The study found that competition had an adverse effect on the economic sustainability of Microfinance Institutions. Moreover, the study also showed that competition undermines their breadth of outreach and enhanced their depth of outreach. These results highlight how alternative specifications of competition and the use of a two-stage least squares (2SLS) analysis. The findings from the study showed that competition can have varying effects on the performance of the MFIs. The study investigated the effect of competition and therefore offers a contextual gap.

2.3 Conceptual Framework

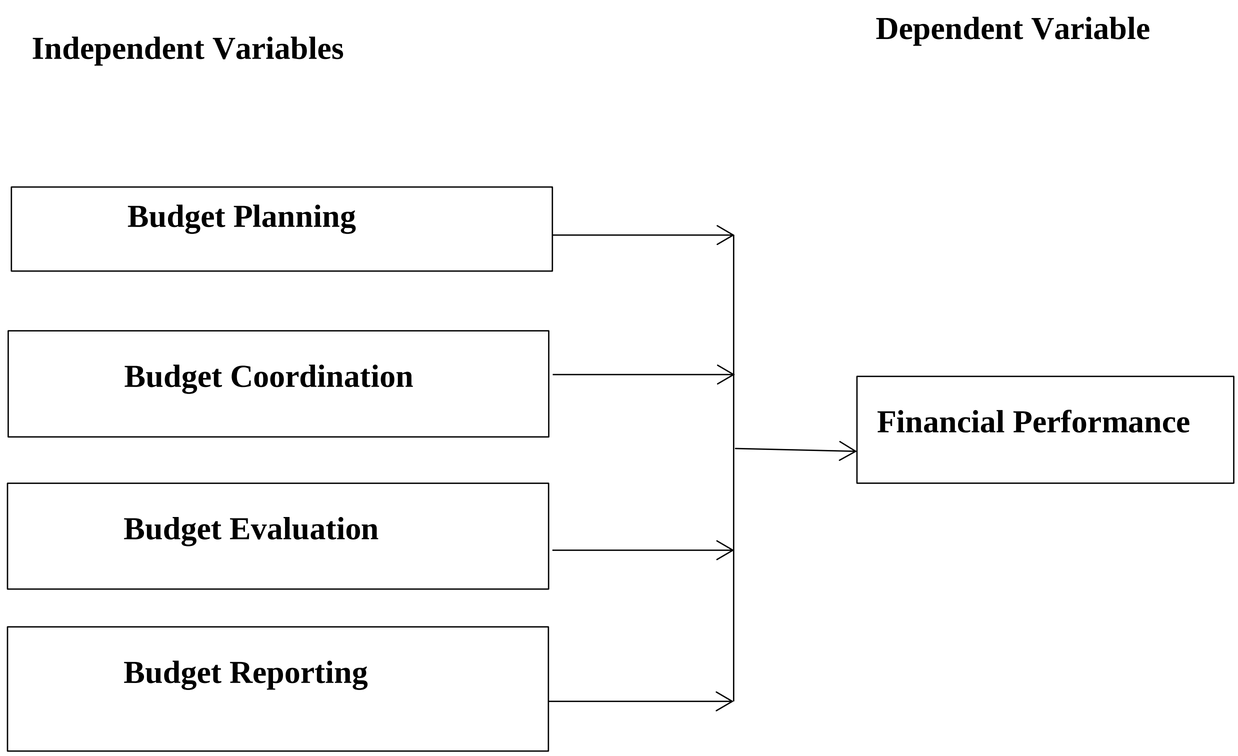

Figure 1: Conceptual Framework

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3.0 Research Methodology

The research employed a descriptive research design which depicts the characteristics of a certain scenario, event, or instance.

The target of this study was the employees from each of the 14 microfinance banks in Kenya bringing a total of 713 employees. The study applied purposive sampling and selected 5 managers from each of the 14 MFI. This resulted in a sample size of 70 respondents. An interview timetable was used to collect qualitative information from the Chief executive officers of each of the MFIs while the remaining 56 managers were subjected to a questionnaire to collect quantitative data. A pilot study was conducted to establish the reliability and validity of the questionnaire.

Qualitative analysis was assessed utilizing content evaluation. SPSS was used to organize code and also analyze and generate the quantitative report. The data was evaluated making use of detailed and inferential statistics. The descriptive statistics were presented in mean, median and standard deviation, while the inferential statistics consisted of the Pearson connection as well as multiple direct regression version (Parente & Silva, 2016).

The particular panel model is revealed as;

$$\mathbf{Y_{it} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 +} \epsilon$$

Where;

Y =Financial Performance

X_1 = Budget Planning

X_2 = Budget Coordination

X_3 = Budget Evaluation

X_4 = Budget Reporting

In the model, β0 = the constant term while the coefficient βi = 1 ... 4 was utilized to gauge the sensitivity of the reliant variable (Y) to device change in the predictor variables X1, X2, X3 and X4. The error (ϵ) term captures the unusual variations in the design.

4.0 Findings and Discussions

This section discusses the data analysis as well as the interpretation of the findings. The general objective of the study was to examine how budgetary controls affect financial performance of micro finance institutions (MFIs) in Kenya.

4.1 Response Rate

This study targeted 5 top level managers from each of the 14 microfinance banks in Kenya bringing a total of 70 managers. The 5 managers from each microfinance bank include the Chief Executive Officers (CEOs), Procurement managers, Sales and Marketing managers, operations mangers, and the finance managers. Given the general response rate of 91.42%, the results can for that reason be generalized and considered representative of the populace.

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4.2 Descriptive Statistics

This section has detailed evaluation for budgetary planning, budgetary synchronization, budgetary examination, financial reporting as well as for the dependent variable, performance.

The research study utilized a range of 1-- 5 for answering the inquiries to reveal the extent of contract or argument with each of the declarations. In the scale, the adhering to keys were made use of: ***SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree.***

4.2.1 Budgetary Planning

The first objective of the study was to determine the effect of budgetary planning on the performance of microfinance banks in Kenya. The respondents were asked to indicate their levels of agreement or disagreement with the statements on budgetary planning in their organization. The results are presented in Table 1.

Table 1: Descriptive Statistics on Budgetary Planning

Statement	SD	D	N	A	SA	Mean	Std. Dev.
There is flexibility in the budget planning process that allows for new developments.	9.40%	7.80%	0.00%	31.30%	51.60%	4.078	1.301
The input of employees in the institution is considered in the process of budget planning	9.40%	7.80%	6.30%	29.70%	46.90%	3.969	1.309
Budget planning considers the occurrence of risks and plans for them	7.80%	9.40%	4.70%	29.70%	48.40%	4.016	1.279
The budget planning process is fair to all departments	6.30%	7.80%	9.40%	29.70%	46.90%	4.031	1.208
The budget planning involves realistic and achievable targets	6.30%	3.10%	9.40%	31.30%	50.00%	4.156	1.130

Based on the results, the study established that a majority (82.9%) of the respondents agreed that there is flexibility in the budget planning process that allows for new developments while 17.2% disagreed with the statement. The results had a mean of 4.078 and a standard deviation of 1.301. This implies that most of the managers agreed with the statement. The study also established that most (76.6%) of the respondents agreed that the input of employees in the institution is considered in the process of budget planning. 19.2% disagreed with the statement while 6.3% of the respondents were undecided. The results had a mean and standard deviation of 3.969 and 1.309 respectively. This indicates that most of the managers were in agreement with the statement. The study further revealed that a majority (78.1%) of the respondents were in agreement with the statement that budget planning in their organization considers the occurrence of risks and plans for them while 16.1% of them disagreed with the statement. This was affirmed by mean of 4.016 and a standard deviation of 1.279.

In addition, the study established that most (76.6%) of the respondents were in agreement that the budget planning process is fair to all departments while 14.1% did not agree. The results had a

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mean and standard deviation of 4.031 and 1.208 respectively. Finally, the study found that most (81.3%) of the respondents agreed that budget planning in their organizations involve realistic and achievable targets while 9.4% of them disagreed (Mean=4.156 and SD=1.130). Generally, the study responses had an average mean and standard deviation of 4.050 and 1.245 respectively. When asked the level of budgetary planning that their MFIs adopted, CEO1 indicated that "*Budgetary planning is one of the most important parts of the entire budget process and it dictates how we conduct our operations.*" In addition, in response to the effect of budget planning on the performance, CEO5 stated that, *"Budget planning sets the tone for our organizational performance."*

4.2.2 Budgetary Coordination

The second purpose of the research study was to analyze the result of budgetary coordination on the efficiency of microfinance banks in Kenya. The participants were asked to show their levels of agreement or difference with the declarations on spending plan synchronization. The lead to Table 2 reveal the descriptive data on financial control.

Table 2: Descriptive Statistics on Budgetary Coordination

Statement	SD	D	N	A	SA	Mean	Std. Dev.
All the personnel across different departments of the institution are involved in the coordination of the budget.	4.70%	10.90%	7.80%	29.70%	46.90%	4.0313	1.1948
Budgetary coordination helps to identify weaknesses and challenges faced in the institution	3.10%	6.30%	9.40%	29.70%	51.60%	4.2031	1.0568
Unity of all departments is encouraged in the budget control process.	3.10%	7.80%	10.90 %	34.40%	43.80%	4.0781	1.0736
The overall productivity and performance across all departments has improved.	9.40%	4.70%	7.80%	34.40%	43.80%	3.9844	1.2535
Budget coordination is important in helping the institution achieve its financial targets	7.80%	3.10%	12.50 %	34.40%	42.20%	4.0000	1.1819

The study found that a majority (76.6%) of the respondents agreed that all the personnel across different departments of the institution are involved in the coordination of the budget while 15.6% of them disagreed. This was affirmed by a mean and standard deviation of 4.031 and 1.195 respectively. The study also established that most (81.3%) of the respondents were in agreement with the statement that the budgetary coordination helps to identify weaknesses and challenges faced in the institution while 9.4% of them disagreed as shown by the mean of 4.203 and standard deviation of 1.074. In addition, the study revealed that a majority (78.2%) of the respondents agreed that unity of all departments is encouraged in the budget control process in their organizations while 10.9% of them disagreed (Mean=4.078 and SD=1.074).

Further, the study found that most (78.2%) of the respondents were in agreement that the overall productivity and performance across all departments has improved while 14.1% did not agree and

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a further 7.8% were undecided. This was affirmed by a mean and standard deviation of 3.984 and 1.124 respectively. Finally, the study established that most (76.6%) of the respondents agreed found that budget coordination is important in helping the institution achieve its financial targets while 10.9% disagreed with the statement as seen by the mean of 4.000 and standard deviation of 1.819. Overall, the study results had a mean of 4.059 and a standard deviation of 1.152. This means that the managers in the microfinance institutions in Kenya. The low standard deviation shows that there was little variance from the mean response. When asked whether their institution adopts budget coordination between the different departments, CEO3 stated that, *"Every department coordinates with each other to ensure that we are efficient in the use of our resources and to improve our performance levels."* Moreover, CEO5 also stated that *"Budget coordination has enabled us to reduce our costs of operation and to make the best use of our resources."*

4.2.3 Budgetary Evaluation

The third goal of the research study was to develop the result of financial evaluation on the efficiency of microfinance establishments in Kenya. The participants were asked to indicate their levels of agreement or argument with the declarations on budgetary analysis in microfinance organizations. The lead to Table 3 show the descriptive data on budgetary evaluation.

Table 3: Descriptive Statistics on Budgetary Evaluation

Statement	SD	D	N	A	SA	Mean	Std. Dev.
Funds in the institution are used appropriately and efficiently	6.30%	6.30%	12.50%	29.70%	45.30%	4.016	1.188
The institution achieves the targets that were set at the beginning of the budget cycle	1.60%	12.50%	1.60%	34.40%	50.00%	4.188	1.067
The institution identifies new sources of income and new expenses that arise.	7.80%	4.70%	7.80%	31.30%	48.40%	4.078	1.212
The institution stops budget leaks and prevents wastage of resources.	7.80%	1.60%	9.40%	35.90%	45.30%	4.094	1.151
Budget evaluation process happens regularly.	1.60%	7.80%	10.90%	34.40%	45.30%	4.141	1.006

Based on the results in the above table, the study found that most (75%) of the respondents agreed with the statement that funds in the institution are used appropriately and efficiently while 12.6% of them disagreed (Mean=4.016 and SD=1.188). The study also established that a majority (84.4%) of the respondents agreed that the institution achieves the targets that were set at the beginning of the budget cycle while 14.1% did not. This was affirmed by the mean and standard deviation of 4.188 and 1.067 respectively. Additionally, the study established that most (79.7%) of the respondents agreed that the institution identifies new sources of income and new expenses that arise while (12.5%) of them disagreed with the statement (Mean=4.078 and SD=1.212).

The study further revealed that a majority (81.2%) of the respondents agreed that their institution stops budget leaks and prevents wastage of resources while 9.4% of the respondents did not agree with the statement as shown by the mean of 4.094 and standard deviation of 1.151. Finally, the study revealed that most (79.7%) of the respondents involved in the study found that budget evaluation process happens regularly in their organization while 9.4% disagreed. This was

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affirmed by a mean and standard deviation of 4.141 and 1.006 respectively. Overall, the results had a mean of 4.103 and a standard deviation of 1.125. When asked what evaluation techniques are adopted by their respective MFIs, CEO12 indicated that, "We check whether budgeted funds are used for their intended purpose" while CEO9 responded, *"Our measure of evaluation is whether or not we achieve our pre-determined targets."*

4.2.4 Budgetary Reporting

The results in Table 4 show the descriptive statistics on budgetary reporting.

Table 4: Descriptive Statistics on Budgetary Reporting

Statement	SD	D	N	A	SA	Mean	Std. Dev.
Financial reports are made in a way that communicates the message clearly	4.70%	7.80%	6.30%	34.40%	46.90%	4.109	1.129
Budget reporting makes it easier to hold different departments accountable on their performance.	3.10%	4.70%	7.80%	34.40%	50.00%	4.234	1.004
It is easier for management to make certain decisions based on the reports	6.30%	4.70%	9.40%	32.80%	46.90%	4.094	1.151
The institution makes forecasts based on the trends over time.	7.80%	6.30%	6.30%	35.90%	43.80%	4.016	1.215
The institution publishes the report regularly for scrutiny and verification.	6.30%	3.10%	12.50%	35.90%	42.20%	4.047	1.119

The study results reveal that most (81.3%) of the respondents agree with the statement that financial reports are made in a way that communicates the message clearly in their organization while 12.5% of them did not agree (Mean=4.109 and SD=1.129). The study also established that a majority (84.4%) of the respondents agreed that budget reporting makes it easier to hold different departments accountable on their performance compared to 7.8% who thought otherwise. This was affirmed by a mean and standard deviation of 4.234 and 1.004 respectively. Additionally, the study revealed that most (79.7%) of the respondents agreed that it is easier for management to make certain decisions based on the reports while 11% of the respondents did not agree with the statement (Mean=4.094 and SD=1.151).

The study further found that a majority (79.7%) of the respondents thought that the institution makes forecasts based on the trends over time while 14.1% did not think so as shown by the mean of 4.016 and standard deviation of 1.215. Finally, the study established that most (78.1%) of the respondents agreed that their institution publishes the report regularly for scrutiny and verification while 9.4% of the respondents disagreed with the statement. This was affirmed by the mean and standard deviation of 4.047 and 1.119 respectively. In general, the results had a mean of 4.100 and 1.123 respectively. This implies that most of the mangers in Kenyan microfinance institutions agreed with the budgetary reporting measures in their organizations. The low variance indicates that there was little variance from the mean response. The study also sought to establish what budgetary techniques are used in the MFIs. CEO 14 indicated that, *"We make financial reports public so as to ensure public scrutiny and verification."* CEO 6 stated that, *"We ensure that we publish our budget reports quarterly and in good time."* The researcher asked how budget reporting affect the performance of the MFIs and to this CEO10 responded that," *By making regular and accurate budget reports, we are able to check our progress in line with our objectives and can therefore make changes that improve our performance."*

4.2.5 Performance

The dependent variable of the study was efficiency of the microfinance organizations in Kenya. The respondents were asked to suggest their levels of arrangement or dispute with the statements on performance of the microfinance establishments in Kenya. Table 5 reveals the descriptive statistics on Performance.

Table 5: Descriptive Statistics on Performance

Statement	SD	D	N	A	SA	Mean	Std. Dev.
The number of deposits held in the institution has increased.	10.90%	4.70%	6.30%	32.80%	45.30%	3.969	1.309
There is high customer retention within the institution.	3.10%	7.80%	1.60%	37.50%	50.00%	4.234	1.035
The institution has been achieving higher Return on Assets (ROA)	6.30%	3.10%	6.30%	35.90%	48.40%	4.172	1.106
The number of branches has increased over time.	7.80%	0.00%	6.30%	40.60%	45.30%	4.156	1.101
The company has reported an increased profit in the last five years	0.00%	7.80%	10.90%	35.90%	45.30%	4.188	0.924

Based on the results in Table 5 the study found that a majority (78.1%) of the respondents agreed that the number of deposits held in the institution has increased while 15.6% of the respondents did not agree as shown by the mean and standard deviation of 3.969 and 1.309 respectively. The results also showed that most (87.5%) of the respondents agreed with the statement that there is high customer retention within their institution while 10.9% disagreed with the statement (Mean=4.234 and SD=1.035). The study further established that a majority (84.3%) of the respondents agreed that their institution has been achieving higher Return on Assets (ROA) while 9.4% of the respondents involved in the study disagreed (Mean=4.172 and SD=1.106).

In addition, the study results revealed that most (85.9%) of the respondents in the study thought that the number of branches in their organization has increased over time while 7.8% thought otherwise. This was affirmed by a mean of 4.156 and standard deviation of 1.101. Finally, the results established that a majority (81.2%) of the respondents agreed that their company has reported an increased profits in the last five years while 7.8% of the respondents disagreed as seen in the mean and standard deviation of 4.188 and 0.924 respectively. In general, the results of the study had a mean of 4.144 and a Standard deviation of 1.095. This discloses that most of the participants concur that their microfinance establishment has had a rise in efficiency levels and that most of the reactions did not vary considerably from the mean.

4.3 Inferential Statistics

This section presents both correlation and regression results on the relationship between the independent variables which were budgetary planning, budgetary coordination, budgetary

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evaluation, budgetary reporting and the dependent variable in the study, performance of microfinance institutions in Kenya.

4.3.1 Correlation Analysis

A correlation analysis was conducted to establish the association between budgetary planning, budgetary coordination, budgetary evaluation, budgetary reporting and performance. The correlation coefficient was established and used to test the interdependency between the variables. The correlation results are shown in Table 6.

Table 6: Correlation Matrix

		Performance	Planning	Coordination	Evaluation	Reporting
Performance	Pearson Correlation	1.000				
	Sig. (2-tailed)					
Planning	Pearson Correlation	.643**	1.000			
	Sig. (2-tailed)	0.000				
Coordination	Pearson Correlation	.799**	.536**	1.000		
	Sig. (2-tailed)	0.000	0.000			
Evaluation	Pearson Correlation	.901**	.471**	.769**	1.000	
	Sig. (2-tailed)	0.000	0.000	0.000		
Reporting	Pearson Correlation	.749**	.503**	.851**	.734**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

** Correlation is significant at the 0.01 level (2-tailed).

The relationship evaluation causes Table 6 reveal that there was a strong favorable as well as considerable association in between financial planning and efficiency of microfinance institutions in Kenya ($r=0.643$, $p<0.01$) at 1% level of value. This suggests that a renovation in budget plan planning results right into a renovation in the efficiency of the institution. The results remain in contract with the assertions by Kwarteng (2018) that located that there is a positive link between budgeting and efficiency.

The research additionally found a solid positive as well as substantial association in between budget plan coordination and also efficiency of microfinance organizations in Kenya ($r=0.799$, $p<0.01$) at 1% level of importance. This indicates that an enhancement in budget coordination by a microfinance establishment results into an enhancement in the performance of the organization. The results accepts the findings for of a research by Huzaila-Majid as well as Singaravelloo (2017) who discovered that absence of budgetary coordination led to mismanagement and also ended that monetary coordination had a positive influence on the performance of federal government establishments.

Furthermore, the research located a strong favorable and also significant organization in between spending plan examination and efficiency of microfinance establishments in Kenya (r=0.901, p<0.01) at 1% degree of importance. This implies that an improvement in spending plan assessment in a microfinance organization results right into a renovation in the efficiency of the institution. The outcomes follow the final thought made by Kamau, Rotich and Anyango (2017) that monetary examination had a positive impact on the financial efficiency of state corporations. Lastly, the research discovered that there was a solid positive and also substantial association between spending plan reporting as well as efficiency of microfinance organizations in Kenya (r=0.749, p<0.01) at 1% degree of relevance. This implies that an improvement in budget coverage results right into an enhancement in the efficiency of the organization. The outcomes concurs with the assertions by Kaisang (2020) who located that budget plan coverage had a positive impact on the ROA of banks in Kenya.

4.3.2 Regression Analysis

Regression analysis was conducted to establish the statistical significance and relationship between the independent variables and the performance of the microfinance institutions in Kenya. This sub-section provides regression results on the effect of budgetary control strategies and the performance of microfinance institutions in Kenya. Tables 7, 8 and 9 present the model summary, ANOVA, and regression of coefficient results respectively.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.934a	0.872	0.864	0.1982

a Predictors: (Constant), Reporting, Planning, Evaluation, Coordination

Source: Field Data (2021)

The results in Table 7 show that the coefficient of determination (R squared) is 0.872 and adjusted R squared of 0.864 at 95% significance level. The R squared of 0.872 implies that the budgetary control measures adopted in this study (budget planning, budget coordination, budget evaluation and budget reporting) jointly explains 87.2 percent of the variation in performance of microfinance institutions in Kenya. The remaining 12.8 percent of the variation in the dependent variable can be explained by other factors which were not part of the current model.

Table 8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.845	4	3.961	100.818	.000b
	Residual	2.318	59	0.039		
	Total	18.164	63			

a Dependent Variable: Performance

b Predictors: (Constant), Reporting, Planning, Evaluation, Coordination

Source: Field Data (2021)

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In Table 8, ANOVA outcomes are shown. The results reveal that the design was statistically substantial in discussing the impact of budgetary control on the efficiency of microfinance organizations in Kenya as well as it is suggested by a p-value of $0.000<0.05$.

Table 9: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	0.459	0.206		2.230	0.030
	Planning	0.105	0.043	0.142	2.476	0.016
	Coordination	0.162	0.056	0.222	2.900	0.005
	Evaluation	0.240	0.081	0.299	2.949	0.005
	Reporting	0.398	0.093	0.391	4.266	0.000

a Dependent Variable: Performance

Source: Field Data (2021)

The regression model therefore became;

$$\mathbf{Y = 0.459 + 0.105X_1 + 0.162X_2 + 0.240X_3 + 0.398X_4}$$

Where:
Y= Performance
X_1= Budget Planning
X_2= Budget Coordination
X_3= Budget Evaluation
X_4= Budget Reporting

Regression coefficients in Table 9 show that budget planning had a positive and significant effect on the performance of microfinance institutions in Kenya (β =.105, p=.016<.05). This was supported by a calculated t-statistic of 2.476 that was greater than the critical t-statistic of 1.96 further confirming the significance. The result implies that, a unit improvement in budget planning results into an improvement in performance by 0.105 units. This is in support of the conclusion by Keng'ara and Makina (2020) who exposed that there was a positive relationship between financial planning and the performance of an organization.

The study also found that budgetary coordination strategies had a positive and significant effect on the performance of the microfinance institutions in Kenya (β =.162, p=.005<.05). This was supported by a calculated t-statistic of 2.900 that was greater than the critical t-statistic of 1.96 further confirming the significance. The result implies that, a unit improvement in budget coordination results into an improvement in performance by 0.162 units. These results concurs with the assertions by Mdimu (2020) who found that budget coordination is significant in the planning and control of resources which in turn affect the financial performance of the organization.

In addition, the study found that budget evaluation had a positive and significant effect on the performance of microfinance institutions in Kenya (β =.240, p=.005<.05). This was supported by a calculated t-statistic of 2.949 that was more than the critical t-statistic of 1.96 further confirming the significance. The result implies that, a unit improvement in budget evaluation results into an improvement in performance by 0.240 units. The results are in line with the findings of a study by Gunawan, Yadiati, Suharman and Sofia (2020) who found that budget evaluation has a positive impact on budgetary absorption and hence on performance.

Finally, the study found that budget reporting as a control measure had a positive and significant effect on the performance of microfinance institutions (β =.398, p=.000<.05). This was supported by a calculated t-statistic of 4.266 that was greater than the critical t-statistic of 1.96 further confirming the significance. The result implies that, a unit improvement in budget reporting results in an improvement in performance by 0.398 units. The results concur with the assertions by Wangai and Mungai (2019) who revealed that there is a positive relationship between budget reporting and performance of MFIs.

5.0 Conclusions

From the findings of the study, the study concludes that budget planning had a positive and significant effect on the performance of microfinance institutions in Kenya. This means that performance would increase with an increase in budget planning when other factors affecting performance of MFIs are held constant. This is because when an institution makes budget plans they are able to identify the resources at their disposal and purpose to make the best use of the available resources.

The study also concludes that budgetary coordination has a positive and significant effect on the performance of microfinance institutions in Kenya. This implies that when budget coordination in a microfinance institution is increased, it results in an increase in the performance of the institution. This can be attributed to the fact that budget coordination enables an organization to pull their resources together and ensure all the different departments and sub groups are working to achieve the same organizational objectives. The study further concludes that budget evaluation has a positive and significant effect on the performance of microfinance institutions in Kenya. This implies that an increase in budget evaluation results in the improvement of performance of MFIs. This is because budget evaluation enables organizations to judge how their budget is being used and to identify areas in which they can make improvements.

Finally, it can be concluded from the study that budget reporting has a positive and significant effect on the performance of microfinance institutions in Kenya. This indicates that an increase in budget reporting leads to an increase in the performance when other factors are held constant. This is because budget reporting allows the institution to know where they stand and hence identify what they need to do to reach their desired performance levels.

6.0 Recommendations

The study recommendations are in line with the study variables, findings and conclusions of the study. Based on the findings and the conclusions, this study recommends that the microfinance institutions should consider enhancing the budgetary control measures such as budget planning, budget coordination, budget evaluation and budget reporting as ways of enhancing their performance. The study recommends that these measures are put in place so as to plan for the future and this should include contingent plans for the unknown. This will enable them to be steady and plan for any losses that may arise.

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The study recommends that budget planning be enhanced in MFIs so as to make plans and targets to which such MFIs must strive to achieve. Additionally, the study recommends that budget coordination be encouraged in microfinance institutions so as to improve the teamwork and improve chances of achieving institutional goals. The study further recommends that budget evaluation be enhanced in the MFIs in order to identify areas of concern and hence come up with ways that best address such concerns. Finally, the study recommends that budget reporting strategies be adopted by MFIs so as to assess performance levels and identify the difference between the actual and desired performance levels.

The study further recommends that financial regulations enhance the rules and standards to which all microfinance institutions must comply so as to improve the financial performance of such institutions and consequently improve the standards in the financial sector.

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