

Awareness of Budget Process Regulations and Financial Performance of Parastatals with Liquidity Gaps in Kenya

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Abstract: Despite the implementation of participatory budgeting, parastatals still experience challenges which lead to poor financial performance. The main objective of this study was to evaluate the effect of awareness of budget process regulations on financial performance of parastatals with liquidity gaps in Kenya. The study was guided by budget theory. Positivism philosophy was adopted. Correlational research design was used on a population of 424 officers consisting of 8 procurement officers, 240 procurement clerks, 8 finance officers, 76 accountants and 8 managing directors from the parastatals. A purposive sampling technique was used to obtain the sample size. Primary data was collected using questionnaires while secondary data was collected through analysis of audited financial statements. Data were analyzed using SPSS. Reliability of research instruments was tested through Cronbach's Alpha and construct validity was assessed through factor analysis. Awareness of budget process regulations had a regression coefficient of -0.056 and a p-value of 0.009 indicating a significant relationship on financial performance. The information obtained will help the government formulate strategies and policies to help in creating awareness of budget process regulations to the public. It also recommends that parastatals should create more awareness of budget process to the subordinates by the management.

Keywords: Awareness, Financial Performance, Liquidity Gaps, Parastatals, Regulations

1.0 INTRODUCTION

Participatory budgeting is the level of influence and involvement that individuals feel in the process of designing a budget. This is founded on the belief that the more subordinates participate in the budgeting process, the greater their sense of responsibility for meeting targets in each of their job areas since they are active in budgeting. It is feasible for subordinates to bargain with superiors about budget targets that they believe can be met when subordinate aspirations are important in the budgeting process [9].

Awareness is the state of being conscious of something. Awareness of budget process regulations is where stakeholders' and subordinates have good knowledge of the set budgeting guidelines. For effective budgetary process the guidelines have to be adhered to by everyone involved. Awareness of the regulations could be created through public forums, social media and websites [4].

Parastatals in Kenya for instance Kenya Power and Kenya Railways are categorized as loss-making due to their high levels of on-lending debt, enormous liabilities, and severe liquidity problems. Ineffective budgeting procedures are to blame. As a result of declining customer bases, the Kenya Broadcasting Corporation, East African Portland Cement Company, the Postal Corporation of Kenya, and the Kenya Post Office Savings Bank have all been labelled as loss-making businesses. The 18 are a subset of Kenya's more comprehensive list of 260 State Corporations, and they include four profitable parastatals: the Kenya Ports Authority, the Kenya Pipeline Company, the Kenya Airports Authority, and KenGen [8].

1.1 Statement of the Problem

Participatory budgeting is the process of involving subordinates and stakeholders in decision making regarding the distribution of the organizations' funds. Individuals are more likely to collaborate on decisions regarding income and expenditures if they have a hand in creating the budget. Parastatals use budgets and budget process just like any government institutions to help in ensuring there is effective financial management in order to avoid wastage of public financial resources. According to [7], participatory budgeting if well implemented could help improve the financial performance of an entity. Despite the implementation of the budget processes and participatory budgeting in parastatals, the National Treasury in its 2021 sectoral report cited 8 out of 18 key State parastatals to be unable to meet their financial obligations. Even though participatory budgeting is used, a financial analysis of the parastatals finds a Ksh.382 billion imbalance between liquid assets and liabilities for all parastatals over the next five years even as cheque faces competing needs. In a warning, Treasury cites specific parastatals whose mismatch between liquid assets and liabilities mirrors financial troubles that, if left unchecked, might develop into serious fiscal threats to the economy. Despite the Ksh.70 billion budget gap over the next five years, participatory budgeting has been promoted for the 18 specified parastatals [8]. Studies conducted on participatory budgeting and financial performance in Kenya focused in county governments and city councils. Moreover, most studies showed mixed results between participatory budgeting and financial performance. Therefore, the study sought to evaluate the effect of awareness of budget process regulations on financial performance of parastatals with liquidity gaps in Kenya.

1.2 Objective of the Study

The main objective of the study was to evaluate the effect of awareness of budget process regulations on financial performance of parastatals with liquidity gaps in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

The study was guided by budget theory.

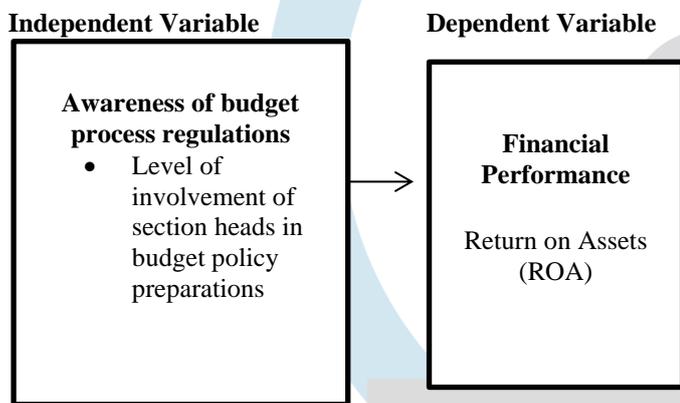
2.1.1 Budget Theory

The theory was propounded by Carter [2]. This theory explains the social motivation behind government budgeting. Today's budgets work as the organization's nerve center, coordinating and guiding operations and allowing for greater oversight. Budgeting, at both the managerial and operational levels, looks at the future and lays out what needs to be accomplished.

The budget is the government's blueprint. It is a compilation of projections for future income and expenditures, suggesting a plan for future endeavors and the means to fund them. Just by looking through the budget, one can gain a better sense of the government's long-term financial strategy as a whole [10].

This theory examines the guidelines which have to be followed during the budget making process. Budget theory focuses on ensuring that budgets are prepared and implemented on time. This theory is thus relevant for the study as it helps explain to stakeholders and subordinates what budgeting entails and this ensures that targets are achieved.

2.2 Conceptual Framework



2.3 Empirical Literature Review

Kandie (2020) studied the effect of public participation on the budgeting process in Kenya; A case study of Mombasa County government. Descriptive research was adopted to obtain a sample of 570 workers from a targeted population of 3800 employees. The study used both primary and secondary data. Data were summarized using descriptive statistics and Pearson correlation analysis helped in predicting the link between the study variables. It concluded that better citizen involvement encouraged budgetary allocation in Mombasa County and that carefully managed citizen involvement programs connected to both the planner's and residents' expectations. The quality of the budget preparation process was found to be positively correlated with the public involvement procedures used in the budget monitoring process.

Hassan (2019) carried out a study on the comparative evaluation of the implementation of public participation guidelines in Kenyan county governments. A research design based on a quantitative method approach was adopted. Primary data was used to complement secondary qualitative research. The population targeted by the study was public participation officers. Secondary data was collected through a desk survey from legal doctrine approved by the county government of Kenya, policies, legal literature and documentation from journals, books and scholarly thesis. Qualitative data were coded using structured and emergent coding and then analyzed. Descriptive statistics were used in cases of any quantitative data necessary for this study. Despite numerous successes in the public participation processes, the findings from the three county governments revealed issues with tactics adopted, unfavorable attitudes from individuals, and the administrative procedures.

Gichure and Abwao (2018) examined the influence of public participation on budget implementation by Kenya city counties. The correlation between the independent and dependent variables was analyzed through a survey-based ex post facto descriptive research design. The County Integrated Development Plans and financial reports of the counties under consideration were used for secondary data collection, while questionnaires were used for primary data collection. Data were analyzed using SPSS software and descriptive statistics like averages, proportions and standard deviation were utilized to explain the results. Linear regression and spearman analysis were also used to show the connection amidst the study variables. The study found a positive, statistically significant link between public participation and meeting budget goals.

3.0 RESEARCH METHODOLOGY

The study adopted a correlational research design. The target population consisted of eight (8) profit-making parastatals with liquidity gaps in Kenya. Primary data was obtained using questionnaires while secondary data was acquired from audited financial statements for financial year 2019/2020. Both descriptive statistics and inferential statistics were obtained. Descriptive statistics comprised percentages and frequencies. Inferential statistics include correlation analysis, regression analysis and ANOVA.

The regression model is as shown;

$$Y_1 = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where;

Y is the Financial Performance

β_0 is the intercept that measures financial performance

β_1 is the slope coefficient

X_1 is awareness of budget process regulations

ε is the error term

4.0 RESULTS AND FINDINGS

This section outlines the data analysis and findings of the study. It presents the descriptive statistics and inferential statistics results.

4.1 Response Rate

Table 1: Response Rate

Targeted Respondents	Returned Questionnaires	Response Rate (%)
202	172	85.15%

The research targeted 202 respondents from 8 parastatals with liquidity gaps in Kenya. A total of 202 questionnaires were delivered to the particular respondents in the parastatals under study. 172 respondents filled and returned their questionnaires while 30 respondents did not return their questionnaires. This shows a response rate of 85.15%.

4.2 Descriptive Results

The respondents were asked whether the stakeholders' priority was taken into consideration during the budgeting process. In accordance with the results, out of the 172 respondents, 70(41.0%) strongly disagreed, 80(46.5%) disagreed, 10(5.8%) remained neutral, while 9(5.0%) agreed and 3(1.7%). From the findings, in most of the parastatals, stakeholders' priorities are not considered during budgeting. This indicates that the managers consider their interests before the interest of the stakeholders. This leads to failure to achieve their objectives, and mismanagement among others which in turn affects their financial performance. On the other hand, few of the parastatals take into consideration the priority of stakeholders. This will ensure that their interests are considered first, ensuring good financial performance.

The respondents were also asked to give an opinion on whether the employees are conversant with the budgeting guidelines. The study findings imply that 40 (23.3%) of the targeted respondents strongly disagreed, 75 (43.6%) disagreed, 35 (20.3%) remained neutral, 15 (8.7%) agreed and 7 (4.1%) strongly agreed. The study's findings show that most parastatals employees are not familiar with the budgeting guidelines. This implies that they may not be able to present their budget targets on time, which may affect implementation and hence failure in achieving their targets. This leads to poor financial performance. However, in few parastatals employees are conversant with budgeting guidelines and this helps in making the budget process an easy task for those involved.

The respondents were asked whether tasks and responsibilities were adequately defined or not. Outcomes show that out of the total 172 respondents 10 (5.8%) strongly agreed, 17 (9.9%) agreed, 43 (25.0%) were neutral, while 52 (30.2%) disagreed and 50 (29.1%) strongly disagreed. From the results, in most parastatals tasks and responsibilities are not defined well. Due to these, conflicts may arise between employees and managers since none of them is aware of their duties and this may lead to poor performance. The results also show that in a few parastatals, tasks and responsibilities are defined well. With this, everyone knows what is expected of them, hence working towards achieving good financial performance.

The researcher wanted to find out if the procedures and policies on budgeting are clearly outlined and well-known to employees. Out of the 172 respondents who returned their questionnaires, 42 (24.5%) agreed, 18 (10.5%) strongly agreed, 30 (17.4%) remained neutral, 57 (33.1%) disagreed and 25 (14.5%) strongly disagreed. This suggests that in most of the parastatals resources could be inadequately distributed to the various departments leading to poor performance since the employees do not know the procedure and policies well. However, in a few of the parastatals procedures and policies of budgeting are known to employees. This shows that the budget process could be carried out effectively since in these parastatals employees understand the policies and procedures well.

Respondents were asked if participatory budgeting leads to good financial performance in their organizations. Results indicate that 10 (5.8%) strongly disagreed, 18 (10.5%) disagreed, 45 (26.1%) remained neutral, 68 (39.5%) agreed and 31 (18.1%) strongly agreed that participatory budgeting leads to good financial performance. This means that with good inclusion of subordinates and other stakeholders in the budget-making process, resources would be fairly distributed and this will help in achieving their financial goals; hence financial performance could be enhanced in these parastatals.

The respondents were asked whether the management conducts forums to create awareness on policies about spending. From the results, out of the 172 respondents, 3 (1.7%) strongly agreed, 18 (10.5%) agreed, 49 (28.5%) remained neutral, while 62 (36.0%) disagreed and 40 (23.3%) strongly disagreed. Findings show that majority of the respondents who returned their questionnaires disagreed that the management conducts forums to create awareness about spending. This implies that in most of the parastatals

funds might be misused or used for the wrong purposes and hence the organization's financial objectives end up not being achieved, thus causing poor financial performance. However, in a few parastatals awareness about spending is usually created and when funds are used rightfully financial objectives are met; hence good financial performance is achieved.

Respondents were asked if awareness of budget regulations is created for the subordinates through focus groups. Findings of the study show that 9 (5.3%) strongly disagreed, 24 (14.0%) disagreed, 46 (26.7%) remained neutral, 63 (36.6%) agreed and 30 (17.4%) strongly agreed. Results show that in most parastatals focus groups are formed to create awareness. This indicates that in these parastatals websites are designed and focus groups are formed whose main aim is to create awareness of budget regulations among the subordinates. This will impact the budget-making process positively hence good performance. On the other hand, in a few of the parastatals, focus groups are not created and this shows that awareness is not created, which could lead to failure of the budget-making process, which could hinder financial performance. They should thus form focus groups and develop websites to enhance awareness.

The researcher wanted to know whether the parastatals under study have websites to aid in creating awareness among the subordinates. The outcomes indicate that most of the respondents, 37 (21.5%) strongly agreed, 50 (29.0%) were neutral, 51 (29.7%) agreed, 24 (14.0%) disagreed and 10 (5.8%) strongly disagreed. The results show that most parastatals have excellent websites which means that employees and management are aware of the budget regulations. This makes the budget process an easy task to complete and its targets achieved. However, a small percentage strongly disagreed and disagreed. From the results, it is certain that some of these parastatals do not have websites for creating awareness which could imply that the subordinates are not aware and this may hinder financial performance due to the poor budgeting process.

A question was asked to determine whether the subordinates in these parastatals have good knowledge due to their participation in the budgeting process. According to the results it is clear that 12 (6.9%) strongly disagreed, 33 (19.2%) disagreed, 38 (22.1%) were neutral, 66 (38.4%) agreed and 23 (13.4%) strongly agreed. Results show that most respondents agreed that subordinates in these parastatals have good knowledge of budgeting which is attributed to participatory budgeting. This implies that in most of these parastatals participatory budgeting is well implemented and this motivates employees to work towards achieving their financial obligations hence good performance. In a few parastatals, the subordinates do not have good knowledge of budgeting and may end up presenting less or more of what their departments require. This may lead to inadequate resources and hence unable to achieve their budget targets which could lead to poor financial performance.

The respondents were asked if the resources needed by each department for running their activities are adequately distributed. Out of the 172 respondents 15 (8.7%) strongly agreed, 2 (1.1%) agreed, 41 (23.8%) were neutral, 56 (32.6%) disagreed and 34 (19.8%) strongly disagreed. From the findings, in most parastatals resources are not equally distributed since most respondents disagreed. This indicates that some departments may lack sufficient resources to carry out their duties effectively, which may hinder financial performance. On the other hand, in a few of the parastatals resources are well allocated in every department implying that some parastatals distribute their resources adequately to each department to enhance their performance.

Table 2: Descriptive Statistics

Statement	SA	A	N	D	SD
	5	4	3	2	1
Parastatals take into consideration the priority of stakeholders in their plans.	70	80	10	9	3
Employees are conversant with budgeting guidelines.	40	75	35	15	7
Tasks and responsibilities are adequately defined.	50	52	43	17	10
The procedures and policies on budgeting are clearly outlined and well known to employees	25	57	30	42	18
Participatory budgeting leads to good performance in the organization.	10	18	45	68	31
The management conducts forums to create awareness on policies about spending.	40	62	49	18	3
Focus groups are formed to create awareness to the subordinates.	9	24	46	63	30
The firm has created websites, which help in creating awareness to the subordinates.	10	24	50	51	37
The subordinates have good knowledge on budgeting due to their participation.	12	33	38	66	23
Resources are well allocated according to what each department requires.	34	56	41	26	15

4.3 Inferential Statistics

Inferential statistics was carried out to assess the link between the study variables and establish how the independent variables influence the dependent variable.

4.3.1 Diagnostic Tests

4.3.1.1 Normality Test

Normality was carried out to determine whether the data under study were normally distributed [1]. The Shapiro-Wilk test was used to determine if the study's variables were normally distributed.

Table 3: Normality Test

	Variables	Shapiro-Wilk		
		Statistic	df	sig.
Financial performance	ABPR	.819	172	.059

Table 3, results show that the variable under study was normally distributed since the computed p-value was lower than 0.05. Therefore, the study failed to reject the null hypothesis that the variables were normally distributed.

4.3.1.2 Autocorrelation

Autocorrelation is the relationship between the same variables over various time intervals [6]. The autocorrelation of the model's residues was tested using Durbin Watson under the assumption that autocorrelation does not exist.

**Table 4: Autocorrelation
Durbin Watson**

1.79

Table 4 indicates a resulting value of 1.79, implying that autocorrelation does not exist amidst the study's constructs. Therefore demonstrating the autonomy of the model's residuals.

4.3.1.3 Test for Multicollinearity

The linear association between two regression variables is referred to as multicollinearity. Multicollinearity was assessed by estimating VIFs for each elements.

Table 5: Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
ABPR	.733	1.364

Table 5 displays results for multicollinearity. The values of VIF is less than ten implying that there is no multicollinearity and the assumption of linear regression model holds

4.3.1.4 Heteroscedasticity Test

Heteroscedasticity occurs when there is a dependence of scattering within at least one independent variable in a particular sample [3]. Heteroscedasticity was tested using Breusch Pagan (BP).

Table 6: Heteroscedasticity Test Results

	chi2(1)	Prob > chi2
BP test	2.31	0.1429

The results are reported in Table 6, and the chi-square value is 2.31, which is greater than 0.05, indicating that homoscedasticity rather than heteroscedasticity is present in the residuals.

4.3.2 Model Summary

The findings of the study show that awareness of budget process regulations explain 22.5% of the variation in financial performance in parastatals with liquidity gaps in Kenya. R is 0.474 while adjusted R square is 0.287.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.474 ^a	.225	.287	.612

4.3.3 ANOVA

The Analysis of Variance (ANOVA) was determined to find out the relationship between the independent variables and the dependent variable.

Table 8: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.134	3	0.3654	3.735	.0002 ^b
	Residual	13.786	168	0.0802		
	Total	14.920	171			

The F statistics was 3.735 which is more than the f critical value of 2.65, this indicates that there is a significant correlation between awareness of budget process regulations and financial performance of parastatals with liquidity gaps in Kenya. The p-value of 0.002 also shows significance since it is less than 0.05.

4.3.4 Multiple Regression Coefficients

Multiple regression was conducted to establish the relationship between the variables.

Table 9: Regression Coefficients

Model		Unstandardized Coefficients		T	Sig.
		B	Std. Error		
	(Constant)	.180	.039	4.615	.000
	ABPR	-.056	-.0177	-3.161	.009

Regression: $Y = 0.180 - 0.056BPR$

The constant indicates that when parastatals have not implemented awareness of budget process regulations, the financial performance of the parastatals measured by return on assets is 0.180. The constant value 0.180 shows the value of the dependent variable. Awareness of budget process regulations had a regression coefficient of -0.056, a p-value of 0.009 which is less than 0.05. This shows that there is a significant relationship between awareness of budget process regulations and financial performance.

5.0 Conclusion

The study concluded that an increase in awareness of budget process regulations would lead to an improvement in return on assets by reducing the net thus improving the financial performance of the parastatals.

5.1 Recommendations

The study recommends that more awareness of budget process regulations should be created among the subordinates by the management since most respondents disagreed and strongly disagreed that employees are aware of the budgeting guidelines. The study also recommends that awareness of budget process regulations be improved since its improvement affects financial performance.

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