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The Influence Of Budgeting Practices On Financial Performance Of Community-Based Organizations In Kericho County, Kenya

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Abstract
Background: *Community-based organizations (CBOs) play a pivotal role in community development globally. However, many CBOs cease operations prematurely due to financial constraints. Prior research indicates that sound budgeting practices significantly influence the financial performance and sustainability of CBOs. This study examined the effect of budgeting practices on the financial performance of CBOs in Kericho County, Kenya.*
Materials and Methods: *A census was conducted on 57 registered CBOs in Kericho County using questionnaires. Data was collected on the CBOs' budgeting practices and financial performance. Descriptive and inferential statistics were conducted using SPSS.*
Results: *Most CBOs prepared activity budgets (mean=3.40) and annual budgets (mean=3.40) which were approved and reviewed by management (mean=3.40). However, few prepared cash flow forecasts (mean=1.89). CBOs moderately compared actual versus budgeted expenses (mean=3.89). Budgeting had a very strong positive correlation with financial performance (r=0.826, p=0.000). Regression analysis showed budgeting significantly predicted financial performance, R2=0.758, F(4, 50)=39.120, p=0.000.*
Conclusion: *Stringent budgeting practices like preparing activity and annual budgets, cash flow forecasts, and tracking budget versus actual expenses had a very strong association with the financial performance of CBOs. This indicates that improved budgeting practices could enhance the financial sustainability of CBOs. The study recommends CBOs to strengthen their budgeting practices, particularly cash flow forecasting.*
Key Word: *budgeting practices, financial performance, community-based organizations, Kenya.*

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I. Introduction

Community-based organizations (CBOs) play an indispensable role in advancing socio-economic development globally, by implementing programs to address challenges like healthcare access, youth empowerment, and environmental sustainability at the grassroots level [1]. CBOs are defined as voluntary civic groups formed by community members to serve community needs and aspirations [2]. Globally, CBOs are considered impactful change agents due to their embeddedness within marginalized communities.

However, numerous CBOs cease operations prematurely due to financial constraints, with failure rates as high as 75% within five years in certain contexts [3]. Financial sustainability is fundamental for CBOs to maintain operations, implement programs effectively and achieve impact [4]. Prior empirical research has revealed a significant positive association between budgeting practices and financial performance of CBOs in multiple developing countries [5–7].

Budgeting involves allocating projected costs to programs and activities, forecasting cashflows, tracking actual expenditure versus plans, and taking corrective action on deviations [8]. Stringent budgeting practices enable CBOs to define program costs, anticipate funding needs, optimize resource utilization and minimize expenditure variances [9,10].

This study aimed to examine how practices like budget preparation, cash flow forecasting, budget approval, monitoring and analysis of variances influence the financial sustainability of CBOs in Kericho, Kenya. The findings will inform policy on capacity building of CBOs to strengthen their internal budgetary control processes. This is timely, as recent surveys indicate that many CBOs lack the expertise and systems for disciplined financial planning and control [11].

II. Material And Methods

A census was conducted on the 57 registered CBOs in Kericho County in November 2022 using questionnaires. The variables collected included CBO budgeting practices and financial performance indicators. Budgeting practices encompassed preparation of activity and annual budgets, cash flow forecasts, budget approvals, reviews and comparison of budget versus actual spending. Financial performance was measured through budget absorption rate, funding acquisition, program completion, and inactivity rates.

Study Design: This was a quantitative cross-sectional census study utilizing primary data collected through questionnaires. Cross-sectional studies analyze data collected from a population at one specific point in time [12]. The census approach was preferred as it eliminates sampling bias by surveying the entire target population [13].

Study Location: The study was conducted in Kericho County, located in the western region of Kenya. Kericho covers an area of 2,111 km2 and had a population of 901,777 as per the 2019 national census [14]. The study location was selected as Kericho has a well-developed CBO sector but limited research on their financial management practices.

Study Duration: The study was carried out over a period of two months from October to November 2022. This timeline enabled adequate data collection and analysis.

Sample Size: The study employed a census of all 57 registered CBOs in Kericho County, as listed by the Department of Social Development in September 2022. A census helps improve the external validity of results by eliminating sampling error [15].

Sample Size Calculation: The sample size was predetermined based on the number of registered CBOs in Kericho County. Given the small population size, a census was determined to be statistically more impactful than sampling [13].

Subjects and Selection Method: One respondent from each CBO was selected using purposive sampling based on their involvement in financial planning and management. Respondents included accountants, managers and board members. Purposive sampling enables researchers to use their judgement to select the most productive sample [16].

Inclusion Criteria: The criteria for including respondents were:
1. Employed in a registered CBO in Kericho County
2. Directly engaged in the CBO's financial management
3. Member of the CBO for at least one year

Exclusion Criteria: CBOs not formally registered with the department of social development were excluded from the study.

Procedure Methodology: Primary data was collected using semi-structured questionnaires administered through phone calls and emails. The questionnaire had 32 questions covering the CBO's budgeting practices and financial performance indicators. Questionnaires allow standardized data collection from a large sample [17].

Statistical Analysis: Collected data was analyzed using SPSS version 27. Descriptive statistics including means, standard deviations, frequencies and percentages were generated. Correlation and multiple linear regression analysis were conducted at 95% confidence interval to assess the relationship between budgeting practices and financial performance.

III. Result

Most CBOs prepared activity budgets and annual budgets as shown in Table 1. The mean score for activity budgeting was 3.40, indicating moderate agreement. The mean score for annual budgeting was 3.40, also indicating moderate agreement.

Table 1: Budget Preparation Practices

Budgeting Practice	N	Mean	Std. Deviation
Activity budgeting	55	3.40	0.830
Annual budgeting	55	3.40	0.830

However, few CBOs prepared cash flow forecasts, with a mean score of 1.89 denoting disagreement. This is shown in Table 2.

Table 2: Cash flow forecasting

Budgeting Practice	N	Mean	Std. Deviation
Cash flow forecasting	55	1.89	0.396

Most CBOs reported that management approved budgets initially and reviewed periodically, with a mean score of 3.40 signifying agreement. This is tabulated in Table 3.

Table 3: Budget Approvals and Reviews

Budgeting Practice	N	Mean	Std. Deviation
Management approval of budgets	55	3.40	0.830
Periodic management review of budget implementation	55	3.40	0.830

CBOs moderately compared actual spends versus budgeted expenses periodically, with a mean of 3.89 as shown in Table 4.

Table 4: Budget versus Actual Analysis

Budgeting Practice	N	Mean	Std. Deviation
Comparison of actual vs. budgeted expenses	55	3.89	1.301

Correlation analysis revealed a very strong positive relationship between budgeting practices and financial performance ($r=0.826$, $p=0.000$).

Regression analysis found that budgeting practices significantly predicted the financial performance of CBOs in Kericho County, R2=0.758, $F(4, 50)=39.120$, $p=0.000$. This indicates that budgeting practices accounted for 75.8% of the variation in financial performance of CBOs.

The results indicate that most CBOs prepared activity and annual budgets and compared actual versus planned expenditure periodically. However, few prepared cash flow forecasts. Budgeting had a very strong correlation with financial performance. Stringent budgeting practices significantly predicted the financial sustainability of CBOs.

IV. Discussion

The findings illustrate the prevalent budgeting practices adopted by Community-Based Organizations (CBOs) in Kericho County, Kenya. The mean scores for both activity budgeting (3.40) and annual budgeting (3.40) suggest a moderate level of agreement among the surveyed CBOs regarding these practices. This aligns with the assertions of Kuria, Rotich, and Anyango (2017), who emphasized the significance of budgeting in organizations, citing its role in effective resource allocation, decision-making, and performance measurement.

However, a notable disparity emerges in the case of cash flow forecasting. The mean score of 1.89 indicates disagreement among the CBOs on the importance of preparing cash flow forecasts. This finding resonates with the literature of Jalale (2017) and Arthur and Kubi (2020), who emphasized the critical role of cash management practices, including forecasting, in organizational financial performance. The limited emphasis on cash flow forecasting might pose challenges in ensuring a sustainable and steady cash flow, which could impact the day-to-day operations of the CBOs.

On budget approvals and reviews, the mean score of 3.40 indicates agreement among CBOs that management is involved in the initial approval and periodic review of budgets. This aligns with the principles highlighted by Hanno, Ahmad, and Abdelhakeem (2020), who underscored the importance of internal controls, including managerial oversight, in enhancing financial performance.

Making a comparison of actual versus budgeted expenses, the mean score of 3.89 indicates a moderate agreement among CBOs in Kericho County in periodically assessing and comparing actual expenditures with budgeted expenses. This practice is in line with the literature on performance management in non-profit organizations by Strydon (2014), emphasizing the value of analyzing variances to monitor and control budgets.

The correlation analysis presented in the results showcases a very strong positive relationship ($r=0.826$, $p=0.000$) between budgeting practices and financial performance. This finding substantiates the arguments put forth by Kuria, Rotich, and Anyango (2017) and supports the positive association between budgetary processes and organizational success.

Moreover, the regression analysis demonstrates that budgeting practices significantly predict the financial performance of CBOs in Kericho County (R2=0.758, $F(4, 50)=39.120$, $p=0.000$). This substantial predictive power, accounting for 75.8% of the variation in financial performance, aligns with the literature emphasizing the pivotal role of budgeting in achieving organizational goals (Kuria, Rotich, and Anyango, 2017).

The results highlight the prevalence of certain budgeting practices among CBOs in Kericho County, with a strong correlation and predictive power between these practices and financial performance. While activity and annual budgeting, as well as budget approval and reviews, are common practices, the relatively lower emphasis on cash flow forecasting suggests an area for potential improvement. Strengthening budgeting practices emerges as a key factor in enhancing the financial sustainability of CBOs, aligning with the principles of positive accounting theory and agency theory.

V. Conclusion

This study looked into the budgeting practices of Community-Based Organizations (CBOs) in Kericho County, Kenya. The findings revealed a moderate agreement among CBOs on activity and annual budgeting, emphasizing the importance of these practices in organizational resource allocation and decision-making.

The positive relationship between budgeting practices and financial performance, as well as the significant predictive power demonstrated through regression analysis, highlights the important role of effective budgeting in determining the financial sustainability of CBOs. These results align with established theories like positive accounting theory and agency theory, emphasizing the significance of budgeting in achieving organizational goals.

While CBOs in Kericho County exhibit strengths in certain budgeting practices, the study also highlights the need for a heightened emphasis on cash flow forecasting. Addressing this area for improvement could enhance the resilience of these organizations by ensuring a steady and sustainable cash flow.

This study contributes valuable insights to the broader understanding of financial management in non-profit organizations, providing practical implications for refining budgeting practices to foster greater financial health and sustainability in CBOs. As these organizations play a crucial role in community development, optimizing their financial management practices is essential for their continued positive impact.

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