IJABS Volume 3. Issue 2. (2024), ISSN: 2940-2735

International Journal of Advanced Business Studies
https://besra.net/index.php/ijabs/

Full length article

Impact of Budgeting Practices on Financial Performance in the County Government of Meru, Kenya

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Article Info
Received: 15.05.2024
Accepted: 27.05.2024
Available online: 04.06.2024

Keywords:
Budgeting practices, financial performance, county, government

DOI: https://doi.org/10.59857/IJABS.1835

ABSTRACT

The study aimed at investigating how budgeting practices affect financial performance of the county government of Meru. The research was grounded in the financial distress theory and employed a correlation survey research design. The study sample size was 69 respondents, with the study utilizing a census approach. Both primary and secondary data sources were utilized, with primary data collected through questionnaires and secondary data derived from financial statements obtained from County Offices. The validity of the research instrument was assessed through consultation with content experts and supervisors, while reliability was evaluated using Cronbach's alpha coefficient. Data analysis involved employing descriptive and inferential statistical techniques, with results presented through graphs, charts, frequency tables, and a regression model. The findings indicated a statistically significant relationship between budgeting practices ($R=0.539$, $P<0.05$) with the county's financial performance. The study concluded that budgeting practices positively and significantly affect the financial performance of county government of Meru. The study recommends that Meru County Government should continue to prioritize and strengthen its budgeting practices, such as improving budget planning, execution, monitoring, and evaluation, to further drive the overall performance and efficiency of the county government. This approach would facilitate a comprehensive understanding among management, empowering them to influence stakeholders and make well-informed decisions regarding county government outcomes.

1. Background of the Study

Budgeting practices hold significant importance across governmental, profit-oriented, and non-profit organizations, serving as vital tools for monitoring progress, forecasting cash flows, and regulating expenditures (Raghunandan et al., 2012). It's crucial for organizations to adopt effective budgeting practices to ensure that budget plans contribute positively to their financial well-being (Marino & Matsusaka, 2005). These practices focus on estimating revenue and expenses for a specific period, efficiently delivering services to constituents, and enhancing organizational financial performance (Uyarra et al., 2020). The involvement of stakeholders further enhances the effectiveness of budgeting practices. Budgeting practices serve as significant predictors of financial performance (Gideon & Alouis, 2013). Budgetary practices encompass various procedures and methods utilized throughout the budgeting process (Fantu, 2024). Miller, Hildreth and Stewart (2019) define budgeting practices as the guidelines and principles employed in formulating budget estimates for an organization. Yang (2010) expands on this definition, describing budgeting practices as the process of translating organizational objectives into feasible plans within the constraints of available financial resources. Despite differing perspectives, this study adopts the definition of budgeting practices outlined in the Constitution of Kenya (2010), which encompasses planning, approval, implementation, and evaluation practices. Budgeting practices are categorized based on the stages of the budgeting process, including preparation techniques, approval practices, execution methods, and analysis or audit procedures (Cruz-Castro & Sanz-Menéndez, 2016).

In public budgeting, these practices hold significant implications for public managers, citizens, and scholars, offering insights to address public needs effectively (Johnson, Jones & Reitano, 2021). Since the implementation of devolution in Kenya, county administrations have been presented with significant challenges on the financial front. These challenges have been caused by a lack of adequate funding. Inadequate financial management, falling short of local revenue estimates, delays in collecting the equal part from the National Treasury, excessive recurrent costs, and other potential reasons all contribute to these hurdles, which embrace a number of other potential difficulties as well. These obstacles also encompass a variety of other potential causes as well. In addition to this, these difficulties include concerns that are related with falling short of the targets set for the amount of local revenue. County governments have been unable to meet the fundamental responsibilities that they owe to the general public as a result of the obstacles that have been posed by these concerns.

The citizens' expectations, which may at times go beyond the realm of what is genuinely possible (Ndalila, 2016), contribute to the worsening of the situation and make it even more difficult to cope with than it already is. Both the performance requirements specified in the Kenyan Constitution (2010) and the parameters outlined by the Ministry of Devolution (2010) indicate that county administrations have not achieved the required levels for service delivery. The Meru County government has taken the initiative to take the lead in the search for viable answers to these enormous fiscal difficulties that have been placed before them. Recent events have culminated in the County Assembly putting forth a resolution to commence the impeachment process against the elected governor of the county barely a year after election. The allegations leveled ranges from governance issues as well as infractions of legislation that control the use of public resources, as stated in an article that appeared in the Daily Nation on December 14, 2022. Because of this, the purpose of this study is to ascertain whether there is a relationship between the financial performance of the Meru County government and the budgeting practices that the county government uses.

2.0 Literature Review

2.1 Theoretical Literature Review

The main theory underpinning this study is the Public Budget Theory, initially proposed by Henry Adams in 1985. This theory delves into the societal reasons driving government involvement in budgeting processes (Robis, 1990). It serves as the basis for understanding the evolution of budgeting from a simple directional tool to a multifaceted managerial instrument emphasizing service delivery and organizational performance (Minja, 2019). Scholars, such as Bartle (2008), have utilized this theory to explore how budgeting practices influence financial accountability and performance within organizations. However, despite its significance, Public Budget Theory has faced criticism, notably from Lewis (1952) and Pfeffer (1992). Critics argue that it remains incomplete, offering only partial explanations for the 'how' and 'when' of public budgeting, while neglecting to fully address the 'why' behind governmental budgeting decisions. Developed within the framework of public administration theories, Public Budget Theory has grappled with various theoretical and practical challenges affecting public administration (Lewis, 1952).

Koven (1999) asserts that budget theory is intricately tied to political perspectives on government roles and the methods and results of budgeting processes. The neglect of politics and values within public budget theory leads to a noticeable division between politics and administration in the public budget process, resulting in a failure to optimize efficiency and prioritize budgeting (Sinder, 2000). White (1994) lends support to this theory, defining budgeting as the provision of financial resources to governance for its operations. This perspective highlights the instrumental nature of budgeting as a fundamental activity of government, serving as a key tool in policy and public administration (Gibran & Sekwat, 2009). Furthermore, scholars argue that budgeting theory must consider individual behaviors, roles, functions, and interactions within the larger system (Gibran & Sekwat, 2009). They advocate for an approach that addresses both the macro and micro contexts of budgeting, viewing the budget as the product of a dynamic system influenced by various rationalities throughout the budgeting process. This perspective aims to simplify the understanding of real-world public budgeting practices, particularly regarding the timing and rationale behind county government budgets. Thus, the theory provides valuable insights into effective budgeting practices for guiding fund usage in county governments and understanding their impact on financial performance.

2.2 Empirical Literature Review

As Bartocci et al., (2023) points out, the majority of the research studying the relationship between participatory budgeting and organizational performance has been concentrated in developed countries. This is true despite the fact that a substantial body of research has been undertaken on the subject. The fact that there is a substantial body of research on the topic does not change the reality that this is the case. In order to fill this information vacuum that had been detected, a study was carried out to examine the link between participatory budgeting and the effectiveness of local government in the African nation of Kenya. The aim of the study was to determine whether or not there is a correlation between the two. The research utilized a survey review approach, and there was a total of 44 participants who willingly took part in the survey and consented to be interviewed as part of the study's focus group. The interviews were to be conducted by the researcher. It was also made available to the participants as an option for them to keep their anonymity. The study's conclusions indicate that there is a strong correlation between a company's amount of financial investment and its overall success. Furthermore, the study's conclusions showed that a variety of factors affect the relationship that exists between an organization's success and its involvement in budgeting. These elements consist of the task's intricacy, level of difficulty, and organizational-affective commitment. Counties in Kenya will be supplied with helpful insights as a result of these findings, which shed light on the complex mechanisms at play in the relationship between participatory budgeting and organizational efficiency. Additionally, best practices in this context may be informed.

Agbenyo, Danquah, and Shuangshuang (2018) conducted research with the objective of finding the degree to which effective budgeting influences the level of monetary success enjoyed by industrial companies that are traded on the Ghana Stock Exchange. Specifically, the researchers were interested in determining the extent to which this relationship exists. They employed a quantitative study approach to the issue in order to investigate the use of budgets in non-bank financial institutions as a tool for financial management and to do so, they developed a research methodology. The primary data for the study was collected by means of questionnaires, and the approach that was used to build the model for the study was one that was both methodical and sequential in its character. Throughout the course of the research, regression methods were utilized to analyze the breadth and nature of the relationship that exists between efficient methods of financial management and the overarching performance of businesses. This was done with the intention of determining whether or not there is a correlation between the two. According to the conclusions of the research, there is a statistically significant association, albeit a modest one, between good budget administration and the successful functioning of a firm. This correlation was shown to exist despite the fact that the correlation was only tiny. The fact that the relationship was moderately strong is evidence that this is the case. The significance of budgeting as a component of financial management for manufacturing enterprises comes clearly from these findings as a source of valuable new insights when evaluated in the context of the Ghana Stock Exchange. This may be seen as a source of useful new insights because.

Mbugi and Lutego (2022) conducted a study to explore the impact of budget management on the performance of Dar-Salaam Bank. The sample population consisted of seventy bank employees and was analyzed using retrospective and descriptive research methods. Employing a census sampling strategy due to the small size of the workforce, all seventy employees were approached as potential research respondents. Data from primary and secondary sources were analyzed using the Statistical Package for the Social Sciences. Visual aids such as charts, graphs, and frequency tables were utilized during the presentation of study findings. The results indicate that accounting practices, zero-based budgeting, and variance cost analysis significantly improved the bank's efficiency and its ability to manage its budget effectively and make data-driven decisions. Unlike previous research, this study examines the relationship between budgeting, budget execution, and the financial challenges faced by Kenya's county governments, offering a unique perspective on these interconnected aspects and distinguishing it from contemporary studies.

Abdi and Mutswenje (2023) conducted a study to examine the connection between manufacturing firms' budgeting practices and their financial results on the Nairobi Securities Exchange in Kenya. When looking into businesses in the Nairobi Area, the researchers used a cross-sectional analytic strategy. We used both primary and secondary resources to gather information on 18 separate public corporations. A survey instrument was created by analyzing the relationship between dependent and independent variables using statistical software designed for the social sciences. The study discovered that manufacturing organizations' financial performance significantly improved when they used a budget, particularly when it came to the return on assets (ROA).

The research showed that improving organizational capability, ranking programs and processes, and conducting thorough evaluation were all crucial to effectively implementing budgets. Involving stakeholders was also highlighted as a way to boost the budgeting process's overall efficiency. These results shed new light on the importance of budgeting for financial performance in Nairobi Securities Exchange-listed industrial enterprises.

Wanjohi (2021) sought to determine whether or not there was a correlation between the financial openness of NGOs in Nairobi County and their ability to remain operational over the long run. The information was collected from thirty different non-governmental organizations (NGOs) with headquarters in Nairobi. These NGOs were established both locally and abroad. Most of the data for the study was collected through the use of questionnaires, and it was then evaluated through the application of descriptive statistics that were generated in SPSS version 17.0. In order to evaluate the link between financial openness and the continued existence of non-governmental groups over the long term, the research utilized correlation and regression analysis. According to estimations based on the square root of the correlation, the presence of strong financial controls was responsible for approximately 14.3% of the variation in the performance of NGOs in Kenya.

According to the findings of the study, it would be beneficial to make employees more aware of the influence that financial constraints have on productivity. It was proposed that, in addition to monetary constraints, other factors that affect efficiency be investigated. It was also proposed that additional research along these lines be carried out, maybe with a bigger pool of participants to draw from, in order to get a deeper comprehension of the function that fiscal responsibility and long-term viability play in non-governmental organizations.

2.3 Conceptual Framework

The conceptual framework visually outlines the relationship between the study independent variable (budgeting practices) and dependent variable (financial performance).

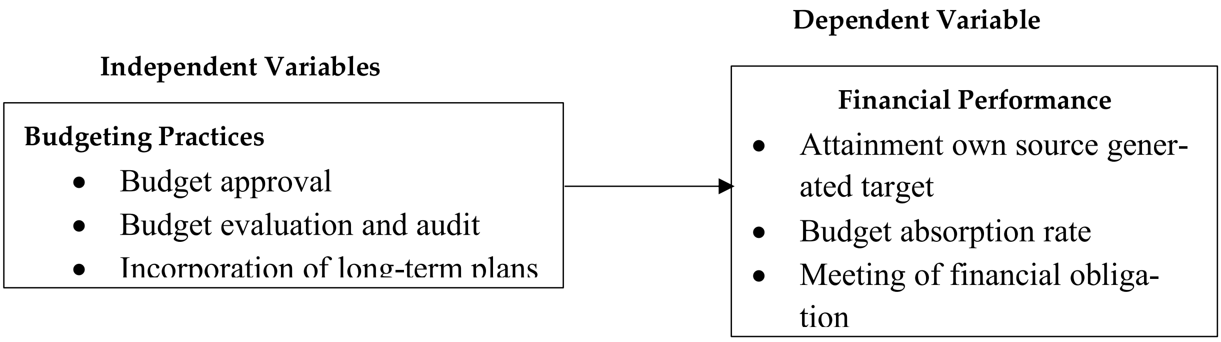

Figure 1: Conceptual Framework

3.0 Research Methodology

The study applied a correlational survey design with a target population of 69 Meru County government officials, including the County Executive Committee members, finance officers, chief officers, and county accountants from the finance, economic planning, and procurement departments, where a census approach was adopted to select participants and a questionnaire was used for data collection; the collected data was cleaned, coded, and subjected to SPSS software for analysis, utilizing descriptive statistics to provide an overview of the key findings and inferential statistics, particularly multiple regression analysis models, to examine the interrelationships between the independent and dependent variables.

4.0 Findings and Discussions

Sixty-three of the 69 questionnaires that were given to the participants were filled out and returned, meaning that 91.3% of them were answered. A response rate of 70% or more is regarded as optimum for research purposes and for drawing conclusions and suggestions based on the study's findings, according to the guidelines presented by Mugenda & Mugenda (2009). The researcher was able to proceed with the analysis because this response rate was sufficient.

4.1 Descriptive Statistics

The study employed descriptive statistical methods to analyze the data collected. The subsequent sections outline the key results, expressed through measures of central tendency and dispersion. These findings are then interpreted and contextualized within the existing body of relevant literature.

4.1.1 Performance of County Governments

The study analyzed the performance of the county government by calculating the mean and standard deviation values from a frequency table. A summary of these statistical results was displayed in Table 1.

Table 1: Descriptive Results on performance of county government

Statements	N	Min	Max	Mean	Std. Deviation
The county government delivers services to its constituents efficiently.	63	1	5	2.99	0.808
Development projects undertaken by the county are completed within the designated timelines.	63	1	5	2.94	1.260
The citizens express satisfaction with the quality of services provided by the county administration.	63	1	5	3.66	1.129
The county government fulfills its financial obligations in a timely manner.	63	1	5	3.19	1.320
The social programs initiated by the county have experienced noticeable improvements.	63	1	5	3.79	1.163
Valid N (LISTWISE)	**63**				

Source: Researcher (2024)

Table 1 showed that respondents' opinions on the claim that the county government provided efficient services were divided, with a mean score of 2.99 suggesting that the county government's level of service was below average. 0.808 standard deviation, which indicates a similar opinion. In a similar vein, respondents' opinions regarding the timely completion of development projects were indifferent, with a mean score of 2.94 and a standard deviation of 1.260, suggesting a wide range of opinions. The study revealed that citizens expressed satisfaction with the services provided by the county government, as indicated by an average response of 3.66 among the participants, suggesting that the services rendered were above average. However, there was a variation in opinions, as evidenced by a standard deviation of 1.129. Regarding the county government's ability to meet its financial obligations on time, respondents were neutral, with a mean of 3.19. Nevertheless, the responses were not homogeneous across departments, as shown by a standard deviation of 1.320. Similarly, respondents agreed to some extent that social programs had improved in the county, with a mean of 3.79. However, the responses were heterogeneous, with a standard deviation of 1.163, indicating variations among respondents. The study conducted by Fjelstad et al. (2004) revealed that local governments in Tanzania, which adhered to sound financial management practices and government regulations, demonstrated positive progress in terms of efficient resource utilization, infrastructure development, and effective public service delivery. Additionally, some local authorities exhibited financial stability. In contrast, Njuguna (2010) found that in Kenya, most government agencies faced financial difficulties, leading to poor performance in the majority of public corporations. However, the findings of the current study present a different perspective, indicating that county governments in Kenya exhibit moderate performance levels.

4.1.2 Budgeting Practices

Finding out how budgeting procedures affect the financial performance of the county government in Meru, Kenya, was the study's primary goal. Table 2 presents a descriptive examination of the impact of budgeting practices on the performance of Meru's county governments.

Table 2: Descriptive Results on Budgeting practices

Statements	N	Min	Max	Mean	Std. Deviation
A participatory process involving multiple stakeholders is involved in the production of important planning documents, including the County Fiscal Strategy Paper (CFSP), Annual Development Plan (ADP), County Integrated Development Plan (CIDP), and the Budget.	63	1	3	1.83	1.004
The county's financial plan, embodied in the budget, is intrinsically linked to the ADP and the overarching CIDP.	63	1	5	3.07	0.989
At the departmental level, budgetary allocations are oriented towards fulfilling the objectives outlined in the ADP and CIDP.	63	1	4	2.78	1.115
Within the county, expenditures are undertaken strictly in accordance with the approved budgetary provisions.	63	1	5	3.92	1.212
What is budgeted for is paid for in my department.	63	1	5	1.86	0.898
The county receives disbursements of allocated funds in a timely manner	63	1	5	1.54	0.997
The budgeting strategy necessitates a comprehensive assessment of the financial landscape, encompassing revenue projections, expenditure estimates, debt status analysis, and an evaluation of fiscal sustainability.	63	1	5	2.18	0.904
The county government conducts regular budget variance reviews, both monthly and annually, to monitor and evaluate budgetary performance.	63	1	5	3.87	1.070
Valid N (LISTWISE)	**63**				

Source: Researcher (2024)

Table 2 shows that respondents disagreed that the formulation of key planning documents, such as the CIDP, ADP, CFSP, and the Budget, involves a consultative process engaging various stakeholders as supported by a mean of 1.83 and a standard deviation of 1.004. Respondents were not sure whether county's financial plan, embodied in the budget, is intrinsically linked to the ADP and the overarching CIDP (Mean=3.07, SD=0.989) and not sure whether at the departmental level, budgetary allocations are oriented towards fulfilling the objectives outlined in the ADP and CIDP (Mean=2.78, SD=1.115). It has, however, been demonstrated that the county budget is enforced as approved by the Assembly (Mean=3.92, SD=1.212). Further, it was found that department are not allocated what is budgeted for (mean=1.86, SD=0.898). Additionally, respondents disagreed with the construct that county receives disbursements of allocated funds in a timely manner (Mean=1.54, SD=0.997). The study showed that respondents were neutral on whether budgeting strategy necessitates a comprehensive assessment of the financial landscape, encompassing revenue projections, expenditure estimates, debt status analysis, and an evaluation of fiscal sustainability (Mean=2.18, SD=0.904). The respondents (Mean=3.87, SD=1.070) confirmed that the county administration examines budget discrepancies on a yearly and frequent basis. The results of the study typically show that there is a delay in the distribution of resources, which has an impact on how the county departments operate and ultimately results in subpar performance.

In order to improve the efficiency of the county government, the research results looked for additional ways to improve budgeting practices. The respondents indicated in their responses that there is a need to increase financial transparency and preparation, and that county assemblies and leaders should involve all stakeholders in the preparation process by reporting at the county level. The budget projections, which contain estimates of revenue and expenses and also comply with the Public Financial Management Act of 2012, were proposed by respondents as being closely followed. The respondents recommended that the revenue mechanisms should be totally automated. They also thought that the government institutions that had been devolved would offer more training to improve the knowledge and abilities of different county officials, which would enable improved service delivery. The study supports the conclusions of Kimani (2015), who found that many firms disregarded their budgeting procedures. Over 56% of business owners handled their own accounts, and about 70% of entrepreneurs kept their excess cash. According to the study, more than 80% of businesses have created a business plan, mostly in order to obtain capital. Based on these observations, it was determined that the proper implementation of structured budgeting methods is critical to the long-term survival of organizations in the public and private sectors.

4.3 Inferential Analysis

4.3.1 Correlation Analysis

The Pearson correlation test was used to calculate correlation; the stronger the relationship between the variables, the closer the coefficient is to 1.

Table 3: Correlation Analysis Correlations

		Budgeting Practices	Financial Performance
Budgeting Practices	Pearson Correlation	1.000	
	Sig. (2-tailed)		
	N	63	
Financial Performance	Pearson Correlation	0.000	1.000
	Sig. (2-tailed)	0.539**	
	N	63	63

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

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Researcher (2024)

The results presented in the table 3 reveal a robust and significant correlation between budgeting practices and the performance of the county government (R=0.539, P<0.05). This implies that an enhancement in budgeting practices leads to an improvement in the county government's performance.

4.3.2 Regression Analysis

The impact of budgeting practices on the performance of Meru County Government was determined using multiple regression analysis, which allows evaluation of the strength of the relationship between an outcome variable and predictor variables. The model summary results are shown in Table 4.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.941[a]	0.887	0.839	0.705

a. Predictors: (Constant), Budgeting Practices

The results presented in Table 4 demonstrated a robust correlation between the performance of the Meru County administration and its budgeting practices. The practices of budgeting accounted for 88.7% of the variation in the county's performance, while other factors not included in the model contributed 11.3% (R square = 0.887).

Table 5: ANOVA Statistics

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4035.635	4	1008.909	10.740	.000[b]
	Residual	9675.662	59	93.938		
Total		**13711.296**	**63**			

Source: Researcher (2024)

The results presented in the Table 5 demonstrate that the model employed was statistically significant, as evidenced by the F-statistics (F = 10.740, P<0.05 at the 5% significance level). This significance indicates that the model successfully explains the relationship between budgeting practices and county performance changes.

Regression Coefficients

The regression coefficients, denoted by the B column in Table 6, illustrate the extent to which changes in the predictor variables budgeting practices affect the change in county performance.

Table 6: Regression Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.747	0.993		2.768	0.009
	Budgeting Practices	0.415	0.177	0.370	2.343	0.000
a. Dependent Variable: Performance						

Source: Researcher (2024)

Table 6 shows that, when the explanatory factors for budgeting practices are held constant, the constant was 2.747 units, meaning that the financial performance of Meru County Government increases by 2.747 units. The study used regression model of the form; $Y = 2.747 + 0.415X_{1.}$ The results show a positive and significant association (B1= 0.415, sig=0.000) between the county's performance and its budgeting practices. This suggests that a change of one unit in budgeting practices (X_1) results in a rise of 0.415 units in the financial performance of the Meru County Government.

5.0 Conclusion

The research findings indicate a significant positive correlation between budgeting practices and County performance. Moreover, it was observed that the county adheres strictly to the approved budgetary allocations for expenditures. Regular reviews of budget variances, conducted monthly and annually by the county government, are utilized to assess budget performance. Additionally, the study highlights the importance of funding decision-making processes for county governments and suggests that policymakers could benefit from this research to develop effective control policies in this domain.

6.0 Recommendations

The study recommends that Meru County Government should continue to prioritize and strengthen its budgeting practices, as the findings demonstrate a robust and positive correlation between the county's budgeting practices and its overall performance. The multiple regression analysis reveals that budgeting practices account for 88.7% of the variation in the county's performance, with a positive and statistically significant association between the two variables. Specifically, the regression model indicates that a one-unit change in budgeting practices results in a 0.415-unit increase in the county's financial performance. Therefore, the county should focus on enhancing its budgeting practices, such as improving budget planning, execution, monitoring, and evaluation, to further drive the overall performance and efficiency of the county government. This approach would facilitate a comprehensive understanding among management, empowering them to influence stakeholders and make well-informed decisions regarding county government outcomes.

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