



DSPACE

<https://dspace.org/>

Effect of employee participation in budgeting planning on employee motivation in microfinance institution in Kericho County

Kirui, Barton K; Naibei, Isaac; Cheruiyot, Peter

2021-03

International journal of recent research in commerce economics and management (IJRRCEM)

<http://ir-library.kabianga.ac.ke/handle/123456789/378>

Kiptoo, K. B., Naibei, I., & Cheruiyot, P. (2021). Effect of employee participation in budgeting planning on employee motivation in microfinance institution in Kericho County. International Journal of Recent Research in Commerce Economics and Management (IJRRCEM), 8(1), 87-93.

EFFECT OF EMPLOYEE PARTICIPATION IN BUDGETING PLANNING ON EMPLOYEE MOTIVATION IN MICROFINANCE INSTITUTION IN KERICHO COUNTY

¹Kirui Barton Kiptoo, ²Dr. Isaac Naibei, ³Dr. Peter Cheruiyot

University of Kabianga

Abstract: Budgetary participation is the involvement of all employees in the budgetary process and their inputs used to; influence setting of budgetary targets, assist in problem solving, promote information sharing among administrative levels and enhance performance leading increased employee motivation. The study sought to investigate the effect of employee participation in the budgetary planning on employee motivation in micro finance institutions in Kericho County. The study was anchored on stakeholder's theory, motivation theory, theory of planned behavior and vroom's expectancy theory. The research adopted a descriptive research design and was undertaken in Kericho County which is one of the counties created under the new Constitution of 2010. The target populations for the study was 1123 employees of Microfinance Institutions in Kericho County who were clerks, sales/marketers, accountants and tellers, where a sample size of 295 respondents was randomly sampled based on Yamane (1973) formula. Data collection instrument used was a structured questionnaire which was based on drop and pick basis. Both descriptive statistics and inferential statistics (correlation and regression analysis) was used in analyzing data with the help of Statistical Package for Social Sciences Version 24 (SPSS-24) and findings are presented mainly in form of tables while qualitative data was analyzed through narrations.

Keywords: Budget, Budget Planning, Motivation, Micro Finances.

1. BACKGROUND OF THE STUDY

A budget is an economic instrument for facilitating and realizing the vision of the company in a given fiscal year. It is a framework which provides an appropriate analysis for past performance which helped an organization chart its future direction. According to Connick *et al*, (1988) for many decades, empirical research has documented extensive use of budgeting systems. These studies have largely highlighted the significant emphasis, which diverse types of organizations in various countries, put on budgeting systems, as key elements of management control. As stated by Little *et al*. (2002) budgeting is one of the fundamental decision-making process in an organization, actually a number of studies attempt to link the extent of the budgeting process with its potential effect on employee motivation and firm performance. To reveal the nature of budgeting at a microfinance organizational level, it would be best to begin with two comparisons of budgeting with business planning; and with accounting and finance and budgeting versus employee satisfaction.

Budgets provide a basis for directing and evaluating the performance of individuals or segments of organizations and structure the decision-making, so they appear to be appropriate as control devices impacting performance of organizations. Bruns & Waterhouse (2015) explore the interaction and relationships of budgets with organizational structure. They found a clear positive relationship: those working in highly structured organizations participate more in budget planning and appear to be more satisfied with the organizational goals they accomplished.

Participation in the budgeting process has been of great interest to management accounting researchers because they want to examine the link between participation in the budget setting process and organizational performance (Merchant 2011). The importance of subordinates' budgetary participation as a means of improving performance has been studied extensively in the behavioral accounting literature (Brownell 2011, 2012, 2016; Chenhall et al. 2018; Nouri & Parker 2018). It is argued that the act of participation in the budgeting process serves as a function by inducing subordinate to accept and commit to their budget goals (Hofstede 2018; Merchant 2011). Nouri and Parker (2018), further suggested that budget participation serves an informational role whereby subordinates can gather, exchange and disseminate job-relevant information to facilitate their decision-making process and to commit their private information to organizational decision makers.

Motivation is a management process, which encourage people to work better for the overall benefit of the organization, by providing them motives, which are based on their unfulfilled needs. Amabile (2013) contributed to this statement by arguing that it is necessary for managers and leaders of organization to learn to understand and effectively deal with their employee's motivation; since motivated employees are the pillars of successful organization in present and future century. She also indicates that unmotivated employees may probably contribute little effort in their jobs, stay away from workplace as much as possible, go out of the organization and make low quality of work. When employees are well motivated, they help the organization to grow and survive in a fast-changing workplace (Lindner 2018).

Microfinance Institution refers to those financial institutions that are characterized by their commitment to assisting typically poor households and small enterprises in getting access to financial services. They are distinguished from purely commercial, small-scale, possibly informal financial institutions dealing with the poor that may hold numerous small accounts more or less as a by – product of their main business. Within the category of microfinance's, institutions tend to share some common characteristics, but also differ greatly in the nature of their operations, their size and their financial performance, (Holden, 2002). Microfinance institutions provide a wide range of services and the best-known activity is providing credit to poor households and small enterprises but may also take deposits. Some microfinance institutions offer other financial services such as insurance, or advice and training to their clients. The training is often closely linked to the microfinance main activities; training in business management for example might make a loan more valuable to the borrowers and enhance the chances of repayment, they are also sometimes used as a vehicle to provide other services and education in health awareness (Holden, 2002).

Following the enactment of the Microfinance Act and Regulations, the dynamics within the microfinance industry have changed significantly with the industry experiencing growth and transformation. Innovation and dynamism within the microfinance industry has increased and the industry has experienced growth in the number of customers and diversity in the range of services and products provided. Since the first microfinance bank was licensed in May 2009, the number of licensed microfinance banks has increased to thirteen (13), eleven (11) being nationwide (Faulu Kenya MFB, Kenya Women MFB, SMEP MFB, REMU MFB, Rafiki MFB, Century MFB, SUMAC MFB, Caritas MFB, Maisha MFB, Uwezo MFB and U&I MFB) and two (2) being community-based MFBs (Daraja MFB and Choice MFB) (CBK, 2018). Microfinance Act through the Finance Act, (2013) supported the rapid growth of the microfinance banking industry. The Microfinance sector has witnessed significant growth since 2008 when the first MFB was licensed. The number of licensed MFBs has grown to 13 with a total of 114 branches as at December 2017. The number of marketing offices has grown to 106 as at December 2017. However, a considerable drop in performance was observed in the year 2017 with the total assets decreasing by 4.6 percent from KSh. 72 Billion in December 2016 to KSh. 69 Billion in December 2017.

The Microfinance sector is currently facing various challenges most of which are as result of the rapid growth experienced and the changing market dynamics. These challenges form the key drivers of change and include; need for enhanced corporate governance structures and practices in the changing banking sector environment. This presents the need to review current shareholding structures and introduce new structures such as non-operating holding companies; need for resilient and viable business models through ensuring adequacy of capital and liquidity given the changing market dynamics across the entire banking sector; elevated credit risk which has contributed to increasing non-performing loan portfolios; reduced reliance on deposits and increased reliance on more expensive borrowed funds. This is attributed to the low visibility of microfinance institutions which hinders the mobilization of deposits. In addition, the few willing depositors demand for higher interest return, which is not sustainable in the long-run; need for improved transparency mechanisms and on-demand customer response mechanisms owing to growing consumer complaints; emerging financial

technology (Fintech) which has created new opportunities as well as new risks that need to be understood and mitigated; change in pricing and uptake of credit due to imposition of interest rate caps and changes in the reporting standards, including the introduction of the revised International Financial Reporting Standards (IFRS).

1.1 Statement of the Problem

Participatory budgeting establishes a process in which the effects of people's involvement are directly seen in either policy change or spending priorities. The divergent views on budgeting as a management control tool have provided the major motivation for the present study. The topic of budget participation has always received a considerable interest among researchers. Very few studies have been conducted on the effects of budget participation and motivation. Nouri and Parker (2018) studied the intervention effect of budget adequacy and organizational commitment on the relationship between budget participation and job performance.

Whereas Chenhall et al. (2018) studied the relationship between budget participation and job satisfaction and job performance. Budget participation has been hypothesized as an important variable in the budgeting process, as it is perceived by employees as an adequate resource to fulfill their job requirements and in accomplishing their tasks (Nouri & Parker 2018), subsequently increase their bonding and commitment with the organization and thus enhances their job performance. According to Hopwood (2012), budget participation is measured from the following factors; the ability for the subordinates to influence the design of the budget, to what extent the superior manager contacts the subordinates, how easy it is for the subordinates to propose alterations in the budget process, to what extent the subordinates participate in the budget's follow-up phase. Nouri and Parker (2018) argue that allowing subordinates to participate in the budget setting process may result in them disclosing "private information" which would result in more realistic plans and more accurate budgets. There was therefore need to determine the effect of employee participation in budgeting planning on employee motivation in Microfinance Institutions in Kericho County.

2. BUDGETING

A budget is a plan that outlines an organization's financial and operational goals. It forms a standard against which the actual performance can be compared and measured. Budgets are used to communicate top management's expectations to managers and employees. The budget process provides for coordinated planning among different functional areas of an organization (Huang & Chen, 2010). Budgets require management to specify expected sales, expenses, cash inflows and outflows and other costs expected within a period, usually a year. They also provide a mechanism for effective planning and control in organizations. While a budget can occur at any time, for many businesses, planning a budget is an annual task where the past years budget is reviewed, and budget projections are made for the next three or even five years (Yuliansyah & Khan, 2017).

There are various types of budgets; Master budgets, Operating Budgets (for income statement items comprising of revenues and expenses), Financial Budgets (for balance sheet items), Cash Budgets, Static Budgets (fixed), Flexible Budgets (variable), Budgets (capital expenditure) and Program Budgets. Apart from planning, coordinating and controlling activities, budgets are also useful in translating strategic plans into action, improving communication with employees, improving resource allocation and also as an archive and record of organizational activities (Lau & Tan, 2012).

According to Locke (2001), budget systems are based on the premise that manager should be rewarded for achieving their targets for the period and punished for missing them. Abernethy and Brownell (1999), report that managers need to understand how to read and present budgets to upper level management, and by so doing, should manage to win the staff in the organization to buy-in the budget process. More often, the process becomes difficult when the apparent attitudes of the employees to the budget process are viewed with skepticism. The use of a budget process results in the frontline staff being disempowered, because they must act within the constraints set by management rather than act upon the needs of the customers or competitive threats, (Kaplan, 2014).

Budgeting is generally considered to involve preparing and adopting a detailed financial operating plan, comparing the results of actual operations with those set out in the plan, and analyzing and assessing the reasons for deviations from the plan. Budgeting aims to influence successfully how managers plan, coordinate, and control the company's activities to result in better managerial performance. In other words, a budget is used to map an organization's movement over a given

time span, so it remains within established boundaries and yields the desired goals to be achieved. Without an incentive plan, employees will not be willing to meet their goals, (Kaplan, 2014).

2.1 Budgetary Planning

Planning is a concept used to describe the extent to which a subordinate is allowed to give his own course of action. However, the term has been defined in a variety of ways while being applied to various phenomena. According to Becker and Green (2000) it is “a process of joint decision making by two or more parties in which the decision has future effects on those making them.” It is “a process in which a manager is involved with, and has influence on, the determination of his or her budget.” Kung et al., (2013) defines it as the process of involving subordinates in influencing various elements of budgets. Participation is a process that is used for planning and goal setting when there is environmental uncertainty, for motivating subordinates when there is task uncertainty and for coordination when there is task interdependence. Participation in budgeting yields benefits through a great exchange of information, better coordination of activities and the development of team spirit.

Participative budgeting stimulates cognitive mechanisms which assumes that subordinates' participation in the budget-setting process provides them with the opportunity to gather, exchange and distribute job relevant information for decision-making, which resulted in improved employee performance (Chong et al. 2006). On one hand, the process of participation enables the superior to gain information about the subordinates' interdependent tasks, since the subordinates have more job-relevant information. This reduced information asymmetry (Shields & Shields 1998). The superior can use the knowledge to design and offer the subordinate a more efficient, goal congruent incentive contract, which increases the subordinates' drive to realize the budget (Shields & shields 1998). In addition, more correct budget levels may result in a better measure of performance, even as the superior may be able to develop better strategies with the local information of the subordinates, which accordingly enhance performance (Murray 1990).

On the other hand, participation provides an opportunity for the subordinate to have task discussions with and ask task related questions from the superior (Murray 1990). In this way, the subordinate gains information about his/her task and solution strategies, which can help to clarify their work expectations, methods of fulfilling their role expectations and performance (Shields and Shields 1998). This interaction is expected to decrease the subordinate's level of role ambiguity (Chong et al. 2006). Participative budgeting has a role in the value attainment of subordinates (Chong et al. 2006, Shields and Shields 1998). The value attainment role of budgetary participation proposes that the opportunity to participate in the budget-setting process increased the subordinates' feelings of equality and self-respect, and the satisfaction with their values.

2.2 Employee Motivation

Budgeting is crucial to organizational achievement (Huang & Chen, 2010; Kung, Huang, & Cheng, 2013). Scholars argue that participation in budgeting improves communication, increases job satisfaction and improves performance (Jermias & Setiawan, 2008). However, there is a possibility that participation may be a mediating variable, perhaps with a psychological component (Lau & Tan, 2012). A person involved in the budgeting process feels more valued as a member of the organization, according to psychologists (Kung et al., 2013). This is bond that leads to work satisfaction and better performance (Huang & Chen, 2010; Jermias & Setiawan, 2008; Lau & Tan, 2003; Yuliansyah & Khan, 2017).

In addition, job satisfaction may also be influenced by how well superiors maintain open communication channels with their subordinates, and to what extent the superiors foster a two-way flow of information about budgeting and decision making throughout the organization. Superiors who encourage subordinates' involvement in budgetary forecasts are perceived as trustworthy persons (Yuliansyah & Khan, 2017). This process increased an individual's job satisfaction. As far as internal motivation to provide quality service is concerned, when an individual has a higher level of job satisfaction, they put more effort into providing service of high quality, and that effort leads to the improvement of performance – at least as seen by the consumer, who may value the effort more highly than the putative result, if any.

In contrast, lack of individual participation in company decisions, of which budgeting is our chosen prime example, decreases individual job satisfaction and in turn affects employee commitment. (Steven et al., 2013). Consequently, we expect a lower level of individual performance. Once more, “when superiors allow subordinates to participate in decision

making, that process gives individuals more pride, more self-actualization, and eventually more job satisfaction” (Kim et al., 2017). All positive factors lead to the increase of individual performance.

Kraemer, Gouthier, and Heidenreich (2017) state that employee participation increases when an organization acknowledges an individual's better performance compared to others within the organization. In addition, Yuliansyah, Bui, and Mohamed (2016)'s study in the banking sector finds that appropriate performance measurement increases employee participation because achievement is fairly valued. Since employee participation is an individual achievement stimulates individual job satisfaction, the organization is better off as employees strive to do better (Gouthier & Rhein, 2011).

An example can be taken from Helm (2013) in their cross-sectional survey of 439 employees in different industries shows that employee participation has a positive influence on job satisfaction. In addition, Helm (2013) notes that the individual who does better and get rewards from an organization becomes more committed to it. Similarly, three-wave panel data of frontline employees taken from various industries by Kraemer et al. (2017) confirms the positive effect over time, and that employee participation has a positive effect on the desire of the employee to stay working at the company.

3. BUDGET PLANNING FINDINGS

Respondents were asked to respond on the extent to which they agreed with the following question on budget Planning and their responses are as per Table 1.

Table 1 Budget Planning

Budget Planning	1	2	3	4	5
Budgeting information's are shared with all staff.	92 (33.7%)	88 (32.2%)	15 (5.5%)	35 (12.8%)	43 (15.8%)
My job includes my input regarding budgetary activities	101 (37.0%)	79 (28.9%)	6 (2.2%)	54 (19.8%)	33 (12.1%)
Review and verification of the budget are done by all employees.	98 (35.9%)	83 (30.4%)	10 (3.7%)	39 (14.3%)	43 (15.8%)
All employees' ideas are included in the annual budget.	95 (34.8%)	91 (33.3%)	7 (2.6%)	46 (16.8%)	34 (12.5%)
Budgeting information freely flow from top to bottom and vice visa.	112 (41.0%)	68 (24.9%)	6 (2.2%)	45 (16.5%)	42 (15.4%)
Superiors and subordinates prepare the budget together	92 (33.7%)	79 (28.9%)	12 (4.4%)	57 (20.9%)	33 (12.1%)
Management frequently consult with staff when drafting the budget	96 (35.2%)	69 (25.3%)	10 (3.7%)	51 (18.7%)	47 (17.2%)
Budgeting systems are exceedingly decentralized.	91 (33.3%)	78 (28.6%)	6 (2.2%)	45 (16.5%)	53 (19.4%)
The outcome of the budget decisions are communicated to all employees of Microfinance institution	102 (37.4%)	68 (24.9%)	6 (2.2%)	56 (20.5%)	41 (15.0%)
The budget delegation scheme is used.	101 (37.0%)	69 (25.3%)	16 (5.9%)	44 (16.1%)	43 (15.8%)
Management of our microfinance institution don't distribute budgeting information.	92 (33.7%)	88 (32.2%)	16 (5.9%)	45 (16.5%)	32 (11.7%)

Source: Research Data (2021)

The findings revealed that budgeting information's were not shared with all staff 180 (65.9%); respondents did not give input regarding budgetary activities 180 (65.9%); review and verification of the budget were not done by all employees 181 (66.3%); employees' ideas were not included in the annual budget 186 (68.1%); budgeting information did not freely flow from top to bottom and vice visa 180 (65.9%); superiors and subordinates did not prepare budget together 171 (62.6%); management did not frequently consult with staff when drafting the budget 165 (60.5%); budgeting systems were not decentralized 169 (61.9%); the outcome of the budget decisions were not communicated to all employees of Microfinance institution 170 (62.3%); budget delegation scheme was not used by majority of the microfinance institutions 170 (62.3%); and management of microfinance institution did not distribute budgeting information 180 (65.9%).

3.1 Employee Motivation

Respondents were asked to respond on the extent to which they agreed with the following question on employee motivation and their responses are as per Table 2.

Table 2 Employee Motivation

Employee Motivation Statement	SD	D	NS	A	SA
Employees are highly motivated to work for our Micro-Finance.	101 (37.0%)	46 (18.0%)	6 (2.2%)	38 (13.9%)	79 (28.9%)
There is team work and cooperation in our Micro-Finance.	101 (37.0%)	87 (31.9%)	6 (2.2%)	46 (16.8%)	33 (12.1%)
I am asked to make suggestions about how to do my job better.	111 (40.7%)	77 (28.2%)	6 (2.2%)	36 (13.2%)	43 (15.8%)
I am proud to tell others that I am part of these microfinance institution budget process	101 (37.0%)	79 (28.9%)	11 (4.0%)	39 (14.3%)	43 (15.8%)
I feel a sense of “ownership” for this microfinance institution budget process.	91 (33.3%)	77 (28.2%)	14 (5.1%)	59 (21.6%)	32 (11.7%)
I only work hard to accomplish the microfinance institution budget process when I am to be rewarded	48 (17.6%)	43 (15.8%)	21 (7.7%)	91 (33.3%)	70 (25.6%)
This microfinance institution budget process really inspires the very best in me.	91 (33.3%)	78 (28.6%)	7 (2.6%)	54 (19.8%)	43 (15.8%)
I am extremely glad that I chose this microfinance institution to work for because of its budget process	101 (37.0%)	70 (25.6%)	13 (4.8%)	47 (17.2%)	42 (15.4%)
For me this is the best of all possible microfinance institution for which to work	101 (37.0%)	78 (28.6%)	14 (5.1%)	45 (16.5%)	35 (12.8%)
I understand the budget process of this microfinance institution.	111 (40.7%)	68 (24.9%)	27 (9.9%)	34 (12.5%)	33 (12.1%)

Source: Research Data (2021)

The findings revealed that respondents were not highly motivated to work for our microfinance 147 (55.0%); there was no team work and cooperation in microfinance institutions 188 (68.9%); respondents were not asked to make suggestions about how to do their job better 188 (68.9%); respondents were not proud to tell others that they were part of microfinance institution budget process were 180 (65.9%); respondents did not feel a sense of “ownership” for microfinance institution budget process 168 (61.5%); respondents only work hard to accomplish the microfinance institution budget process when they are to be rewarded 161 (58.9%); microfinance institution budget process did not inspires the respondents to do the very best 169 (61.9%); respondents were not glad that they chose the microfinance institution to work for because of its budget process 171 (62.6%); microfinance institution were not the best of all possible to work for 179 (65.6%); and respondents did not understood the budget process 178 (65.6%).

4. CONCLUSION ON BUDGET PLANNING

The study concludes that microfinance institutions do not share budgeting information's with all staff since they did not give input regarding budgetary activities and that they were not involved in the review and verification of the budget. Ideas of microfinance institution employees were not included in the annual budget since budgeting information did not flow freely from top to bottom and vice versa since superiors and subordinates did not prepare budget together. Management of microfinance institutions did not frequently consult with staff when drafting the budget since budgeting systems were not decentralized and that the outcome of the budget decisions were not communicated to all employees of microfinance institution. Budget delegation scheme and distribute budgeting information was not used by microfinance institutions.

5. CONCLUSION ON EMPLOYEE MOTIVATION

The study concludes that microfinance employees were not highly motivated to work for our microfinance since there was no team work, cooperation and that they were not asked to make suggestions about how to do their job better. Microfinance employees were not proud to tell others that they were part of microfinance institution budget process since they did not feel a sense of “ownership” for microfinance institution budget process. Microfinance employees only

worked hard to accomplish the microfinance institution budget process when they are to be rewarded because budget process did not inspire them to do their best. They were not glad that they chose the microfinance institution to work for since did not understand the budget process.

The study recommends that microfinance institutions should share budgeting information's with all staff for them to give input regarding budgetary activities and be involved in the review and verification of the budget; microfinance institutions should motivate its employees and encourage them to work as a team. The study recommends that further studies be undertaken in public sector budgeting so that the findings can be compared.

REFERENCES

- [1] Bennett, H. (2010). The Effects of Organizational Change on Employee Psychological, Attachment. *Journal of Managerial Psychology*, 42(2), 126-147.
- [2] Benard M. (1985). *Leadership and Performance Beyond Expectations* New York The free Press
- [3] Dess, G.G. and Robinson, R.B.J. (1984). Measuring Organizational Performance in the Absence of Objective Measures: The Case of the Privately-Held Firm and Conglomerate Business Unit, *Strategic Management Journal*, 5(3), 265-273.
- [4] Ho, T.C. and Wu, S.Y. (2006). Benchmarking performance indicators", *Benchmarking: An International Journal*, 13(1/2), 147-159.
- [5] Harber, D., Marriot F., et al. (1991). Employee Participation in TQC: The Effect of Job Levels on Participation and Job Satisfaction. *International Journal of Quality & Reliability Management*, 8 (5)
- [6] Klidas A, Van den Berg PT, Wilderom CP (2007). Managing employee empowerment in luxury hotels in Europe. *International Journal Service Individual Management*, 18(1): 70-88
- [7] Kim, S. (2002): Participative Management and Job Satisfaction: Lessons for Management Leadership. *Public Administration Review*, 62 (2), 231-241.
- [8] Locke, E.A., & Schweiger, D.M. (1979). Participation in Decision-making: One More Look. *Research in Organizational Behavior*, 1: 265-339.
- [9] Mitchell TR. (1973). Motivation and participation: An integration. *Academy of Management Journal*, 16: 670-679
- [10] Mitchell TR. (1973) Motivation and participation: an integration. *Academy of management Journal*, 16: 670-679.
- [11] Noah, Y. (2008). A Study of Worker Participation in Management Decision Making Within Selected Establishments in Lagos, Nigeria. *Journal of Social Science*, 17 (1): 31-39.
- [12] Noah, Y. (2008) A Study of Worker Participation in Management Decision Making Within Elected Establishments in Lagos, Nigeria. *Journal of Social Science*, 17 (1): 31-39.
- [13] Rosidi (1999). Participation in Budgeting and Manager Achievement: The relationship between organization commitment and relevant job information. Management Department. Malang, Brawijaya University. Master thesis.
- [14] Wing, L.S. (1996). Personal empowerment: self as tool, *Empowerment in Organizations*, 4(3), 34-6. [Google Scholar] [Link] [Infotrieve]
- [15] Wheelen, L.T. and Hunger, D.J. (1998). *Strategic Management and Business Policy: Entering 21st century global society*, Sixth Edition, Addison-Wesley
- [16] Yuliani, N., Prihanto, S., et al. (2003). Belief, Organization Commitment and Empowered Team; Study in Surabaya Government Staff. *Anima Indonesian Psychological Journal*, 18 (3).