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EFFECT OF FINANCIAL ADJUSTMENT TECHNIQUES ON OPERATIONAL PERFORMANCE OF COUNTY GOVERNMENT OF KAKAMEGA, KENYA

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Abstract

The purpose of the study was to assess the effect of budgetary control techniques on the operational performance of County Government of Kakamega, Kenya. The specific objective of the study was to determine the effect of financial adjustment techniques on operational performance. The study adopted the theory of budgeting. Target population was 63 employees from the ministry of finance of Kakamega County. The study used census design. A pilot study was conducted to test validity and reliability of the research instruments. Descriptive statistics including mean, percentages and frequencies was used while inferential statistics viz. multiple regression model and product moment correlation was used. The findings indicated that there was a significant relationship between financial adjustment techniques and operational performance (β=0.168, p≤0.05) there was a significant relationship between financial planning techniques and operational performance. The study concluded that there is significantly positive relationship between financial adjustment techniques and operational performance of county government. The study recommended that the county government to institute financial adjustments in the budgetary process and the county government should have effective monitoring and controlling techniques in its budgeting control process.

Keywords: Financial Adjustment, Operational Performance, Financial Accruals, Financial Surpluses, Financial Deficits, Cash Inflow Rate

INTRODUCTION

Operational performance is important for entities and organizations as it forms the task-oriented framework of the said organization. Operational performance is measured against a standard or prescribed indicator of effectiveness, efficiency, and environmental responsibility such as cycle time, productivity, waste reduction and regulatory compliance (Brealey, 2012). Further, objectives of operational performance are the areas of operational performance that a firm tries to improve, in a bid to meet its corporate strategy. According to Neely (2015), operational performance objectives are as follows: cost, quality, speed, flexibility, and dependability.

The primary goal of a government is the provision of the essential goods and services to the citizens which are currently provided through county governments among other government agencies (Maritim, 2013). For a government to deliver, it has become a routine at all levels to prepare and approve into law a summary of a plan of the revenues and expenditures which are made in advance of government financial year concerning a document called budget. Government is held accountable by the citizenry on allocation, custody and use of state resources through budget. These functions should be performed in accordance with established rule, policies and practices contained in the government financial regulations (Aliu & Abdukadir, 2017).

Financial adjustments also known as adjusting financials are entries that are made in the general budgets at the end of a financial period to bring financial balances up-to-date. Unlike entries made to the general budgets that are a result of business transactions, financial adjustments are a result of internal events. Internal events are those events that have occurred in the organization that don't involve operations or transactions with another entity. The purpose of adjusting financials is to adjust revenues and expenses to the financial period in which they occurred (Lucey, 2008). To enhance effectiveness and transparency, the management team should be actively involved in the process of financial adjustments of budgeting processes and procedures (Hancock, 2009).

Statement of Problem

Operational performance of county governments enables them meet their service obligations to the citizens. When counties are operationally performing, they can attain high employment rate, complete their projects on time, pay their bills on time and prioritize projects. However, operational performance has greatly been affected by misplaced priorities in counties exemplified by massive allocation of funds to recurrent expenditures and allowances to staff, inefficient and ineffective service delivery to citizens, untimely preparation of budgets and huge unexplained budget deficits. Due to these, counties have been characterized by overspending

beyond budgets, incomplete budgets, unpaid bills among other financial challenges which have affected their operations. Therefore this study was undertaken to determine effect of budgetary control techniques as a measure of operational performance of County Government of Kakamega to bridge this gap.

Research Objective

To determine the effect of financial adjustment techniques on operational performance of County Government of Kakamega.

Research Hypothesis

H_{01}: Financial adjustment techniques has no effect on operational performance of County Government of Kakamega.

LITERATURE REVIEW

Theoretical Literature Review

The theory of budgeting was advanced by Hirst in 2007. The theory states that an effective budgetary control solves an organization's need to plan and also considers how to confront future potential risks and opportunities by putting in place an efficient system of control. According to the theory, budgets are the principal components of an efficient control process. Therefore, as pointed out budgets are of huge importance to an efficient budgetary control. Budgets are a collection of future plans and forecasts (Mwangi, Wairimu, Wekesa & Wanjala 2017). Budgeting projects future financial performance of an organization and enables evaluation of the financial viability of a chosen strategy. The establishment of objectives by budgets is important in providing estimates of future sales revenues and expenditure. This also enables setting of objectives for a coordinated management policy.

The theory makes the assumptions that budget procedure pushes chiefs to set aside some effort to make methodologies, targets and objectives before movement starts. Spending budget enables the board to concentrate on the following month or the whole coming year. The budget procedure powers supervisors to survey current working conditions and helps in anticipating and actualizing required changes (Anderson, 2002). Spending budget is likewise a superb vehicle with which to work with all regulated faculty by mentioning their chiefs and their staffs. Toward the finish of a period the spending enables chiefs to assess execution, find risky territories, bottlenecks and give answers for these issues (David, 2008).

The theory has been scrutinized in light of the fact that there might be a lot of dependence on the system as a substitute for good administration. The budgetary framework,

maybe due to undue weight or poor human relations, may cause enmity and decline inspiration. Fluctuations are similarly as much of the time because of evolving conditions, poor control or general vulnerabilities as because of general administrative execution (David, 2008). Spending plans are created around existing hierarchical structures and offices which might be unseemly for current conditions and may not mirror the hidden monetary substances. The very presence of all around recorded plans and spending plans may make inactivity and absence of adaptability in adjusting change (David, 2008).

The theory of budgeting is relevant to this study in that financial adjustments allow setting of standards for performance by establishing comparison of actual cash with the set cash standards. In the contest of the present study, the theory of budgeting facilitates an understanding of the importance of not only adjustments but also financial adjustments in budgeting. A budget allows an organization to create a spending plan for their funds. It ensures that organizations have enough money for the things they need and the things that are important.

Effect of Financial Adjustment Techniques on Operational Performance

Abdalla (2018) sought to evaluate the influence of financial adjustments on financial performance of the County Government of Kwale in Kenya. A cross-sectional survey research design was adopted. Financial adjustments were found to be the most important in influencing financial performance. The study inferred that the county government has been striving to maximize revenue collection. Revenue maximization and financial adjustments were concluded to be important parameters in improving financial performance. The study was conducted in the County Government of Kwale but the current study was conducted in the County Government of Kakamega.

Mogaka and Atambo (2016) assessed the influence of financial adjustment practices on the performance of selected county governments in Kenya, a study of selected counties. The study was guided by three specific objectives; to assess the influence of budgeting practice on the performance of county governments, to determine how financial forecasting practices influence performance of county governments and to establish the influence of financing decisions as a practice on performance of county Governments. The study was carried out through a descriptive survey research design. From the findings the study established that the policy makers obtained knowledge of the financial sector dynamics and the responses that are appropriate; they therefore obtained guidance from this study in designing appropriate policies that regulated the public finance. The study was conducted on performance of selected county governments but the current study was conducted in the County Government of Kakamega.

Tarus and Juma (2017) conducted a study on role of financial adjustment technique on financial performance in Kajiado North Sub-County. The study adopted a descriptive survey design. The study sought to find out how financial adjustment affects financial performance, the study did confirm that financial adjustment affects financial performance. The study established that majority of the respondents agreed that indeed cash flow was well managed at these public hospitals. The overall mean obtained on financial performance was 3.95 indicating a strong mean that is leaning towards agree in a five point likert scale. The study was conducted in Kajiado North Sub-County but the current study was conducted in the County Government of Kakamega.

Mwaura (2013) determined the effect of financial adjustment on the financial performance of automobile firms in Kenya. The design of the study was descriptive research method. The results of the study indicated that the financial adjustment measures such as earnings before interest and tax and the capital employed which comprises of fixed assets and working capital had an impact on the financial performance of the firm measured by return on capital employed (ROCE). This study showed that there is strong relationship between financial adjustment and financial performance of a firm. The success of any business depends on the manner the financial plans are formulated. Therefore, it can be concluded that financial adjustment has an effect on the financial performance of automobile companies in Kenya. The study was conducted on financial performance of automobile firms but the current study was conducted in the County Government of Kakamega.

Simiyu (2017) sought to establish the influence of financial adjustment techniques on financial performance of manufacturing companies using evidence from Kenya's sugar industry. The following specific objectives were addressed by this study: to determine the investing practices on the financial performance of sugar manufacturing companies, to evaluate the influence of financial adjustment practices on financial performance of sugar manufacturing companies in Kenya. This research adopted a descriptive research design. The strategic capital practices' null hypotheses were rejected implying a significant effect on financial performance. Financial adjustment practices were significant hence the null hypothesis was rejected. The study was conducted on financial performance of manufacturing companies but the current study was conducted in the County Government of Kakamega.

Conceptual Framework

A conceptual framework is a diagram that depicts the relationship between the variables under a study (Ngumi, 2013). Figure 1 represents the conceptual framework for this study; it illustrates the relationship between the dependent and independent variables.

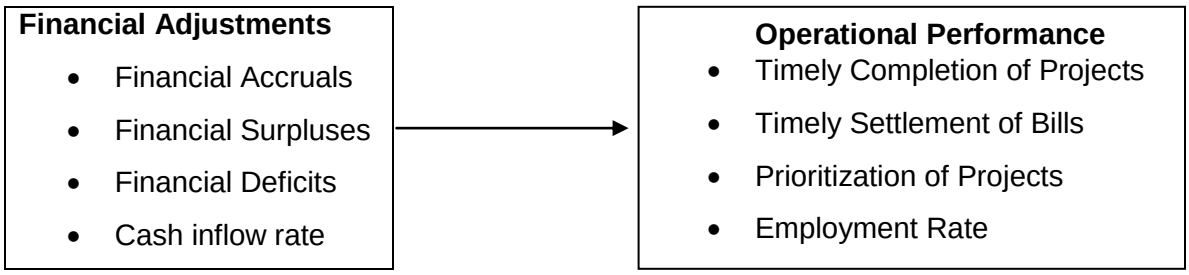

Figure 1. Conceptual Framework

MATERIAL AND METHODS

This research adopted a descriptive design that gave a room for examining the effect of budgetary control techniques on the operational performance of County Government of Kakamega, Kenya.

The accessible population used was all officers from the finance department in Kakamega County. The unit of analysis for the study was Kakamega County in Kenya. The target population for this study was 63 employees from the finance department of Kakamega County on which census was performed. The primary data for this study was collected through questionnaires. Semi structured questionnaires was used which was carefully designed to cover relevant topics of the research. The collected data was first cleaned, classified and coded to facilitate analysis. Secondly, data solicited was analyzed using inferential and descriptive statistics.

Analysis of data was done with the help of SPSS (Version 23.0). Descriptive including frequencies, percentages, mean and standard deviation as well as inferential statistics including regression model and Pearson correlation analysis was adopted to analyse the data. The regression model was used to establish the significant difference between budgetary control techniques and operational performance of County Government of Kakamega. Data was presented using tables, figures and graphs. Inferential statistics was done through a regression model.

$$Y_i = \alpha + \beta_1 X_1 + \varepsilon \quad \text{.....Equation 1}$$

Where,

Y Represents the dependent variable (Operational performance)

α- the constant of equation (represents the changes that cannot be explained by independent variables in the model)

X_1 Represents financial adjustments

RESULTS

Relationship between Financial Adjustment Techniques and Operational Perfomance

The study sought to establish the effect of financial adjustment techniques on operational performance of County Government of Kakamega. The study findings were as presented in Table 1.

Table 1. Financial Adjustment Techniques

Statements		SA	A	U	D	SD	Mean	StdDev
1. Financial accruals can help to predict the future expenses, costs and accordingly work towards the expected revenues	F	17	26	9	6	3	3.80	1.047
	%	27.7	43.1	15.4	9.2	5		
2. Financial surpluses are used to cater for inadequately allocated costs centers	F	18	24	8	9	3	3.79	1.074
	%	30.8	40	13.8	14.4	5		
3. Financial deficits can be used to make adjustments in the following financial budgets	F	13	37	8	1	0	4.04	0.342
	%	21.5	61.5	13.8	1.5	0		
4. Cash inflow rate helps take appropriate actions that are necessary to assure funds and operations aim at attaining the objectives and goals	F	25	17	10	5	3	3.93	0.346
	%	41.5	27.7	16.9	7.7	4.6		

The study findings revealed 43 (70.8%) of the respondents agreed that financial accruals can help to predict the future expenses, costs and accordingly work towards the expected revenues (Mean=3.80, SD=1.047) as compared to 9 (14.2%) who disagreed. The study also indicated that 42 (70.8%) agreed that financial surpluses are used to cater for inadequately allocated costs centers (Mean=3.79, SD=1.074) as compared to 12 (19.4%) who disagreed. In addition, the study findings revealed that 50 (83.0%) of the respondents agreed that financial deficits can be used to make adjustments in the following financial budgets (Mean=4.04; SD=0.342) as compared to 1 (1.5%) who disagreed. Moreover, the study results revealed that 42 (69.2%) of the respondents agreed that cash inflow rate helps take appropriate actions that are necessary to assure funds and operations aim at attaining the objectives and goals (Mean=3.93; SD=0.346) whereas 8 (12.3%) were in disagreement.

The study results in Table 1 revealed that majority of the respondents were of the view that financial deficits can be used to make adjustments in the following financial budgets. These findings were supported by Mwaura (2013) who showed that there is strong relationship between financial adjustment and financial performance of a firm. The success of any business depends on the manner the financial plans are formulated. Therefore, it can be concluded that financial adjustment has an effect on the financial performance.

Correlation Results

Pearson correlation analysis was used to test the association between the study variables. Pearson correlation was used to measure the extent of correlation between variables of the study and to show the strength of the linear relationship between variables in the correlation ranges between +1 and – 1, where r >0.7 indicates a strong positive relationship, r=+0.5 and below 0.7 indicates a moderate relationship and where r =+0.49 and below indicates a weak relationship between study variables. Where r=0 indicates that there is no relationship. The study findings were as tabulated in Table 2.

Table 2. Relationship between Study Variables

		Financial adjustment techniques	Operational performance
Financial adjustment techniques	Pearson Correlation	1	
	Sig. (2-tailed)		
Operational performance	Pearson Correlation	.623**	1
	Sig. (2-tailed)	0.000	

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

The study findings indicated that there was a statistical significant positive correlation between financial adjustment techniques on operational performance of County Government of Kakamega (r=0.623, p<0.05). This implies that a unit change in financial adjustment techniques leads to 62.3% change in operational performance of County Government of Kakamega. When financial adjustment techniques are positive, operational performance is also positive.

Assumptions of Regression Model

The assumptions of multiple regressions that were considered during this study include normality, multicollinearity and homoscedasticity. This section specifically presents how each assumption was tested and their outcomes.

Normality Test

A normality test was performed under the null hypothesis that data follows the normal distribution. Normality test was checked by taking a look at a histogram or a predicted Probability (P-P) Plot. P-P plot was checked whether the residuals at centered or revolve around the normal distribution line. The results were as follows.

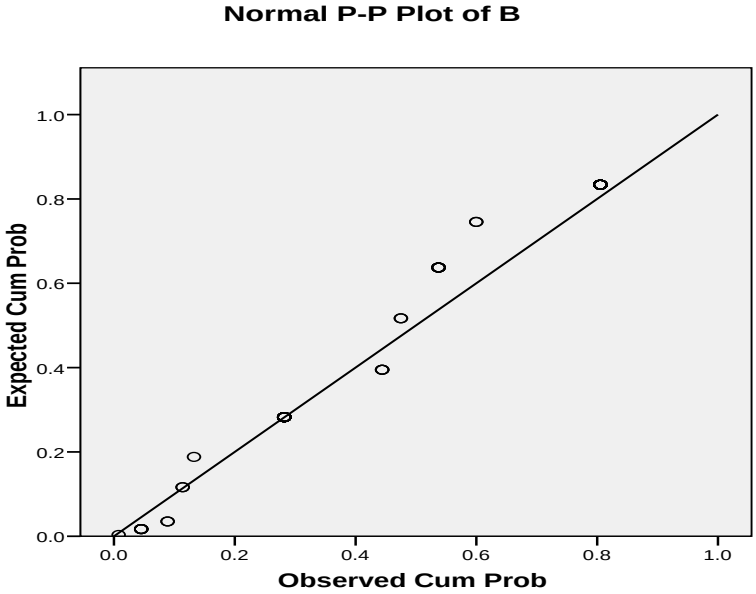

Figure 2. Normality Test

Multicollinearity

Multicollinearity (also Colinearity) is a phenomenon in which one predictor variable in a multiple regression model can be linearly predicted from the others with a substantial degree of accuracy. To determine whether multicollinearity existed, collinearity test was conducted using, Tolerance, and Variance Inflated Factor (VIF). The results are shown in Table 3.

Table 3. Multicollinearity Test

Model	Tolerance	VIF
1(Constant)		
Financial adjustment	0.686	1.458

Based on the coefficients output that is Collinearity statistics obtained VIF value of the average of 1.4 means that the VIF value obtained was between 1 to 10, hence it was concluded that there were no multicollinearity symptoms hence no residual variance observed.

Heteroscedasticity

Homoscedasticity was tested using the Durbin Watson test. This tested whether there is a (linear) correlation between the error term for one observation and the next. Durbin Watson test was used to check for autocorrelation. The value of the Durbin Watson test is always expected to range between 1.5 and 2.5for an independent observation autocorrelation. The results of the Durbin Watson test are as shown in Table 4.

Table 4. Heteroscedasticity Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.824a	0.812	0.818	0.0818	2.112

The study results indicated that Durbin Watson test was 2.112 which were between 1.5 and 2.5 and therefore the data is not auto-correlated.

Multiple Regression Model

The study performed multiple regression model analysis to estimate the relationships between the study variables. The study results were as tabulated in Table 5.

Table 5. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.824[a]	0.812	0.818	0.0818	96.979	0.000[b]

The model indicated the simple correlation was 0.824 which indicates a degree of correlation. The total variation (the adjusted R^2 of the study model is 0.812 with the R^2 = 0.818) in operational performance of County Government of Kakamega was 81.2% explained by budgetary control techniques (R Square=0.818, Standard Error=0.068). This means that the linear regression explains 81.8% of the variance in the data. This implies that there was no first order linear auto-correlation in the multiple linear regression data. This further implies that 81.8% of variation in operational performance is accounted for by budgetary control techniques

in the study while 18.2% of the operational performance is accounted for by other factors out of the study.

Assessing the Fit of the Multiple Regression Model

Analysis of variance was used to determine if the multiple regression model was fit for the data. The results were shown in Table 6.

Table 6. ANOVA Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Residual	111.32	4	25.015	96.979	0.000[b]
	Regression	9.232	61	0.0898		
	Total	120.552	65			

The linear regression's F-test has the null hypothesis that the model explains zero variance in the operational performance (F=96.979, p=0.000[b]). The F-test is highly significant, thus it is assumed that the model explained a significant amount of the variance in operational performance. This implies that the multiple regression model was fit for the data and hence financial adjustment affect operational performance of County Government of Kakamega.

The study results further revealed that the model summary predicted operational performance of County Government of Kakamega significantly well ($p \leq 0.05$). This indicated the statistical significance of the regression model that was run and that overall the regression model statistically significantly predicted the operational performance of County Government of Kakamega (that is, it was a good fit for the data).

Individual Regression Coefficient

T-test of statistical significance of each regression coefficient was conducted in order to determine the beta which indicates how strongly each independent variable affects the dependent variable. The study results were shown in Table 7.

Table 7 Regression Coefficients

Model	Std Error	B	Beta	t	Sig
	Unstandardized Coefficients		Standardized Coefficients		
(Constant)	0.387	0.224		1.648	0.105
Financial adjustment techniques	0.168	0.026	0.319	6.604	0.000
a. Dependent Variable: Operational Performance					

The regression equation generated for the study was as follows:

Y (Operational performance) = 0.387 (Constant) + 0.168 (Financial adjustment techniques) + 0.264.

The regression equation further revealed that there was a significant relationship between financial adjustment techniques and operational performance of County Government of Kakamega (β=0.168, $p \leq 0.05$).

CONCLUSION & RECOMMENDATIONS

The study concluded that financial deficits can be used to make adjustments in the following financial budgets. The purpose of adjusting financials is to adjust revenues and expenses to the financial period in which they occurred. To enhance effectiveness and transparency, the management team should be actively involved in the process of financial adjustments of budgeting processes and procedures.

This study recommends that the county government to institute financial adjustments in the budgetary process. This will help to predict the future expenses, costs and accordingly work towards the expected revenues as well as cater for inadequately allocated costs centers. The county governments should develop more financial planning techniques that minimize the risk of revenue loss. This is based on the premise that successful financial planning requires absolute support and enthusiasm by top management. The county government should evaluate its revenue base so that while budgeting, it can strategically plan on programmes and projects within its capacity. This would reduce instances of budget deficits and project failures. The county should invest in research and design on the application of variance analysis techniques, alternative applications and cost-benefit analysis to ensure presumes benefits are tangible and realizable.

SCOPE FOR FURTHER RESEARCH

This research did not address explicit and implicit factors that affect the operational performance when deciding on the budgetary control techniques to choose from. These factors include; county revenue collection performance, fiscal challenges operating efficiency, management competence, political crisis as well as universal economic and financial instability.

The study recommends a further research in the other budgetary control techniques influencing operational performance in county governments that were not adopted in this study. This is because operational performance relates to both external and internal factors.

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